# SCRUTINY PANEL REVIEW PANEL 3
# CO-OPERATIVE ENTERPRISES
# MINUTES

## Thursday 1 October 2015

**PRESENT**: Councillors: David Rodgers (Chair), Theresa Byrne, Patrick Cogan, Fabio Conti, Abdullah Gulaid, Anthony Kelly, Gary Malcolm (Vice-Chair), Shital Manro, Dee Martin, Ian Proud, Chris Summers and Lauren Wall

**Also Present:**

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| Harjeet Bains | - Scrutiny Review Officer |
| Councillor Aysha Raza | |
| Carol Sam | - Economic Regeneration Manager |
| Lee Teasdale | - Democratic Services Officer |

**External Attendees:**

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| Steve Allen | - President, Hillingdon Credit Union |
| David Barclay | - Church Credit Champions Network |
| Ben Furber | - Board Member, Credit Union Brent & Ealing |
| Edward Mayo | - General Secretary, Co-operatives UK |
| Tom Newbold | - Church Credit Champions Network |
| Graham Tomlin | - Director, Credit Union Brent & Ealing |

### 1. Apologies for Absence
(Agenda Item 1)

Councillor Ray Wall tendered his apologies.

### 2. Declarations of Interest
(Agenda Item 2)

Councillor Rodgers declared his memberships with CUBE (Credit Union Brent & Ealing), The Co-operative Group, the Wales Co-operative Centre and the Co-operative Party.

Councillor Malcolm declared his membership of CUBE.

### 3. Matters to be considered in Private
(Agenda Item 3)

There were none.

### 4. Minutes of the Last Meeting (16.07.15)
(Agenda Item 4)

The Panel agreed the minutes of the meeting held on 16 July 2015 as a correct record.

The Chair asked the Panel if there were any matters arising from the minutes. Councillor Proud stated that no arrangements had been made as yet for a visit to the Resolute Education Co-operative (RECOOP); the Chair stated that he would look to liaise with them and arrange a date in due course.

The Chair advised that Carol Sam, the Council's Economic Regeneration Manager, had been unable to provide extra information to the Panel recently due to a family illness. The Panel asked that their expression of best wishes to Carol's mother for a speedy recovery be noted for the record.

**Resolved:** That

(i) the minutes of the meeting of 16 July 2015 be agreed as a correct record; and

(ii) the Chair be asked to liaise with RECOOP to organise a date for a site visit.

**5. Credit Unions – Presentations by Credit Union Brent & Ealing, Church Credit Champions Network, Hillingdon Credit Union and Co-operatives UK**
(Agenda Item 5)

As agreed at the previous meeting, representatives from Credit Union Brent & Ealing (CUBE), Church Credit Champions Network (CCCN), Hillingdon Credit Union and Co-operatives UK had been invited to discuss their work with the Panel and consider the potential for future growth and development.

The Chair advised the Panel that he had discussed the attendance of officers with the Director of Legal and Democratic Services, Hellen Harris, and read to the Panel an email sent to the Chair following the discussion. It explained that officers' advice, when no specific recommendations had been considered, would only be generic and not specifically helpful at the current stage of the Panel's deliberations. It was agreed with the Director of Legal and Democratic Services that when the Panel had considered making detailed recommendations, these would be discussed with officers and full financial and legal advice would be given before any final recommendations were made by the Panel.

The Chair stated that this was encouraging feedback, and showed that there was a clear will from officers to work with the Panel. He then invited the guests from CUBE, Graham Tomlin and Ben Furber to open the presentations.

**Credit Unions Brent & Ealing (CUBE)**

CUBE had been active for over 20 years. Beginning as the Acton Credit Union, membership scope was gradually extended with the common bond eventually being widened to include Brent upon their request.

Whilst there had been growth in recent years, many impediments to growth were still in place.

