



# Business Plan – 2016-18

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## EXECUTIVE SUMMARY

Oxfordshire Credit Union has made major steps in a short time, from delivering services in a small office with two permanent staff and volunteers to a partnership with five other substantial credit unions. Our running costs have fallen by 40%, and will fall further, our levels of bad debts have fallen substantially. We have developed new loan products, updated our website, introduced five-day a week working. Our membership is rising as are our lending levels and loan income.

There is much still to do. We need to further increase our membership and to lend more funds in a prudent and sustainable way. To do this we need to recruit new board members and volunteers as well as forming partnerships with local employers. With an uncertain national financial picture, we plan to substantially strengthen our capital base to provide security.

Our underpinning aim is to treble our membership, assets and lending in the next seven years.

To do this we will:

1. Seek grants of £10,000 a year for the next three years
2. Build up reserves of 10% of our net assets by the end of 2018.
3. Work with local employers and other organisations to ensure people on low incomes are able to join our credit union.
4. Recruit more Directors and give them the skills they need through enhanced training.
5. Publish financial and non-financial performance metrics to show our progress.
6. Develop new products that are relevant to our members
7. Improve our systems to make it easier for people to deal with us.

Our aim is an ethical and sustainable cooperative that will provide a genuine financial alternative for all citizens across Oxfordshire.

We urge you to get involved and we welcome any feedback or suggestions you may have.

Sincerely

Mark Luntley  
**Chair Oxfordshire Credit Union**

SOHA	Quakers	Phone Coop	ABCUL	CUS	West Oxfordshire
Oxfordshire	South Oxfordshire		Vale of White Horse.		
Oxford University Health Trust					

## **PART 1 – OVERVIEW**

### **History and work to date**

#### Early years 2006 to 2010

Oxfordshire credit union was formed in 2006, initially serving people living and working in the City of Oxford. In 2012 we extended our common bond to cover the whole of Oxfordshire.

We started with a small office and a traditional staff and volunteer model. Initial funding came from the Tudor Trust via a three year grant and an ongoing grant from Oxford City Council. The first credit union board meetings took place in the Friends' Meeting House in Oxford.

Subsequently the credit union was based in offices in east Oxford, which is one of the areas of highest deprivation in the city. We employed a series of credit union managers who developed the credit union and latterly the office was staffed by a combination of two paid staff and a network of volunteers. Most of our members by necessity lived in the nearby area.

We were one of two credit unions in the city of Oxford, a second older but smaller credit union served the people of Blackbird Leys – a nearby estate on the south east of the city.

We agreed a payroll deduction with Oxford City Council and in our early days a number of staff and councillors joined the credit union. These individuals were part of a wider cadre of 60 "ethical savers" who made deposits with the credit union which provided the funds for the credit union to start to make loans.

The credit union grew organically though a combination of word of mouth and volunteer efforts. There were a range of publicity initiatives including working with an Oxfordshire school to create a junior saving scheme, sign-up points in churches and other locations and a collective fuel buying scheme with Oxfordshire rural councils.

The model was dependent on grant funding. Our membership grew, but with the exception of our ethical members, was largely drawn from financially excluded groups.

#### Developing services 2010 to 2014

In 2011 we introduced pre-paid debit cards. These cards allowed members to load balances onto the card and then use it either to make payments or to draw out funds via cash-points. These cards were very popular as they meant people did not need to go to the office to draw out funds. They allowed the credit union to extend its reach to people beyond the immediate area around the cash office.

Consequently numbers of members visiting the cash office started to fall. Lending decisions were managed through our volunteer credit committee.

The credit union was delivering services important to our main funder – for example accepting and paying out benefits to individuals and helping them manage their money. This was a valuable service for a small number of members, but one that generated no income and for which funders were ultimately unwilling to pay.

We employed the Oxford student consultancy to review our loan portfolio and wider marketing activities. They made a series of recommendations which we adopted. An early task was to refresh our dated website and develop new marketing materials.

In 2013 we started working with Soha housing association, to allow tenants, leaseholders and staff in the south of Oxfordshire to join our credit union.

### 2014 onwards

In 2013 we undertook a major review of our business approach. We benchmarked against successful credit unions and, after consulting staff, volunteers and members we revised our operating model. The lease of our premises at Temple Court was due to come to an end in August 2014. We concluded the only long-term viable economic option was to not have paid staff or a cash office but to contract our back office functions to a specialist service provider.

In July 2014, having looked at a number of potential providers, we transferred our back office to Credit Union Solutions. CUS is a workers' cooperative that was already providing services to four other medium-sized credit unions. We chose CUS because of their business ethics and their collective experience. This change allowed us to retain our independence whilst:

- Improving customer services, with five-day a week opening, and to reach a wider number of people.
- Ensuring a more resilient back office function – as CUS had greater staffing cover and resources.
- Reducing our running costs by 40%.

We had already developed partnerships with organisations across our common bond area. We started to develop this further, establishing payroll deduction arrangements with Vale of White Horse, South Oxfordshire and West Oxfordshire councils. In 2015 the Oxfordshire University Hospitals joined the payroll deduction scheme.

