



# Business Plan – 2017-20

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## EXECUTIVE SUMMARY

Oxfordshire Credit Union has moved from delivering cash based services in a small office with two permanent staff and volunteers to a partnership with five other substantial credit unions. Our membership is rising as are our lending and loan income, whilst arrears have fallen sharply. In 2016 we both paid our first dividend in many years and recruited a development worker. Both of these have helped us grow our membership.

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

To do this we will:

1. Work with local employers and other organisations to increase our membership.
2. Improve our systems to make it easier for people to deal with us.
3. Strengthen our finances.
4. Employ a Development Manager to drive forward membership growth
5. Recruit more Directors and give them the skills they need through enhanced training.
6. Create and publish financial and non-financial performance metrics to show our progress.
7. Develop new financial products that are relevant to our members

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

Sincerely

Mark Luntley  
**Chair Oxfordshire Credit Union**

Quakers	ABCUL	CUS	West Oxfordshire	Feoffees of St Michael
South Oxfordshire		Vale of White Horse.		
Oxford University Health Trust	Cooperative Energy	Oxford Bus Company	Guenther Bakeries	

## REVIEW OF YEAR 2016-7

1. Financial:
  - a. Raised £10,000 subordinated loans – as a result our capital to asset ratio is now above 6%,
  - b. Recruited 100 new members
  - c. Agreed two new payroll deduction arrangements with employers (Oxford Bus Company and Guenther Bakeries)
  - d. Lent £415,000 of loans (since October 2015)
  - e. Reduced arrears (more than one payment missed) to £3,000 from a total lending outstanding of £303,000 (April 2017)
  - f. Generated a £6,500 surplus and paid 1% dividend to members
2. Revised loan portfolio to be more competitive and consistent with CUS family, with low cost loans for members with best credit position (starting at 3% APR)
3. Secured third (and last) year funding from Feoffees of St Michael of £5,000 and £3,000 funding from Oxford City Council
4. Tendered and selected new external and internal auditors
5. Joined ABCUL espresso training programme
6. Recruited a Development Manager
7. Recruited three new board members
8. Retendered and appointed CUS for further three years
9. Introduced on-line balance checking by text
10. Completed a first member survey
11. Developed new subordinated loan offer documents which we shared across the CUS family

## Key Targets 2017-8

### Increasing our membership and sustainability

	Task	Who	When	Metrics
1	With Unison and existing partner employers (Appendix 3) market services to staff and employers' contractors. Develop material to target hard to reach/vulnerable staff.	Business Development Manager	December 2017	50 new and long-term active members
2	Contact the 1,000 dormant and former members. Identify why they are not participating and what they would take to re-engage. Aim to try to convert 10% back into active membership.	Business Development Manager	December 2017	50 new and long term active members by December 2017, a further 50 by July 2018
3	Re-engage with councils across Oxfordshire with message about how credit unions can deliver wider benefits in communities. Use "Good Money Week" as launch. Develop an offer for people in "Gig" economy.	Business Development Manager	March 2018	Contact with each council at political and managerial level.
4	Three new payroll deductions with employers, moving beyond "public sector" into voluntary and ethical businesses (see BP text for detail).	Business Development Manager + CUS	July 2018	Aim for 25 staff saving from these new leads
5	Identify housing association to test and if successful jointly develop a new tenant "move in" offer as an alternative to rent to own white good providers.	Business Development Manager	July 2018	Guarantee from HA + 20 tenants on scheme.
6.	Identify and test business case for joint work with Oxford Bus Company to allow people to save for bus season tickets.	Business Development Manager	December 2017	Offer in place – 20 people taking up scheme by July 2018.
7.	Develop new marketing material to promote more attractive loans (starting at 3% APR). Agree lending criteria for loans.	CUS Managing Director (lending criteria) Business development Manager - material	October 2017	New material in place for good money week.
8.	Monitor effectiveness of new loan range by type – considering both take-up and arrears (see also target 23)	CUS Managing Director + CU Treasurer	July 2018 (but with qtrly reviews)	Management reports showing impact of new lending.

### Improving services

9.	Work with Unison to design & roll out simpler joining process that still meets stat requirements.	Business Development Manager + CUS Managing Director	December 2017	Process in place, aim for 80% of the 50 new members (target 1) through this route.
10.	Update IT and CRM systems to support the simpler joining processes & to allow on-line joining and loan applications	CUS Managing Director	December 2017	System operational and ready to roll out and to be shared with other CUS credit unions.
11.	Develop system so members applying for loans get feedback on their credit status and how they can improve this.	CUS Managing Director	December 2017	Offer for anyone taking up loan after January 2018.

