



## **Minutes of Special General Meeting held at 6pm on 14 October 2020 via Zoom**

### **1. Confirmation of Quorum (minimum 15 members present)**

The meeting opened with 18 people and an additional 2 joined in the course of the meeting. The people's names are listed below.

**Chair:** Bindu Varkey

**Directors:** Robert James, Alison Le Cornu, Tina Fegent, Eliane Pony, Steve Edwards,

**Members:** Susan Tanner, John Tanner, Tabitha Rand, Graham Tomlin, Mukesh Malhotra, Tony Brett, Gordon Woods, Ian Kennedy, David Seward, Patricia Wright, Fiona Kaluza, Jennifer Simmons, Jean-Marie Assande and Katharine Banks.

### **2. Summary of the proposals**

The Chair used the presentation (attached) to summarise the proposals and Robert James (Treasurer) explained the two financial slides (no9 and 10). Whilst the slides provide a summary of what was said, the Treasurer pointed out that the forecast financials for Oxfordshire Credit Union (OCU) did not include the 56% increase in costs recently proposed by CUS, which would make OCU unviable as a stand-alone credit union.

At one point in the presentation the Directors were asked to declare any interests. The Chair apologised for not doing this earlier. Robert James was the only Director to declare an interest and stated that he had opened an account at Swan Credit Union to help assess their system and processes. He also stated that he had played golf twice with the Chair of Swan on a personal level. On reflection and after considering it further, he has corrected that to three times.

### **3. Proposal 2**

The Directors recommend that the Oxfordshire Credit Union common bond be increased to include South Oxfordshire Housing Association (SOHA) and that rule 7c. and 7d. be changed as per below with the addition of the words highlighted.

c. An individual who is employed by the following employers:

- i) South Oxfordshire and the Vale of White Horse District Council
- ii) Oxford University Hospitals Trust
- iii) Oxford Bus Company
- iv) **South Oxfordshire Housing Association**

d. An individual who is otherwise associated with other individuals through being a tenant of the above Housing Associations.

There were no questions about this proposal

#### Results on votes for proposal 2

Proposal 2	Online	Postal	At SGM	TOTAL
For	8	7	15	30
Against			1	1
Abstain		1	2	3
Total	8	8	18	34
% in favour	100.00%	87.50%	83.33%	<b>88.24%</b>

4 duplicate votes were declared at the time of the vote and the online votes were reduced by 4. The votes above are after this adjustment. Duplicate votes were allowed by the Chair as it provided an opportunity for the member to change their mind after hearing the discussion. All voted were checked to ensure there were no other duplicates.

#### 4. Proposal 1

The Directors are recommending that there be a transfer of undertakings of OCU's assets to another Credit Union called Swan Credit Union, which trades as Swan Community Bank.

The following questions were raised and answered

Q1 ***I am concerned that Swan have bad debt problems, what are they doing about it?***

A1 All credit unions have bad debt issues which we all need to resolve. In the current difficult economic climate it is inevitable that we will have additional bad debts. However, there are two issues that can be addressed. The first is the credit granting process, which if it's too lax, then loans are granted to the wrong people and if they are too prudent, then no business is completed. Also, there is the debt chasing process, which needs to be robust whilst helping those who genuinely want to repay. Swan took on these responsibilities in October 2019 and inevitably had outstanding problems to address. OCU have discussed this with Swan and have been provided with a table which shows the monthly provision has been reducing over the past year. This reflects the fact that the arrears have been reducing each month. The OCU Directors recognise the scale of the problem and the need to keep bad debts under control. It is also important to maintain a strong capital base so that the credit union can cope with shocks such as a deep economic recession which causes more bad debts. A merger with Swan provides that stronger capital base.

Q2 **What is Swan's bad debt to income ratio?**

A2 Below is a table showing Swan's bad debt to income ratio.