In 2015 Oxford City Council commissioned an independent review of credit union services with a national expert in credit unions. We worked closely with that review and have substantially implemented the eleven recommendations directed at ourselves. The recommendations and actions to date are set out in Appendix 1.

The city council also developed a financial inclusion strategy which set out how it proposed to support the financially excluded in the city. That strategy included a series of tasks for the credit union. At the same time the City Council, facing its own financial challenges, has reduced its credit union grant funding – and long-term funding is uncertain.

### OCU today

The partnership with CUS has allowed us to substantially increase our marketing activities which are overseen by a dedicated marketing committee. We now publish a regular newsletter, supplemented by mailchimp emails. These go to our members as well as local councillors, advice agencies and other interested individuals. Volunteers and CUS staff have attended different workplaces to meet employees and talk about the credit union. Our membership numbers have started to increase and in particular numbers of individuals saving via payroll has risen.

In 2014 we introduced tighter lending criteria, and enhanced credit checking – using the Equifax “Insight” system.

The regulation of credit unions has increased. The Financial Conduct Authority (FCA) is responsible for credit union governance and procedures whilst the Prudential Regulatory Authority (PRA) monitors the finances of credit unions.

We have strengthened our governance arrangements. The CUS Chief Executive is registered as our compliance officer – and brings strong links to ABCUL and extensive sector knowledge. We have a shared supervisory function with supervisory officers from the five credit unions working with CUS working together to coordinate their efforts. We are looking to replace this with a shared internal audit service from a professional firm of accountants.

This new regulatory regime is increasing the demands on volunteer boards. We have regular board training events to ensure our collective understanding remains up to date. In the medium term credit it is possible that credit unions may be required to hold larger sums in reserve in order to meet PRA requirements.

### **Vision and values**

Our vision is of a sustainable and ethical business that is an alternative to the traditional financial providers. We want to provide services for all of Oxfordshire, including but not limited to the financially excluded. We see ourselves as part of the cooperative movement and we adhere to international cooperative values and behaviours.

In terms of measuring our outcomes we will:

1. Adopt a triple bottom line to measuring our impact - we will offer savers and borrowers appropriate financial, social and environmental returns, whilst meeting or exceeding statutory financial measures.
2. Only offer ethical products - we will only offer products and services that are fair and appropriate for our members. We will work with other ethical businesses where we can.
3. Ensure our governance arrangements are fit for purpose - we will meet the FCA, PRA and ABCUL standards.
4. Report on our behaviour honestly and transparently.

### **Longer term aims**

We want to provide a local, sustainable credit union, allowing local people to save knowing that their money is being recirculated to others in their community. The traditional banking sector has not served the many people on modest incomes. Loans are often not available – or only when secured against assets. Instead a profitable payday industry has grown to target this group.

We want to develop an alternative to this, but one that is not dependent on external grants for long-term. This means expanding our credit union in a managed and planned way to reach more of the people in our common bond area and targeting working people.

We know Oxfordshire is a location where people are interested in new ways of saving and investing. In 2014 Oxfordshire was designated as the social investment capital of the UK by “Ethex” – an alternative stock exchange.

We will not over-extend ourselves. We will aim to develop partnerships with organisations across the county. These will include advice centres, housing associations, local councils and employers.

We believe over the last two years we have put the foundations in place for a long-term sustainable credit union, we now want to look forward. We know credit unions have started to expand significantly – Welsh credit union membership has doubled in a decade.

Our membership is 1,000, our objective is to treble this to 3,000 over the next seven years and then double that number to 6,000 in 15 years time.

The following sections set out how we propose to achieve that.

## **PART 2 – BUSINESS OBJECTIVES**

### **1. Increasing our membership**

Increasing and widening our membership is critical to our growth. Oxfordshire credit union starts with a strong base amongst excluded groups within Oxford City. We have a second smaller cohort of around 30 “ethical investors”. These individuals have pledged savings which they have left with the credit union – some from the very outset and have typically not borrowed money from the credit union.

At the same time we have comparatively few members from outside the city of Oxford, although numbers have started to increase. The number of members who save via payroll with the credit union has also started to rise. However many of our members do not have regular long-term income and this constrains how much we can ethically lend to this group, as their capacity to repay loans is also finite.

In 2014 we established a marketing committee which has the remit of determining how we can increase our membership. We have created partnerships with a range of organisations across the County. Our task is to build on that work to market within existing partnerships and form new ones.

#### Employers

Oxfordshire Credit Union started with help from the City Council. At our inception several elected members across different parties joined the credit union and a payroll deduction scheme was put in place.

In 2015 we established new payroll deduction schemes with South Oxfordshire, Vale of White Horse and West Oxfordshire District Councils. We have had talks with Unison who are keen to promote the credit union to their members.

We have had significant support from the University Hospitals Trust who have set up a payroll deduction scheme and worked with us to promote the credit union to their staff.

We will:

1. Work with unions to encourage take-up of the credit union services with their members in local authorities and other organisations.
2. Seek to establish payroll deduction schemes with major employers across the area – moving beyond our current core of public sector businesses. We will target
  - a. Large local employers – as per the list on the City Council consultant’s report.
  - b. Businesses providing contracted services to major public sector employers.
  - c. Ethical local businesses
  - d. Cooperatives
3. Update our offer to housing associations across the county. We will offer credit union services to; staff, tenants and leaseholders.
4. Develop links with other ethical organisations and the wider cooperative movement.