### Improving governance

12.	Agree roles and targets for each board director supported by training programme	CU Chair	October 2017	All roles agreed and training underway. 2 CU team training sessions per year.
13.	Review and update shared internal audit function for CUS family. Match OCU against ABCUL governance standards.	CU Chair and CU Treasurer	December 2017 (IA) and March 2018 (ABCUL)	New programme seen and understood by CU board Meet basic ABCUL standard.
14.	Seek new board members to provide capacity on board.	CU Chair	July 2018	Three new board members in place for AGM.
15.	Consider fair tax mark	CU Treasurer	March 2018	Decision on whether to apply for mark.

### Working with others + risk management

16.	A new marketing plan that supports this business plan and takes account of Oxford and wider deprivation areas (pages 30/1).	Business development Manager supported by Marketing Committee and CUS Managing Director	December 2017	Marketing plan
17.	Approach Ethex + others to explore potential to raise subordinated loans	CU Chair + CU Treasurer	December 2017	OCU subordinated loans offer to HNW.
18.	Update risk register linking to SWOT/PEST and attaching specific role responsibilities for any actions arising	CU Company Secretary	September 2017	Updated risk register
19.	Review common bond area to see how we can grow in specific areas	Business Development Manager + CU Company Secretary	July 2017	Application to FCA (relating to Oxfordshire based companies with staff o/s Oxfordshire)
20.	Actively support the CUS model, its potential growth and its emerging new governance structures.	CU Chair	December 2017	Qtrly meetings working well, CUS able to take on new clients if it wishes to.

### Strengthening our finances (see detail in main report)

21.	Carry out thorough review and plan how to deliver improvements to <ul style="list-style-type: none"> <li>• Capital asset ratio</li> <li>• Revenue reserves and sub loans</li> <li>• Loans to asset ratio</li> <li>• Bad debts vs loans</li> <li>• Operating costs</li> <li>• Banking arrangements</li> </ul>	CU Treasurer + full board with support from CUS Managing Director	March 2018	1. Specific plans for each aspect of finances. 2. Monitoring system in place to review each new area of loans (by type and lender) with max exposure limits in place. 3. Review of current banking provider
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## **PART 1 – OVERVIEW**

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

The credit union grew through a combination of word of mouth and volunteer efforts. The model was dependent on grant funding. Our membership slowly grew, but with the exception of our early ethical members, was 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.

### 2014 onwards

In July 2014, we transferred our administration functions to Credit Union Solutions. CUS is a workers' cooperative that was already providing similar services to four other medium-sized credit unions. We chose CUS because of their business ethics and their collective experience. This change has allowed us to retain our independence, improve customer services, reduce costs and have a more robust back office functions.

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 implemented the eleven recommendations directed at ourselves. The recommendations and actions to date are set out in Appendix 1.

### OCU today

The partnership with CUS has transformed our services. We have increased our marketing activities, working with local employers to sign up members by payroll deduction. We publish a regular newsletter. Our membership and in particular numbers of individuals saving via payroll has risen.

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 replaced our voluntary supervisory function 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 and have subscribed to ABCUL training programmes.

In 2017 CUS revised their management approach reducing their costs whilst maintaining service approach. After a review by the board OCU renewed its partnership with CUS for a further three years.

### **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. Measure our full impact in our community- we will offer savers and borrowers appropriate financial and social 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 possible.
3. Ensure our governance arrangements are fit for purpose – and meet the FCA, PRA and ABCUL standards.
4. Report on our behaviour honestly and transparently.

### **Longer term aims**

We want to develop our credit union, allowing local people to save with the knowledge that their money is being recirculated beneficially 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 evolved to target this group.

We want to develop an alternative that is not dependent on external grants for long-term funding. 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 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, the education sector and employers.

We believe we have 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. The key is to attract individuals who will become long-term active members.

*Our wider membership is 1,000, our objective is to double this to 2,000 over the next seven years and then double that number to 4,000 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.