All credit unions in the UK were now required to develop levels of reserves which were in keeping with the size of their assets. This was currently being pitched at 10%, it was noted that for banks the requirement was only 5%. Such scale of reserves would suck resources away from business development, significantly curtailing growth potential. It was proposed that this could be averted if the Council would grant CUBE a subordinated loan. It was noted that schemes along these lines had been inaugurated in Haringey and Islington.

Subordinated loans would generally be for periods of ten years, which allowed for a double benefit of satisfying the need to hold adequate levels of reserves and at the same time enabling relief from having to make allocations from their surplus for a period of five years.

A lack of resources for marketing purposes also damaged CUBE's ability to market itself widely. This was an area of particular concern, and it was suggested that Ealing Council could also provide assistance in this area by allowing advertising of CUBE on its website, and through resident circulars, such as 'Around Ealing' magazine.

It was also suggested that a lack of co-operation from Registered Social Landlords (RSLs) and local employers prevented CUBE from reaching a wider membership base. If the Council were minded to assist in promoting CUBE, an 'immense benefit' would be seen in terms of increased membership and lending. At the time of writing, there were 'barely 100' staff within the membership, but their effect on profitability had been significant.

It was stated that Ealing's housing service could take a more positive approach to promoting CUBE to their tenants and that this in turn would have a positive effect in tackling loan sharks and doorstep lenders.

The LSP forum was also considered as a good opportunity for the Council to raise financial capability and CUBE with local partners, some of whom, like Catalyst, were already working with them.

In regards to a question around Sharia Law compliance, at present, CUBE had not provided any Sharia compliant services. However, it could provide them if it was felt that there was a market for such products large enough to meet the running costs.

In respect to potential mergers, to effect a merger there would need to be a partner that had a relatively small common bond. The Board undertook reviews occasionally but no viable prospective partners had been found to date.

The Chair thanked the CUBE representatives for their presentation and invited Panel Members to comment and ask questions. The Chair began by asking about the number of current active users. It was stated that there were currently approximately 1300 service users at present.

Councillor Conti asked how far away CUBE were from attaining a 10% reserve. It was stated that they had around 7-8% of the £75k they needed at present.

Councillor Proud told the Panel that he had attended an A2 Dominion event in which stalls had been set up to give advice, with the debt advice stall being particularly popular. It was suggested that for credit unions to get involved in such events would prove beneficial. He asked whether CUBE had linked up within housing association previously to attend such events.

CUBE had worked with Catalyst in the past and would be happy to do so again. Discussion had taken place with A2 Dominion, but there had been disagreement around a payroll deduction deal. It was suggested that regular attendance at such events was not always beneficial, as the same people were often seen at each event.

Councillor Manro asked about how much CUBE lent on a monthly basis, and if they had many bad debts. It was advised that it was dependent on the time of year, but on average they would lend around £30-40k per month. There had been a period of bad debt around 3 years previously but that had been resolved and current bad debt amounts were low.

Councillor Manro then queried why an organisation running for over 20 years had still only managed to accrue 1300 members. He was advised that for a long time the membership had been restricted to the locality. At present the problems with further increasing membership were attributable to a lack of funding available to further advertise the service and therefore having to rely on word of mouth, and the fact that as a small non-profit organisation they were reliant on volunteer time.

Councillor Summers asked whether they had looked to penetrate the outlying areas of the borough such as Northolt. He also queried whether the Council could help by offering billboard space.

Work had previously taken place around Northolt in conjunction with Ealing's housing service, though it was stated that there had been a lack of consistency in the relationship. With regard to advertising space, it was stated that any help would be welcomed.

The Chair stated that he had been looking at the accounts and it had appeared that CUBE's costs as a percentage of income sat at around 77%, whereas at Hillingdon Credit Union, as a local comparator, the figure was only 34.5%. Was this an area of concern, and did this not tempt CUBE to enter into mergers with more successful credit unions?

It was stated that completely separate credit unions could never be compared as like for like entities, as there was no uniform way in which they were administered. It was also stated that mergers did not always provide solutions, particularly if it led to the weakening of a strong co-operative. It was stated that having as many credit unions as possible was a good thing, competition was healthy, and users could be a member of as many co-operatives as they wished.