#### Increasing our sustainable Lending

A widescale challenge for many credit unions has been that too few members who deposit funds with the credit union actually think of using their credit union when they want to borrow money. In part this is because UK credit unions have offered inflexible and comparatively expensive loan

products. These were attractive to high risk borrowers, but were not competitive with mainstream lenders.

We revised our loan range in 2014 in light of the student consultancy research and again in 2015 in response to the City Council consultant's report. We now offer:

- Small, short-term emergency loans at 3% a month (42% APR)
- A range of smaller loan products at 2% a month (24% APR)
- Larger loans at 1% a month (12% APR).
- A commitment to match other loan offers from other lenders that are made to an established credit union member.

We have a risk based lending approach – setting out the maximum percentage of our available funds which would be lent out in particular categories. We also adopted the City Council consultant's report to waive the historic three month saving requirement for members who wish to take out a loan, and instead use the enhanced credit checking facilities to manage the risks of non-repayment. A full list of loan products and exposure is listed in Appendix 4.

We have developed our marketing material, with new forms for people wanting to join or take out loans.

We worked with CUS to develop a "family loan". Aimed at young and new parents and using Child Benefit payments, this allows members to join and borrow for one-off children's expenses – such as buggies. Importantly as members have to save as well as borrow, this product builds a saving habit amongst a new group.

The level of funds out on loan has increased steadily over 2015 and 2016. The take-up of larger loans by members on payroll has been significant. As many of these advances are at lower interest rates – the increase in loan income has been less marked.

We will:

1. Closely monitor the effectiveness of the lending and levels of arrears.
2. Review the loan product range in 2016 to see if it remains relevant.
3. Develop new marketing materials based on these loans.

#### Efficient service delivery

We have made significant efficiencies in costs by joining a shared service. By using Equifax Insight we have strengthened our lending decisions – and believe this will lead to lower levels of bad debts – the other major running cost.

We will pursue a joint ownership model with CUS for our back office functions as we think this will deliver a further savings of about £4,000 a year. We will also work with CUS to support their expansion as this will allow for a more robust long-term operation with their fixed costs spread over a larger member base.

One issue is that joining and borrowing from the credit union is still a manual process, requiring paper forms to be completed, scanned and faxed and input by CUS. The City Council consultant recommended developing on-line joining and borrowing forms as this will make it easier for people to join, and reduce our running costs.

CUS monitor telephone calls they receive. Oxfordshire credit union members make many more calls than other members (around 700/month). The reasons for this are varied, but in part it is because some of our members use their credit union as a simple bank account and some of their calls are simply to check balance on their accounts. CUS have explored the potential for credit union members to check balances by text. As well as being more convenient for members this should also reduce call volumes (making it easier for other members to get through to CUS staff).

We will:

1. Seek the £5,000 funding to implement on-line joining and lending forms, if the business case demonstrates this is a good use of funds.
2. Explore the potential for members to check balance updates by mobile phone text
3. Support CUS in their development of a jointly owned social enterprise.

## **PART 3 - STRUCTURE AND GOVERNANCE**

### **Directors**

In common with other cooperatives, the credit union board is elected by the membership by rotation at the AGM. There are several formal roles; Chair, Deputy Chair, Money Laundering Officer, Company Secretary and Treasurer. All Board members are currently unpaid, although reasonable expenses are met on approval of the Credit Union Treasurer.

In 2015 the credit union board reviewed the Director roles, benchmarked against other credit unions and subsequently agreed a revised set of person specifications and job descriptions. They are included in Appendix 3.

The current six-person board is characterised by a range of experience and individuals with deliberately very different backgrounds, and several directors have served for many years – giving the board a sense of continuity. In addition to their formal roles individual directors take on specific activities. There are two sub-groups; the marketing and finance committees.

New potential board members go through a several stage recruitment process. This includes; an interview with an existing board member to understand the role and the credit union, meeting the whole credit union board and observing a meeting and formal checks for suitability – undertaken by CUS. Appointments are then approved by the subsequent AGM.

The CUS Chief Executive attends the monthly board meetings and acts as the compliance officer and money laundering officer.

The credit union board undertake regular group training sessions. In 2014 and 2015 credit union Directors attended two Saturday morning sessions. The intention is training events take place every six months.

In 2016 the FCA changed their regulatory requirements for credit unions, with a “grandfathering” regime for existing credit union members. The existing OCU Directors were grandfathered in March 2016.

### **Chair**

It is good practice that credit unions should refresh key roles. The Deputy Chair was appointed Chair in 2016 – whilst bringing new perspectives and a fresh approach to the role.

### **Supervisory role**

The Oxfordshire Credit Union supervisory function is carried out by an individual who is distinct from the credit union board. The five credit unions that work with CUS have worked together to coordinate their supervisory activities, and facilitate joint training and development. Supervisory meetings take place each quarter.

As the credit union partnership grows a more structured review of CUS systems is needed. The credit unions in the CUS partnership will commission a shared internal audit function from a firm of chartered accountants.