Oxfordshire is characterised by very high living costs and a diverse population. Many people earn low incomes and work irregular hours. In spite of its reputation, significant parts of the City suffer from significant levels of deprivation (see appendix) We will target this group by working with employers, unions, and others. We will help our members manage their finances with updated savings and loan products, better credit information and personal support. Our aim is to increase the amount of funds lent to vulnerable groups whilst keeping bad debts at low levels.

In 2017 we surveyed our members. Our typical borrower is a woman, aged around 40, living in east Oxford - who borrows an average of £400.

The number of members who save via payroll with the credit union has also started to rise and by July 2017 stood at 785 active members. 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 limited.

#### Employers

Oxfordshire Credit Union started with help from the City Council. At our inception several elected councillors from 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 worked with “Unison” who are keen to promote the credit union to their members and who publicise us on their local web pages.

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.

As has been widely publicised, the world of work has been changing, with the growth of independent or “Gig” employment. It has been reported that this group are particularly disadvantaged in financial services, and we will want to develop our services to also reach this group.

#### SMART targets:

1. Work with Unison (Oxford City Branch) and eleven employer partners to encourage take-up of credit union services. Develop new marketing material and one to one contacts to target hard to reach individuals. By CU Development Manager for December 2017.
2. Contact 1,000 dormant and former members and identify what would make them re-engage with their credit union. Send targeted letters to dormant members highlighting new offer. Aim to try to convert 10% back to active membership. CU Development Manager December 2017.
3. Re-engage with councils across Oxfordshire to demonstrate how an effective credit union can

deliver wider benefits in communities. Contact with lead members in each council. CU Development Manager March 2018.

4. Aim to establish three further payroll deduction schemes with major employers across the area – moving beyond our current core of public sector businesses. By CU Development Manager by July 2018 Board lead ST. We will target
  - a. Large local employers (from City Council list)
  - b. Businesses providing contracted services to major public sector employers (specifically contractors at Health Authority).
  - c. Ethical local businesses (starting with and using Ethex, Low Carbon Hub and Ethical Property as lead contacts)
5. Identify key housing association partner in the county and jointly develop a “new tenant move-in offer”. CU Development Manager by July 2018.

#### Increasing our sustainable Lending

A widescale challenge for 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 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)
- Low cost loans for lower risk lending at 3% APR.

We have a risk based lending approach. We also adopted the City Council consultant’s report to waive the historic three month saving requirement for members saving through payroll who wish to take out a loan, and instead use the enhanced credit checking facilities to manage the risks of non-repayment.

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. This has become one of our most popular products.

The level of funds out on loan has increased steadily over 2015, 2016 and 2017. 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.

#### SMART targets:

1. Develop new marketing materials based on these loans. CU Development Manager and CUS MD by September 2017.
2. Monitor the effectiveness of the lending and levels of arrears by loan type – reporting monthly to Board. CUS MD by December 2017

#### Improving services

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 has led to lower levels of bad debts – the other major running cost.

One issue is that joining and borrowing from the credit union remains a manual process, requiring paper forms to be completed, scanned and faxed for 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.

We have identified that by working with employers and unions we can simplify the joining process.

SMART targets:

1. Work with Unison to design and roll out a simpler joining process for payroll deductions (i.e. with Unison verifying a credit union membership application) that meets money laundering and other rules. CU Development Manager December 2017.
2. Upgrade IT and Customer Relation Management (CRM) systems at CUS to support the simpler joining processes and allow on-line joining and lending applications. CUS MD December 2017
3. Build on the existing systems to allow members to check balances. CUS MD December 2017

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

### **Directors**

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 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 is a marketing sub-committee. In 2016 three new members joined the board. The intention is to continue to recruit to and further strengthen the board.

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.

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

### **Supervisory role**

In 2016 the credit unions in the CUS partnership commissioned a shared internal audit function from a firm of chartered accountants (Alexander Sloane). The internal auditors have a programme to review critical CUS systems, and report to member boards. All internal audit reports are seen by the board.

### **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. Board members take part in this programme.

The board deliberately looks outward, for example each year inviting another credit union to our meeting to meet and exchange ideas.

#### Recruitment and board effectiveness

The current board includes a mix of 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 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. The Chair carries out an annual appraisal of board members.

We propose to develop 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 invited a neighbouring credit union to a board meeting – we will repeat the exercise so we learn from other organisations.

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.