Councillor Malcolm queried whether there was a need to invest in the IT, possibly using a retail bank to offer advice. It was considered that this could potentially reduce the cost of back office functions, given that Hillingdon Credit Union appeared to be managing with lower overheads.

Councillor Malcolm also asked about the homes that were previously managed by Ealing Homes. If the Council were to advertise CUBE as an option to staff and tenants, could a relationship be formed? It was stated that such a relationship would be a significant advancement for CUBE and was strongly welcomed.

The Chair asked about how active the CUBE membership was. The AGMs were proving to be very popular and there was an increasing response to the annual questionnaire year on year. The Facebook and Twitter groups were also very active.

The Chair then asked about how wealthier members of the community could be attracted to participate in CUBE. It was stated that it would be beneficial if there was willingness amongst wealthier users to take on deferred shares.

**Church Credit Champions Network (CCCN)**

The Chair then invited David Barclay and Tom Newbold of the Church Credit Champions Network (CCCN) to discuss their work with the Panel.

The CCCN had been formed in response to comments made by the Archbishop of Canterbury about the negative impact on wellbeing caused by money lending companies such as Wonga.

The Network started as a small initiative in East London, they joined the task group being chaired by Sir Hector Sands on credit unions and the financial sector. The network was still in its pilot phase at present, this phase would close in 2016, at which point a national initiative would begin.

They had not yet had the chance to build a relationship with CUBE but looked forward to finding opportunities to work with them in future.

Whilst a wide range of support could be provided, depending on what would be most strategically beneficial, it was unlikely that equity capital would be provided in the short term.

Whilst they had no experience of Sharia Law compliant loans at the present time, they were aware of work undertaken by the North London Credit Union and would speak with them.

The Chair spoke further about the possibilities around equity capital, which would likely involve encouraging ‘richer’ members to invest, taking on non-voting loan shares.

David Barclay stated that such members would need assurances that the ‘product was good’ and that the CCCN would be a strong sustainable enterprise. The Chair stated that this was a key point, that any potential investors would expect credit unions to be able to stand up to any due diligence prior to investment.

This was a difficulty for credit unions, in that they needed to try to maintain a ‘balancing act’ between preserving the necessary ethical credentials for their main customer base whilst also trying to provide a service which would attract further investment.

Councillor Gulaid asked whether people had to belong to the churches involved in the network to partake in the scheme. It was confirmed that any users had to be ‘associated’ in some way with the churches.

There were just over 100 churches on their London database at present and these were mainly Anglican. As well as the credit union service, they also ran 'Money Talks' seminars and to date had trained around 100 'Credit Champions'.

**Hillingdon Credit Union**

Steve Allen, the President of Hillingdon Credit Union was then invited to make a presentation to the Panel.

As one of the largest credit unions in West London, Hillingdon Credit Union was also one of the strongest from both a trading point of view and in respect of its supporting capital with the best credit grading available from the trade body Association of British Credit Unions Limited (ABCUL).

Over the previous 12 months, over 1800 loans had been provided with over 70% of these being to single parent families. Sustained growth was in excess of 20% per annum with funding and resources in place to increase loans drawn from £1.2m over the previous 12 months to £2.4m in the following year. All of the loans were subject to status, and as a responsible lender, ability and willingness to pay was paramount.

Hillingdon Credit Union prided itself on its low cost base. This allowed for competitive loan rates, often at rates lower than those available at banks and other credit unions. In addition, competitive return rates were offered on instant access savings.

The product range was aimed at the whole community – not just specific segments, with the product range ensuring that financial inclusion was available to all. A viable alternative was offered to high cost short term loans provided by payday lenders, also loans were available from £200 upwards, whereas the majority of high street banks did not provide loans below £1000.

An innovative interest free loan scheme (Green Deal) was enacted in conjunction with Hillingdon Council to help support the take up of home insulation and boiler replacement for residents and landlords. This led to multiple benefits as it helped to improve the housing stock and living conditions whilst also helping to retain landlords within the social housing sector. It was noted that the project was no longer in place.