## Skills and training

The regulatory demands on a volunteer board are increasing significantly. This is likely to continue both because the increasing demands from regulators show no signs of abating, and because regulatory requirements rise as credit unions grow. A key challenge will be to ensure current and future board members and key volunteers are properly trained to allow them to manage current and future responsibilities.

The board has agreed to a programme of six monthly training events, some in partnership with boards from the other credit unions in the CUS family. This allows the boards to share their training costs more effectively.

In 2016 the Association of British Credit Unions (ABCUL) has developed an on-line training programme to supplement its programme of training events.

We will develop a three-year training programme for all board members and key volunteers to equip them for existing and emerging regulatory requirements. This will be supplemented by specific training agreed with individual board members. A board member will take the lead in supporting the Chair in developing this programme.

## Recruitment and board effectiveness

The current board includes several long-standing members, the board recognises that there will be turnover as existing board members stand back and new ones take their place. The board has undertaken to approach this in a managed way, so that we bring new thinking into the board whilst ensuring that organisational memory is maintained. We will also follow best practice in respect of term limits for board roles.

We see a diverse and effective board as absolutely essential to our long-term success. We have sought new board members and have actively encouraged participation from within our membership. We have also sought to recruit Directors from within our partner organisations.

We propose to formalise this process. We will use established networks including the Oxfordshire Community Voluntary Action (OCVA) to seek new Directors and will develop a new Director induction pack and training programme.

## Strengthening wider governance

In 2015 the City Council commissioned an independent report about the future of Credit Unions in the Oxford. We found that exercise a positive one which brought independent challenge. We will look to repeat this type of exercise at three yearly intervals.

ABCUL also set two independent standards for credit union management. We will review our effectiveness against these standards.

We will also consider matching ourselves to wider relevant cooperative standards, including the Fair Tax Mark.

We will:

1. Appoint a new Chair in 2016
2. Continue and develop our training programme for Directors

3. Make the ABCUL training package available to volunteers and Directors
4. Commission a shared internal audit function across the CUS family of credit unions
5. Agree training requirements with individual Directors
6. Seek new Directors to replace existing members and deliberately aim for a diverse board.
7. Match ourselves against the ABCUL credit union governance standards
8. Consider the fair-tax mark

## **Part 4 – SITUATIONAL ANALYSIS**

### Extensions to our Common Bond

Since 2012 the Oxfordshire Credit Union Common Bond covers anyone living or working within the whole of Oxfordshire. In practice:

1. Membership is concentrated in Oxford, but is increasingly being drawn from across the county.
2. Oxfordshire Credit Union has not drawn members from within the Blackbird Leys estate in Oxford, as a separate credit union operated in that area. In 2015 that Credit Union extended its common bond to the whole of Oxford City.
3. Northampton CU is working with Cherwell Borough (north of Oxfordshire) and provides services in that area.
4. Swan Credit Union has an overlapping common bond which covers Thame and Didcot.

We have been in discussions with groups in Newbury to the south of Oxfordshire and in the next 12 months will look at the potential to extend our common bond to the south and west of our existing boundaries.

Our key partners include:

1. Other parts of the cooperative movement (though some have joined the cooperative credit union).
2. Other social and mutual enterprises
3. Private sector employers
4. Major public sector employers with an interest in employee welfare
5. Housing associations
6. The advice sector
7. The two Oxford Universities

### Strengths, weaknesses, opportunities and threats

The Directors regularly review risks faced by the credit union. Appendix X includes the current risk register. More widely the key opportunities and threats as shown below>

<p><b>Strengths</b></p> <p>Skilled and motivated board (U)            Back office with capacity and knowledge (U)            Support from City Council councillors (U)            Group of ethical investors who have supported the CU (U)</p>	<p><b>Weaknesses</b></p> <p>No paid roles mean marketing falls on volunteers (U)            Lack of reserves (U)            Lack of dividends paid (U)</p>
<p><b>Opportunities</b></p> <p>Oxford is a centre of ethical investment with network of interested investors (U &amp;O)            Low penetration in employed sector – so plenty of scope to grow (U &amp;O)            Increasing general interest in new forms of finance (U&amp;O)</p>	<p><b>Threats</b></p> <p>Loss of board members or key staff at CUS (U)            Grant funding falls faster than our ability to grow credit union and/or cut costs (U)            Future recession puts members off borrowing (na)            Other credit unions enter our common bond (U)            Existing banks try to under-cut competition from credit unions (O)            FCA/PRA attitude to smaller credit unions (O)</p>

Looking at OCU through a political, social and economic and technical lens gives further insights:

<p><b>Political</b>          Falling grant funding from cash strapped councils and other funders (U)          National policy making focussed on large credit unions via DWP project (U)          Existing financial institutions try to shut down growth of the credit union sector (O)          PRA/FCA back off bank regulation (too difficult) and focus on credit unions and smaller organisations (O)</p>	<p><b>Social</b>          Growing appetite for new forms of finance, esp amongst the young. eg divestment, community share offers and crowd funding. (U)</p>
<p><b>Economic</b>          Retrenchment of state gives opportunity for self-help organisations to re-emerge. (na)          Structural imbalances that led to the crash unresolved, risk of wider scale banking failure (U)          UK falls out of EU – with negative short/medium term impact and unknown long-term effects (na)</p>	<p><b>Technical</b>          PRA/FCA wedded to 20<sup>th</sup> century regulatory approaches (O)          Better technology makes it easier and cheaper for members to access our services (U)</p>

U – a factor which leads to an action in this business plan

O – a factor that we think another organisation should lead on or has a significant role

Na – a factor where we feel neither we nor another organisation have an immediate response

Some of external factors are clearly outside our control whilst other issues are better addressed by others. ABCUL and the cooperative movement are better placed to respond to challenges from different regulators and national challenges by banking competitors.