#### SMART targets:

1. Develop the internal audit function across the CUS family of credit unions, with agreed programme of audits and reports to all board members. CUS MD, Chair OCU, All board members. September 2017
2. Agree training requirements with individual Directors Chair OCU – December 2017
3. Seek three further Directors to replace existing members and deliberately aim for a diverse board. Chair OCU March 2018
4. Match ourselves against the ABCUL credit union governance standards Chair OCU March 2018
5. Consider the fair-tax mark Treasurer OCU – March 2018

## **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 had an overlapping common bond covering Thame and Didcot, in 2017 this was increased to the whole of Oxfordshire.

We have been in discussions and will look at the potential to extend our common bond.

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

### Transfer of engagements/structural changes

Credit unions can with the agreement of their membership “transfer their engagements”, in effect merging their membership into another credit union. This business plan does not envisage that OCU will do this. Most of the potential efficiencies that arise from this approach have already been secured by the existing shared back office arrangement.

OCU can deliver sustainable growth whilst retaining a local face. We will consider proposals to accept members from other credit unions if there is a business case consistent with this business plan (much like extensions to our common bond).

We do not envisage transferring our membership to another credit union and would only consider this if a compelling case were available or if the facts underpinning this business case were to materially change. In light of this OCU agreed a three-year contract with CUS to run to mid 2020.

## Strengths, weaknesses, opportunities and threats

The Directors regularly review risks faced by the credit union. The current risk register is shown as an appendix. More widely the key opportunities and threats are shown below:

<b>Strengths</b> Skilled and motivated board (U) Back office with capacity and knowledge (U) Support from councillors (U) Group of ethical investors who have supported the CU (U)	<b>Weaknesses</b> Reserves dependent on subordinated loans (U) CUS dependent on a few key individuals (U)
<b>Opportunities</b> Oxford is a centre of ethical investment with network of interested investors (U &O) Low penetration in employed sector – so plenty of scope to grow (U &O) Increasing general interest in new forms of finance (U&O)	<b>Threats</b> 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)

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

<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)	<b>Social</b> Growing appetite for new forms of finance, esp amongst the young. eg divestment, community share offers and crowd funding. (U)
<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) Negative short/medium term impact of Brexit (na)	<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)

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 the 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

In 2016 the six credit unions had a combined membership of 6,741 and total assets of £5,047,714

The six credit unions meet quarterly to review service standards and share best practice and learning. 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.

CUS revised their back office functions in 2017 to deliver a further £4,000 a year saving to us. Our view is further substantial cost savings are unlikely; instead our focus will be to work collaboratively with CUS to deliver better services within the existing budget. The joint internal auditor appointed in 2016 is delivering a programme of internal audit reports which are helping CUS and member credit unions deliver better services.

We see CUS as more than a back office provider. They are a workers' cooperative which shares common values with ourselves. We believe in this model of independent credit unions sharing costs and standardising procedures to deliver cost efficient but local services.

We will play an active role with CUS and the other credit unions in our partnership to support CUS in developing their services.

SMART targets:

1. Agree a revised marketing plan. CU Development Manager – December 2017
2. Approach Ethex to identify if there is a model where we can work together to raise more subordinated loans. Chair OCU + Treasurer December 2017
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. Secretary OCU September 2017
4. Take a decision about a further extension to our common bond area in the next 12 months All board July 2018
5. Support CUS in its new governance structures, managed growth plans and deeper CUS+6 partnership structures. Chair OCU – December 2017



## **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 – but continue to pursue these accounts and recover sums from fully provided loans. We have appointed professional recovery agents.

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.

The intention is that, if current lending growth is sustained, OCU should continue to pay regular dividends – as it did in 2016.

### 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 issue subordinated loans and deferred shares.

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, in 2016 we raised a further £10,000 in such funding. The FCA/PRA introduced new rules relating to promotion of subordinated loans. We developed a share prospectus and loan agreement to meet these requirements and reflect best practice.

### Drawing our plans together – our financial projections

Our 2016 year financial results were in line with last year’s business plan. We have refined and extended the business plan period to 2020. We plan that by that date our total annual income will

be 10% above its current level at £66,750 a year and that over 90% of this will come from trading – with around 10% grant income for specific projects.

We plan that by the end of 2020 our total assets will be almost £1m, or three times their level at the end of 2013. Crucially we believe there is a risk of a significant financial slowdown in the next few years. As this is likely to reduce the level of demand for borrowing and will affect ourselves, our business plan financial assumptions take account of this.