Rent accounts were provided in conjunction with private landlords to ensure that housing benefit was passed to landlords. This proved to reduce rent arrears and encouraged landlords to provide services to benefit tenants.

Member equity stood at around £400k and was considered healthy. The bad debts budgets stood at 4% per annum which was considered quite low by industry standards.

Traditionally Hillingdon Credit Union did not market their products and instead relied on word of mouth as it was considered that paid advertising would reduce the dividend returned to members.

If they were to receive support from Ealing Council, they would look to seek support with marketing and 'opening doors'.

The Chair made reference to the current membership rate of approximately 3000. He stated that should the Council become involved, they would be looking to encourage rates of expansion of around 20-30% per annum. How could the Council help in achieving this?

Asset cover was an issue with regard to substantial expansion rates. For every £1000 taken on deposit as savings, an additional £100 of core tier 1 capital was required, which at the present time could only be provided by profits being placed in reserves. The issue was around the types of new members signing up, lending was not an issue, but taking on too many savers would cause potential asset problems.

Councillor Manro queried whether not looking to attract too many savers was a rather self-defeating approach.

It was emphasised that it was not the case that they did not wish to take on more savers, the problem was more that the assets were not in place should there suddenly be a significantly large increase in savers. To date, they had never had to turn any savers away, and the high divided rates offered were evidence that Hillingdon Credit Union still actively sought savers.

Councillor Summers asked how much they lent per month. It was stated that on average it was around £100k per month. Councillor Summers then asked if they would be averse to a merger in future. It was stated that there were several key factors that would need to be taken account of before they considered a merger:

- Would it be to the <u>benefit</u> of existing members?
- Would it cause the <u>dilution</u> of a presently strong credit union?

It was stated that a lot of the smaller extant credit unions would not survive the current legislation changes.

Councillor Conti asked what the current industry bad debt average was, and in turn, how did Hillingdon Credit Union maintain a level so much lower than the industry average.

The current industry average was 8%. It was felt that Hillingdon Credit Union's strong average was due to their appropriate levels of assessment when considering loan applications and membership. It was stated that credit unions had a responsibility to judge what they felt each applicant could reasonably afford.

Councillor Byrne queried why credit unions had not really 'taken off' in the UK like they had in other European countries such as Ireland or France?

In the UK credit unions were originally established as industrial and provident societies and, like building societies, were mutual co-operative financial organisations. Deregulation of the UK banking sector had seen most building societies become banks in recent times. In turn, legislation was placed upon credit unions in the UK which meant that they were excluded from providing loans on lots of items such as car loans. It was felt that mistakes made by the big banks had seen punitive restrictions unfairly placed upon credit unions.

There was also considered to be a long held perception in the UK that credit unions were ‘a poor person’s bank’, a stigma which the sector had never recovered from. That said, there were now 1.1 million credit union members within the UK and the number was growing.

The Chair then asked that all credit union representatives state what they think the Council could do to stop residents choosing to use payday lenders, and instead consider credit unions which would provide less punitive interest rates and keep money within the local economy.

There was agreement amongst all present that education was the key factor, residents needed to know about the options of credit unions in the first place. Therefore, if the Council were to help with publicity, it would be a significant step towards people knowing they had alternative options to consider before turning to payday lenders.

There was also agreement that there was not a ‘quick-fix’ solution to the problem and that different parts of the community had different interests and resources available to them.

There was a query as to how much interest there was nationally in making use of credit unions. It was advised that a recent Bank of Scotland study had estimated that around 8 million people in the UK could show an interest in making use of credit unions. The Chair asked that more information from the study be fed back to the Panel.

**Co-operatives UK**

The Chair then invited Edward Mayo, the Secretary General of Co-operatives UK, to address the Panel on co-operatives/credit unions and how local authorities could support them.

Co-operatives UK was the ‘voice’ for the sector and stood as the credible, non-political and authoritative first point of contact for government, policy-makers and the media on the co-operative sector.