However there are a range of actions we can undertake – and they are set out in this business plan. There are other issues where other partners may be able to lead – Oxford based Ethex takes a leading role with ethical investment and is a potential partner. ABCUL has a national lobbying role – and we have good links to this via CUS.

#### Working with other credit unions

The Credit Union Services partnership is about more than just sharing the costs of back office. The six credit unions in the CUS partnership comprise;

1. CUBE (Credit Union Brent and Ealing),
2. M4Money CU (Harrow, Hillingdon, Slough and points west of London),
3. Thamesbank CU (Hounslow, Richmond, Wandsworth, Kingston on Thames and parts of Surrey)
4. Swan CU (Milton Keynes and Buckinghamshire) – Joined 2013
5. Oxfordshire CU – Joined 2014
6. Hertsavers CU (Hertfordshire) – Joined 2015

The six credit unions meet quarterly to review service standards and share best practice and learning. As far as possible the six credit unions offer consistent loan products and they have established a joint supervisory committee to ensure systems at CUS work effectively. Where possible the six jointly commission services - such as external audit. The credit unions have worked together to develop joint bids for funding and to develop common IT and back office processes.

There are up-front costs in bringing new credit unions into the partnership and so the intention is to grow the CUS model to other medium sized credit unions but to do so in a planned way.

We will:

1. Agree a revised marketing plan which targets lead partners.
2. Approach Ethex to identify if there is a model where we can work together.
3. Develop our risk register, linking it to our SWOT/PEST analysis and ensuring that key risks have an action and person responsible for addressing them.
4. Take a decision about a further extension to our common bond area in the next 12 months
5. Support CUS in its new governance structures, managed growth plans and deeper CUS+6 partnership structures.

## **PART 5 – FINANCES**

### Background

Our income from grant and donations has decreased, and we expect this trend to continue. Our loan income temporarily decreased in 2015 as we:

- Introduced tighter lending criteria, which meant members could normally only borrow three times their accumulated savings.
- Enhanced credit checking through Equifax “Insight”
- Offered lower cost loans to people who offered a reduced risk profile.

These policy changes have resulted in lower levels of loan default on new lending. We have written off all our backlog of doubtful debts – however we will continue to pursue these accounts and have appointed professional recovery agents.

Over three years we have significantly reduced our running costs. Our 2014 expenditure was increased by redundancy and transitional costs, and an exceptional payment. The 2015 total expenditure included the cost of a small office which was released at the end of the year and spending on bad debt provisions on older debts.

We now benefit from a substantially lower cost base but can make further economies if we need to. CUS are in the process of converting from a workers’ to a joint enterprise owned by member cooperatives. This better reflects how that business is developing and will further reduce costs.

We believe the CUS model is more attractive to members than the Department of Works and Pensions national initiative and CUS is attracting new credit union cooperative members.

The intention is that, if current lending growth is sustained, OCU should be able to pay a dividend in 2016 and on an ongoing basis there after. However decisions about dividends are made by the AGM on the basis of what is sustainable in the long-term.

### A strong capital base

Until 2013 credit unions had to maintain reserves of at least 2% of their total assets. In 2013 the FCA increased this requirement to 3%. Whilst it appears the current requirements for smaller credit unions are not now likely to change the credit union board feels Oxfordshire Credit Union should aim to secure a higher capital base because:

- Larger capital buffers provide some security in the event of a future fall in income or rise in expenditure.
- FCA requirements may change in future.
- Within strict limits, long-term reserves can be used to finance one-off expenditure.
- When external circumstances are uncertain, more buffers provide greater resilience.

There are several ways Oxfordshire credit union can build its capital base. In the longer-term we aim to put an element of our future surpluses into reserves. We can also:

- Offer “deferred shares”. These are a form of capital traditionally offered by cooperatives and which are only repayable on agreement of the board.
- Raise “subordinated loans”. These are loans from members of at least five years duration.

Both subordinated loans and deferred shares are not covered by the Financial Services Compensation Scheme and in the event the credit union were not able to repay its liabilities – some or all of these funds might be at risk. Deferred shares can only be offered once the credit union has a given level of reserves.

The board considers both these products should only be marketed at members and organisations that would meet the definition of being a sophisticated investor.

In 2015 we raised £12,500 subordinated loans from Oxfordshire credit union board members and two credit unions in the CUS family. We are updating our subordinated loan documentation to reflect best practice.

#### Drawing our plans together – our financial projections

Our business plan aims to increase our membership to 3,000 in seven years. In the last two and a half years our member balances have increased from £360,000 to £496,000.

We estimate that a prudent estimate of member savings in two and a half years' time is £650,000. This number comes from a combination of more savings/member and more members.