We have taken a pessimistic assumption that we only have 60% of our 2020 share balances – or around £510,000 on loan. We have also assumed that as we develop more of our lending will be at lower risk, and attract a lower average interest rate – even though we anticipate that in the UK interest rates will rise over the period.

We also plan to raise more subordinated loans, which together with earnings over coming years, will take our reserves as % of assets to 8% at the end of 2018 and 10% by the end of 2020.

FINANCIAL SUMMARY FOR YEARS 2014/15 TO 2019/20							
Years ended 30 Sept	2015	2016	2017	2018	2019	2020	
Status	Audited	Audited	Planned	Planned	Planned	Planned	
	£	£	£		£	£	
<b>INCOME</b>							
Loan interest	29,413	44,438	57,500	67,500	71,250	75,500	
Grants & donations	21,650	9,380	6,000	10,000	7,500	5,000	
Investment income	5,825	2,855	2,500	2,000	2,000	2,000	
Bad debts recovered	3,538	1,804	0	0	0	0	
Other	686	1,054	6,000	500	500	500	
<b>TOTAL INCOME</b>	<b>£61,112</b>	<b>£59,531</b>	<b>£72,000</b>	<b>£80,000</b>	<b>£81,250</b>	<b>£83,000</b>	
<b>EXPENDITURE</b>							
Back-office & support costs	30,101	29,224	40,000	33,000	34,000	35,000	
Publicity & promotion	8,320	5,200	5,000	12,500	13,000	13,500	
Professional fees	7,371	8,109	10,000	9,000	8,000	8,000	
Bad debts	16,243	9,295	5,000	5,000	4,000	4,000	
Taxation & other costs	3,230	1,022	750	1,000	1,000	1,000	
Dividends and interest	0	212	4,000	8,000	9,000	10,000	
<b>TOTAL EXPENDITURE</b>	<b>£65,265</b>	<b>£53,062</b>	<b>£64,750</b>	<b>£68,500</b>	<b>£69,000</b>	<b>£71,500</b>	
<b>NET FUNDING RESULT</b>	<b>-£4,153</b>	<b>£6,469</b>	<b>£7,250</b>	<b>£11,500</b>	<b>£12,250</b>	<b>£11,500</b>	
<b>BALANCE SHEET</b>							
Loans to members	176,642	280,514	335,000	405,000	450,000	510,000	
Other net assets	296,321	262,069	300,272	336,772	391,522	455,522	
	<b>£472,963</b>	<b>£542,583</b>	<b>£635,272</b>	<b>£741,772</b>	<b>£841,522</b>	<b>£965,522</b>	
Members' share balances	458,910	507,061	590,000	675,000	750,000	850,000	
Subordinated loans*	7,500	22,500	25,000	35,000	47,500	60,000	
Capital and Reserves	6,553	13,022	20,272	31,772	44,022	55,522	
	<b>£472,963</b>	<b>£542,583</b>	<b>£635,272</b>	<b>£741,772</b>	<b>£841,522</b>	<b>£965,522</b>	
<b>RESERVES TEST</b>	3.06%	6.71%	6.66%	8.26%	9.80%	10.36%	
Eligible loans included*	7,500	21,000	19,000	24,000	29,500	32,500	
Share balances on loan	38.49%	55.32%	56.78%	60.00%	60.00%	60.00%	
Average interest rate	18.75%	19.44%	18.68%	18.24%	16.67%	15.73%	

SMART targets:

1. Carry out a thorough review of and plan for improvements to
  - a. Capital asset ratio
  - b. Revenue reserves and subordinated loans – aiming for an 8% capital asset ratio by end of 2018 and 10% by 2020
  - c. Loans to assets ratio
  - d. Bad debts and loans made
  - e. Operating costs
  - f. Banking arrangements (via treasury strategy)

OCU Treasurer but with full board – March 2018

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 are developing this for implementation in 2018
<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 previous pre-paid debit card did get a substantial part of the way to offering a bank type service. Members could transfer savings onto the card and make payments from it, our new pre-paid card offers further advantages with members able to make standing orders.</p> <p>We have introduced 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>	Done
<b>10. Develop a transactional banking product.</b>	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 twice yearly newsletter with a “mailchimp” newsletter.