It was stated that the most important function of co-operatives was that they helped people to ‘do things for themselves’. There was an increasing expectation in recent times that the public expected others to provide for them, co-operatives instilled values that did not dictate top down structures but rather provided the tools for people to act.

Co-operatives and credit unions did not provide services in tandem with some lines of modern thinking, they were not in place to provide short term gains and quick fixes but rather they planned through medium term structures building a solid foundation over time.

The Panel were advised of positive community co-operative schemes being seen throughout the country. Examples were cited in Edinburgh – where renewable energy cooperatives were providing new school roofing resulting in monetary and educational benefits, Oldham – where the local credit union had struck a deal with ‘First Bus’ so that members of the credit union received a 30% discount on their transport and Cornwall – where co-operative schools had proved so popular that they now outnumbered non co-operative schools.

There were approximately 6,700 co-operatives across the UK at the present time, with a total membership/ownership of around 15 million.

Councillor Byrne asked whether it was felt that credit unions and cooperatives could grow quicker with government encouragement.

It was stated that there had never been a better time to start a co-operative or credit union, and that people should not let the government get in the way. Many ambitious credit unions were forming around the world with no input from governments and there had never been a better time in which to take control of community assets and form positive community enhancing co-operatives. As more co-operatives formed for a wide variety of professions, they laid the groundwork for others to follow and learn.

**Conclusions**

The Chair then asked that the Panel, following the above items, start to think about possible recommendations.

The Chair stated that an overarching message was that there could not be a ‘top down’ approach. The Council could not be paternalistic, but rather needed to be seen as a facilitator and enabler.

Councillor Summers suggested that the Council should seriously consider providing a significant capital boost to CUBE, as it would not only help the residents of Ealing, but would also ensure that monies were kept within the borough. It was also stated that the Council should actively find ways to give CUBE free advertising, through ‘Around Ealing’, public notice boards, the website and other workable forms.

Councillor Byrne said that self-help was the key message that must be taken away. There was a need to understand the fundamental impact of facilitation and empowerment. How could the local authority itself be more co-operative?

Councillor Kelly stated that if the Council were to help advertise CUBE, it must be made clear that whilst the Council was lending advertising space, it was not necessarily endorsing CUBE.

Councillor Manro commented that if the Council were to provide monies to CUBE, there would need to be a considerable due diligence exercise, evidence would be needed that lending funds would lead to substantial increases in membership and a real effect upon the borough.

Councillor Manro also suggested that the Council could look into facilitating some form of shop front premises within one of the boroughs town centres, or through making use of library space.

Councillor Kelly suggested that lenders were increasingly embracing phone app technology, could CUBE consider something along these lines? Ben Furber stated that he came from a development background and was currently looking into the feasibility of developing phone apps and advanced online form technology.

The Chair thanked everyone who had taken the time to attend the meeting and stated that the Panel had a lot to take away from the discussions. He endorsed the view that credit unions should seriously consider how to develop capacity, including the possibilities around mergers and equity capital.

**Resolved:** That

(i) the presentations by CUBE, CCCN, Hillingdon Credit Union and Co-operatives UK be received;

(ii) the suggestions raised be taken away for recommendation development by the Chair, Vice-Chair and Scrutiny Officer; and

(iii) David Barclay of CCCN be asked to feed back further information on the Bank of Scotland study into potential credit union membership.

## 6. Updated Work Programme

(Agenda Item 6)

A visit had been arranged to view Preston City Council's approach to working with co-operative enterprises, and to visit LILAC (Low Impact Living Affordable Community) in Bramley. These visits would take place over the 20th and 21st of November.

The next meeting of the Panel would look at Housing co-operatives.

**Resolved:** That the updated work programme for 2015/2016 be agreed.

## 7. Date of Next Meeting

(Agenda Item 7)

**Resolved:** That the next scheduled meeting of the Panel takes place on 2 December 2015.

Councillor David Rodgers, Chair.

The meeting ended at 9.30pm.