We believe that our work to increase our lending to members will continue and that we will have made at least £325,000 loans to members. We think this number is a conservative one, reflecting in part the risk of an economic slowdown in the coming years – which can depress the wider appetite for credit.

We carried out a comprehensive review of our lending criteria. Different loans carry varying levels of risk and our appetite for each loan type (as a % of our total lending) is set out in Appendix 4.

We plan to at least treble our long-term subordinated loans from £17,500 to £57,500 by September 2018. Together with our projected reserves of £26,000 at that point would take our reserve ratio to above 10% of total assets.

The credit union holds funds on behalf of its members. We will update our treasury strategy to ensure funds are diversified across a number of secure and to the greatest possible extent, ethical, institutions.

Our income from loans is steadily rising, we estimate if we continue on the same track as we have done to date we should earn about £43,000 in loan interest in 2016 rising to £57,700 in 2018. We have budgeted for £8,000 of bad debts in 2016 – based on our substantially reduced levels of arrears.

Finally we have budgeted for a dividend payment of £5,500 in 2016, which is dependent on the numbers in this business plan being achieved. The table below summarises these assumptions.

Table – Oxfordshire Credit Union medium-term Financial forecast.

FINANCIAL SUMMARY FOR YEARS 2012/13 TO 2017/18								
Years ended 30 Sept	2013	2014	2015	2016	2016	2017	2018	
Status	Audited	Audited	Audited	1st half	Planned	Planned	Planned	
	£	£	£		£	£	£	
<b>INCOME</b>								
Loan interest	40,918	38,587	29,413	20,584	43,500	50,000	57,500	
Grants & donations	32,999	30,815	21,650	3,050	12,500	10,000	5,000	
Investment income	4,019	2,823	5,825	618	3,000	3,000	3,000	
Bad debts recovered	1,270	2,677	3,538	797	1,500	1,000	1,000	
Other	1,084	356	686	263	250	250	250	
<b>TOTAL INCOME</b>	<b>£80,290</b>	<b>£75,258</b>	<b>£61,112</b>	<b>£25,312</b>	<b>£60,750</b>	<b>£64,250</b>	<b>£66,750</b>	
<b>EXPENDITURE</b>								
Staffing & premises costs	44,225	49,971	30,101	13,620	27,500	29,000	29,500	
Publicity & promotion	309	1,505	8,320	1,166	5,000	6,000	6,000	
Professional fees	9,483	9,418	7,371	3,272	7,000	7,500	7,500	
Bad debts	20,769	14,041	16,243	4,052	8,500	8,000	8,000	
Taxation & other costs	1,425	1,116	3,230	124	1,000	1,000	1,000	
Dividends and interest	0	0	0	0	5,600	6,538	7,550	
<b>TOTAL EXPENDITURE</b>	<b>£76,211</b>	<b>£76,051</b>	<b>£65,265</b>	<b>£22,234</b>	<b>£54,600</b>	<b>£58,038</b>	<b>£59,550</b>	
<b>NET FUNDING RESULT</b>	<b>£4,079</b>	<b>-£793</b>	<b>-£4,153</b>	<b>£3,078</b>	<b>£6,150</b>	<b>£6,212</b>	<b>£7,200</b>	
<b>BALANCE SHEET</b>								
Loans to members	170,384	137,140	176,642	224,166	240,000	281,250	325,000	
Other net assets	201,657	299,595	296,321	294,936	320,203	365,165	408,615	
	<b>£372,041</b>	<b>£436,735</b>	<b>£472,963</b>	<b>£519,102</b>	<b>£560,203</b>	<b>£646,415</b>	<b>£733,615</b>	
Members' share balances	360,542	426,029	458,910	496,971	525,000	590,000	650,000	
Subordinated loans	0	0	7,500	12,500	22,500	37,500	57,500	
Capital and Reserves	11,499	10,706	6,553	9,631	12,703	18,915	26,115	
	<b>£372,041</b>	<b>£436,735</b>	<b>£472,963</b>	<b>£519,102</b>	<b>£560,203</b>	<b>£646,415</b>	<b>£733,615</b>	

We will:

1. Update our treasury strategy to take account of best practice in risk management of members' funds.
2. Raise further long-term subordinated loans in 2016 and 2017 in order to secure over £80,000 of long-term reserves by the end of 2018 equivalent to at least 10% of our assets.
3. Monitor our progress against these financial projections monthly
4. Review and (as necessary) update our projections six-monthly.
5. Take a decision about wider marketing of subordinated loans and (if appropriate) deferred shares.



Appendix 1 Recommendations from independent report commissioned by the city council & actions.