## 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

#### Partnerships - major employers/organisations and status at July 2017

Organisation	Status	Next step
Oxford City	Payroll deductions in place but not publicised	Prioritise unions and councillors to publicise more widely
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	Prioritise via Unison
Oxford Bus Company	Meeting with staff, payroll deductions established	Progress – suggest loyalty scheme along lines of Brighton CU
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, use contacts to reach other related health trusts.
Unipart	Initial discussions made	Re-establish contact
Quakers	Subordinated loan provided	Invite to proposed roundtable for Good Money Week
Guenthers Bakery	Payroll deduction established	Further publicity event
Cooperative Energy	Discussions about loyalty and energy scheme	Review and develop business case for saving/switching



## **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.



## Major Oxfordshire Employers

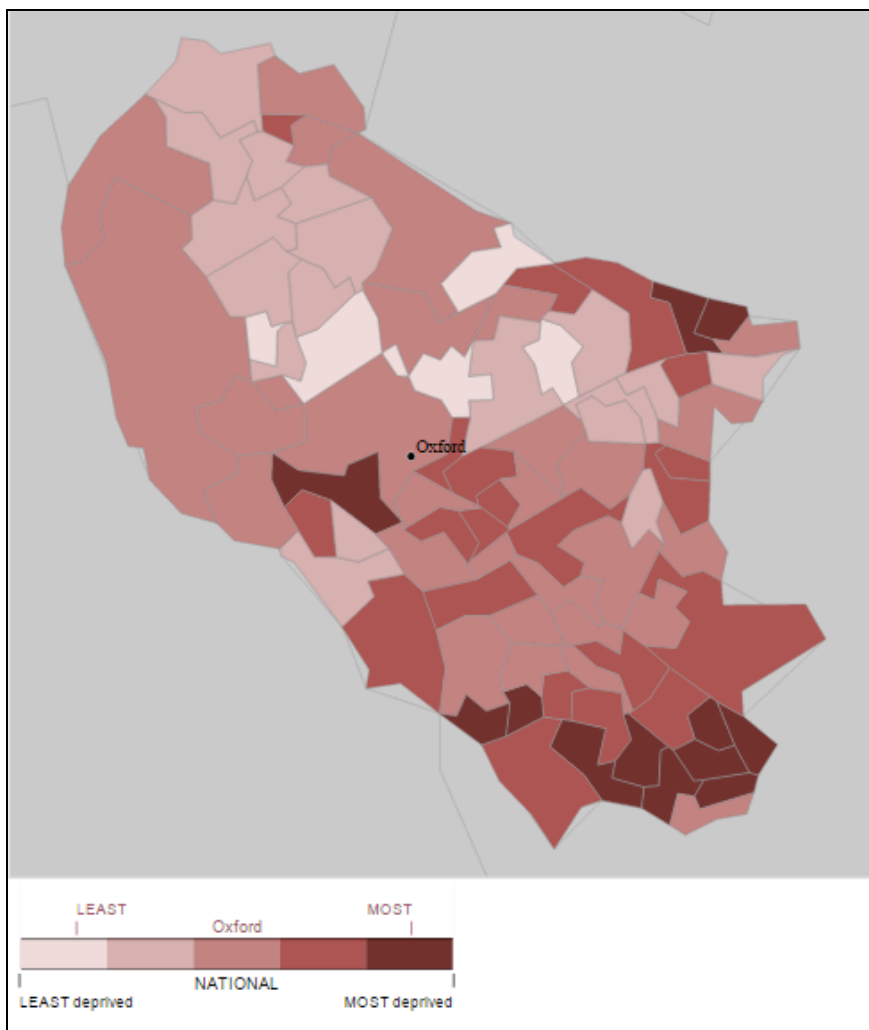
Employer	Total staff	Staff in Oxfordshire	Location
Oxfordshire County Council	22,000	22,000	Oxford
The University Of Oxford (includes OUP)	18,000	18,000	Oxford
Oxford Radcliffe Hospitals NHS Trust	10,136	10,136	Oxford
BMW (UK) Manufacturing	8,000	3,700	Oxford
Oxford Brookes University	2,800	2,800	Oxford
NHS Oxfordshire	2,500	2,500	Oxford
Oxfordshire & Buckinghamshire NHS Trust	3,008	2,144	Oxford
Oxford City Council	1,300	1,300	Oxford
Oxford & Cherwell Valley College Oxford	1,000	1,000	Oxford
Unipart Group	8,200	1,000	Oxford
Oxfam	1,856	822	Oxford
Nielsen	635	635	Oxford
Amey plc	11,000	550	Oxford
City of Oxford Motor Services (Oxford Bus Company)	543	543	Oxford
John Wiley & Sons	629	455	Oxford
Blackwell UK	1,604	400	Oxford
Stagecoach	18,000	400	Oxford
Timbmet Group	364	364	Oxford
Four Pillars Group	720	358	Oxford
Dragon School Trust	270	270	Oxford
Grafton Merchanting GB Ltd	4,600	260	Oxford
Becton, Dickinson U.K. Ltd	932	240	Oxford
Symm Group Ltd	276	231	Oxford
Evotec (UK) Ltd	500	218	Oxford
<b>TOTAL</b>	<b>118,873</b>	<b>70,326</b>	