Recommendations	
<b>1. Utilise credit reference information</b>	Done.
<b>2. Develop instant on-line membership</b>	<p>We agree this recommendation, we had originally planned this but had to defer in light of uncertainty in funding. It will need a further upgrade of the supporting “Kesho” system at an approximate cost of £5,000.</p> <p>The experience of the other credit unions in the CUS family is that whilst helpful this does not always generate the benefits hoped for.</p> <ul style="list-style-type: none"> <li>• There is a high fall off in applications. Partly because people register with good intentions (because it is easy to do) but don’t subsequently make any savings. The result is a mass of dormant accounts.</li> <li>• There is still significant work because as many as 80% of claims don’t pass basic money laundering checks - and further information is needed before people can join.</li> </ul>
<b>3. Streamline loan applications with online</b>	Agreed. We will work with CUS to establish the cost of this, as there may be benefits (and cost savings) by a joint procurement exercise of the five credit unions in the CUS cooperative family.
<b>4. Capacity lending for new members</b>	Done
<b>5. Higher interest rates for the smallest loans</b>	Done.
<b>6. On-line banking for members</b>	<p>We support the recommendation Our pre-paid debit card does get a substantial part of the way to offering a bank type service. Members can transfer savings onto the card and make payments from it.</p> <p>We will review the cost effectiveness of using text-update for members to check their balance.</p>
<b>7. Continue to strengthen board</b>	Agreed.
<b>8. Focus grown on payroll deductions</b>	Agreed and underway.
<b>9. Create an investment prospectus to seek capital from partners</b>	<p>Agreed and underway.</p> <p>However considerable care will be needed, this is in effect an investment (and thus not covered by the FSCS deposit protection).</p>
<b>10. Develop a transactional banking product.</b>	We are exploring the potential for enhancing this with people being able to access balance information by text, though there is a cost to this. We do see this as a longer-term objective, and this is most likely to be provided with a partner organisation.
<b>11. Strengthen information to members.</b>	Agreed and done. We have a regular newsletter and are now supplementing this with a “mailchimp” newsletter.

## Appendix 2a



### **Board Member/Director - Job Description**

Accountable to:	Chair of Board of Directors Financial Conduct Authority - as an "approved person" OCU members
Responsibility for:	Ensuring OCU complies with FCA requirements for credit unions
Remuneration:	Unpaid - though reasonable expenses can be claimed.
Purpose	To work collaboratively with other OCU board members to determine the credit union policies, procedures and strategic direction.  To ensure OCU's operations are delivered in an effective and responsible manner.

*(Day to day responsibility for OCU's operations is delegated to Credit Union Solutions.)*

#### Context and collective responsibility as a board

The FCA handbook<sup>1</sup> for credit unions ("CREDS") sets out the responsibilities of credit union boards as:

1. Establishing objectives and formulating a business plan;
2. Monitoring the financial position of the credit union;
3. Determining and documenting policies and procedures;
4. Directing and coordinating the work of all **employees** and volunteers, and ensuring that they are capable and properly trained;
5. Maintaining adequate reserves;
6. Making provision for bad and doubtful debts;
7. Recommending a dividend on shares to members subject to the **credit union's** financial position;
8. Ensuring that the **credit union** complies with all statutory and regulatory requirements; and
9. Ensuring that the **credit union** complies with the requirements of its registered rules.

The OCU board should meet at least monthly.

#### Strategic management

1. Attend/participate in monthly meetings of OCU Management Board and in sub-committees as agreed.
2. Agree the:

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<sup>1</sup> <https://www.handbook.fca.org.uk/handbook/CREDS/1/1.html>

- a. Business Plan
- b. Budget
- c. Risk register
3. Contribute to the strategic direction of OCU.
4. Determine, maintain and review OCU policies and procedures.
5. Appoint the OCU Chair and other officers.
6. Comply with the OCU rules and ensure that others do so.
7. Agree the Supervisory Committee's annual plan and ensure that these tasks are carried out. ☐
8. Oversee CUS performance and that of any volunteers.
9. Hear and decide upon all appeals by members against decisions made by CUS (may be delegated to one or more directors).
10. Oversee the organisation of the OCU's AGM.

**Financial management:**

1. Monitor the financial position of OCU including ensuring adequate reserves are maintained and provision for bad and doubtful debts are made.
2. Participate in, have knowledge of, and take responsibility for acting on:
  - a. The monthly financial and performance report from CUS.
  - b. The Annual Audited Accounts (including reports from auditors).
  - c. The performance of OCU including recommending the payment of a Dividend (or otherwise) to its members.
3. Overall responsibility for the submission of the Financial Returns and Activity Reports each quarter and at the year end to the Regulator.
4. Make decisions on loan write-offs and possible court action against members with bad debt, based on the recommendation of CUS.
5. Make decisions on the disposal of any surplus funds and further provisions as necessary, for upon recommendations from the Treasurer.
6. Review the Service Level Agreement and contract with CUS.
7. Carry out other such duties as laid down in the OCU rules or agreed by the board.

**General:**

1. Maintain an awareness of legislation governing the operation of credit unions.
2. Have an understanding of the running of business, awareness of the wider credit union movement and financial services in general.
3. Meet the FCA's guidelines of a "fit and proper" person.
4. Complete and act within the CUS Confidentiality Agreement.
5. Act in a manner that enhances the work of OCU and its overall public image.
6. Demonstrate a sympathy of credit union and wider cooperative ethos.

**Prohibitions:**

May not serve on the Supervisory Committee whilst remaining a member of the Board of Directors. May not serve as a cheque signatory if related to or a partner of any other named cheque signatory. Cannot participate in the debate, other than to serve as a witness, or vote on any motion from which individual benefit can be derived for self and any connected person. Cannot serve as a Guarantor of any loan. ☐ Until approval is received from the FCA, Directors cannot perform 'controlled functions'; however they may still attend OCU Board meetings without voting rights.