## Delivery plan risk management

Risk as per key targets 2017-8)	Mitigation/issue	Responsibility
1. Partner employers drop out	BP approach is to mitigate risk of falls in public sector (our current key market)	BDM + Marketing group
2. Dormant members don't engage.	Deliberately small target (10% total) Part of wider plan to attract members	BDM + Marketing group
3. Re-engage councils across Oxfordshire with wider message – Gig economy offer	7% of our members in Gig economy – scope to raise further.	BDM + Marketing group
4. 3 new payroll deductions	To mitigate current public sector focus	BDM + Marketing group
5. Housing association move in offer	Higher risk group. Look to secure loan guarantee from HA, initially limit to 25 to see extend of bad debts	BDM + Marketing group
6. Business case for season ticket loan	Risk low take-up. Limit time of developing proposal	BDM + Marketing group
7. Marketing material for new loans	Risk existing members complain that others are borrowing at lower rate. Start soft launch, get marketing materials in place before full launch.	CUS + BDM
8. Monitor loan effectiveness	Part of risk mitigation	Board
9. Unison to roll out joining form	Risk of falling foul of KYC or money laundering. Offer training to staff offering, build into IA review in 2018	CUS
10. CRM IT upgrades	Use existing developers, only buy into already operating solutions (don't develop new)	CUS
11. System for members to get feedback on credit status	Test system with IA to make sure it is complaint with best practice	CUS
12. Board training	Seek external accreditation in 2018	Chair + Board
13. Review & update IA	Part of mitigation. Ensure IA programme targets high risk areas	Treasurer + Board
14. New board members	Work with employers to identify potential members, have excess board members to allow succession planning	Chair
15. Fair tax mark	Risk of distraction, only do when capacity	Treasurer
16. New marketing plan	Qualified board members with clear remit of what marketing entails	Board lead
17. Subordinated loans	Plan B of looking to other CU in CUS family.	Treasurer

18. Risk register	Part of risk management – test against best practice from CUS	Chair/Secretary
19. Common bond	Only extend where there is a clear business case (eg employers ask us to)	Chair + Board
20. Support CUS model	Risk members leave/competitors arrive and destabilise model. Work with CUS in risk planning	Chair + CUS
21. Financial improvements	Main risk of arrears from specific group(s). Develop monitoring to see which sorts of loans go into arrears, build into wider modelling. Use contacts to learn about risks from others	Chair + BDM

**Deprivation levels in Oxford**



Source: Indices of Deprivation (2010) by Lower Super Output Areas

Number of people in Oxford who are income deprived <sup>2</sup>	16,788
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**Lower Super Output Areas (LSOA) within top 20% most deprived in the country**

<sup>2</sup> Indices of Income Deprivation (2010)

LSOA	Ward	Deprivation Extent	Rank of extent <sup>3</sup>
Oxford 018B	Northfield Brook	45.23	3,165
Oxford 016F	Rose Hill and Iffley	44.49	3,346
Oxford 018A	Blackbird Leys	42.85	3,740
Oxford 018C	Northfield Brook	42.46	3,844
Oxford 005B	Barton and Sandhills	41.74	4,043
Oxford 005A	Barton and Sandhills	41.57	4,096
Oxford 017B	Blackbird Leys	40.43	4,438
Oxford 016A	Littlemore	38.45	5,037
Oxford 008B	Carfax	37.80	5,245
Oxford 017A	Blackbird Leys	37.68	5,296
Oxford 016E	Rose Hill and Iffley	36.80	5,575
Oxford 017D	Northfield Brook	35.24	6,133
Oxford 016B	Littlemore	33.72	6,651

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<sup>3</sup> Where 1 is most deprived and 32,482 is least deprived.