Should a Director at any time fail to meet these standards, they would cease to be an FCA approved person and Director of OCU and must notify the Chair and CUS Managing Director immediately.



## Board Member/Director - Person Specification

Purpose:

- To work with other CUS board directors to develop and manage the OCU.
- To act as part of a team taking strategic responsibility for management of OCU affairs.

Factors	Essential
<b>Experience</b>	<ul style="list-style-type: none"> <li>• Understands principles of financial management</li> <li>• Member focussed</li> <li>• Understanding of how board of management operates</li> </ul>
<b>Training</b>	<ul style="list-style-type: none"> <li>• Willing to learn and take responsibility for own skills</li> </ul>
<b>Knowledge</b>	<ul style="list-style-type: none"> <li>• Understanding of credit unions and how they work</li> <li>• Cooperative principles</li> <li>• Entrepreneurial ability combined with prudence to develop the credit union in a prudent manner</li> <li>• Understanding of financial services and regulations about credit unions</li> </ul>
<b>Skills</b>	<ul style="list-style-type: none"> <li>• Good oral skills</li> <li>• Strong interpersonal skills, able to contribute to the wider credit union decision making process</li> <li>• IT skills - including able to use email</li> <li>• Able to assess facts and form balanced judgements free from bias or preconceptions.</li> </ul>
<b>Personal qualities</b>	<ul style="list-style-type: none"> <li>• Work under own initiative</li> <li>• Happy to work as a team, supporting others on the board</li> <li>• Able to challenge others but to do so in an assertive and supportive way</li> <li>• Committed to the ethos of a cooperative financial institution.</li> </ul>
<b>Other</b>	<ul style="list-style-type: none"> <li>• Able to maintain high levels of confidentiality on sensitive issues</li> <li>• Demonstrable levels of integrity and honesty.</li> <li>• Commitment to diversity and equal opportunities</li> <li>• Able to attend board meetings and some other credit union activities - which may be at weekend or evenings.</li> <li>• Must meet FCA criteria for an "approved person".</li> </ul>

### Appendix 3

#### Major employers/organisations and status at February 2016

Organisation	Status	Next step
Oxford City	Payroll deductions in place but not publicised	Work with staff, councillors and unions to publicise
West Oxfordshire	Payroll deductions in place, meet staff event + publicity for staff.	Further publicity event
South Oxfordshire	Payroll deductions in place and operating	Develop pack for staff
Vale of White Horse	Payroll deductions in place and operating	Develop pack for staff
Oxfordshire CC	Initial discussions made	Progress
Oxford Bus Company	Initial discussions made	Progress
Oxford University health trust	Payroll deductions in place, major publicity push has resulted in significant member and loan growth	Work with university health trust to extend to agency staff
Unipart	Initial discussions made	Progress
Quakers	Initial discussions made	Progress

## **Appendix 4 - Oxfordshire Credit Union Co-operative values**

Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others.

### **Co-operative Principles**

The co-operative principles are guidelines by which co-operatives put their values into practice.

### **Voluntary and Open Membership**

Co-operatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

### **Democratic Member Control**

Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organised in a democratic manner.

### **Member Economic Participation**

Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

### **Autonomy and Independence**

Co-operatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

### **Education, Training and Information**

Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of co-operation.

### **Co-operation among Co-operatives**

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.

### **Concern for Community**

Co-operatives work for the sustainable development of their communities through policies approved by their members.



## Appendix 5.

Loan Product Oxfordshire credit union - November 2015						
Product	Interest	Savings	Loan size and repayments	Savings	CUS Action	Other criteria
Standard saver Loan	2%	At least 3 months of saving.	Up to £2,000 maximum. Loan 3X max of savings e.g. Saving £100 a month for 3 months will enable a £1,000 loan.	£30 required as a minimum	Equifax Insight & where needed a bank statement	Up to 40% of total lendable total, can be offered to people on benefits and pension maximum 30 month term.
Payroll deduction loan	2%	No pre-saving requirement	£500 to £2,000		Equifax Insight & where needed a bank statement	Maximum total exposure of £20,000 each for payroll without reference back to board for review
Larger loans	1%	At least 3 months	£2,000 to £7,000 (net) Loan 3X savings		Equifax Insight & where needed a bank statement	Loans over £5,000 to be referred to board. Should demonstrate good saving history, stable employment or receiving pension income. Limited to 40% of total loan value.
Emergency Loans	3%	At least 3 months	Up to £500 - max repayment 50 weeks.	£3 a week required	Equifax insight Credit check & where needed a bank statement	Can't be rolled over, maximum of 1% of total loan exposure, not to be widely marketed
To up loans	Same interest rate as existing loan	Loan within 3 months of repayment.	£1,000 or less	£30 required	Equifax Insight & where needed a bank statement	Further top ups permitted
Introductory loans (non payroll)	3%	None - but must save when borrowing	£500 individual		Equifax Insight & a bank statement	Max of 5% of total lending, arrears to be reported to board
Family (aka child benefit) loans	2%	None essential - but must save when borrowing	£1,000 individual		Equifax Insight & where needed a bank statement	Max of 10% of total lending, arrears to be reported to board