	2017/18		2018/19	
	Swan	OCU	Swan	OCU
Income	106,090	60,233	116,439	62,124
Provision for debts	20,299	18,626	8,184	13,155
% prov/income	19.1%	30.9%	7.0%	21.2%

All credit unions have bad debt issues and from the table you can see that Swan has issues, but by also showing OCU, you can see the issue is not as large as OCU has. See question for the latest situation.

Please note that the income figures used in the presentation exclude grants from the Swan Chairman, which were £21,000, £24,000 and £25,000 in the past three years. See question 6 for more details.

Q3 **Really need to know how much of the income is lost to provision and write-offs. We have to be able to scrutinise Swan properly and those figures can challenge financial viability.**

A3 Q2 addresses the issues raised in this question. To be clear write/offs come out of the full provisions. Swan have been very open with information about the financial state of the organisation. They have provided management accounting information as well as audited historic accounts. They have a strong capital base and a business model which is delivering strong growth. We all know the coming year will be difficult given Covid-19, but OCU will have a stronger capital base and business as part of the merged organisation, compared to where it is now.

Q4 **How does bad debt provision and write off compare against Swan's income?**

A4 See answer to question 2.

Q5 **Was FERN Progress Systems compared against Incuto and Lace Curtains.**

A5 As an alternative to the current proposal the Board considered remaining independent as an option. Once, this was rejected due to lack of resources, the Board did not look at systems in isolation as alternatives. Therefore the Board did not look at FERN nor, do we know anything about it. However, the Board did look at Incuto and received a detailed presentation from them. Also, Robert James joined Swan as a member, so that he could assess the Incuto system. Robert reported back to the board that from a user perspective it was a superior system compared to Curtains. One member pointed out at this point that the comparison of Incuto vs Curtains was unfair as a new upgraded system Lace Curtains is due to be implemented shortly by CUS (OCU's service provider). It was stated that the new version will have all the enhanced functionality that Incuto has. Note the Board did review due diligence on the new updated version of Curtains (known as LACE Curtains) as provided by the CUS co-operative members and discussions with one other credit union who uses Lace Curtains on a daily basis.

**Q6 What proportion of Swan's income is from grants from their Chair?**

A6 The slides in the presentation refer to income from interest, commission etc. In addition Swan has benefited from grants provided by its Chair. The table below shows the details.

	Audited	Audited	Forecast
	2017/18	2018/19	2019/20
Income from Int etc	106,090	116,439	175000
Other income		1,016	
Grant from Chair	21,312	23,706	25,000
TOTAL income	127,402	141,161	200,000

This information confirms the strong growth that Swan has achieved in the last year. It also shows that the grant income received has been important as it has evolved, but is not required now that income is growing so strongly. It is not unusual for credit unions to apply for and receive grants to help it grow as an organisation. OCU has received grants in previous years for different projects.

**Q7 If the members agree the proposal today, does that mean the merger will definitely happen even if subsequent adverse information is found?**

A7 If the members approve this proposal, then it allows the OCU Directors to proceed with the transfer which is planned to be completed in about August 2021. In the event that any adverse information about Swan or reason not to progress with the transfer comes to light before August next year, then the Directors will make the members aware and delay/cancel the transfer. If the members approve the proposal then this will be reflected in the minutes which will be submitted to the members at a 2<sup>nd</sup> SGM for ratification. The 2<sup>nd</sup> SGM will be an opportunity for the Directors to provide additional information to the members about the proposal.

**Q8 What systems did OCU review and what was their due diligence on these systems?**

A8 See answer to Q5. The Incuto system has been used by Swan as well as a number of other credit unions in the UK. Swan admit it isn't perfect in every way, but what system is? Incuto have further modules to roll out and will be a significant step forward from current systems.

As part of the OCU proposed merger plan, any risks will be recorded in a risk register with appropriate risk mitigation actions, these will be highlighted as part of the project plan, which we will share with members once the merger has been ratified.

In addition to the specific questions, there were a number of general discussion points. These are noted below with additional comments added by the Directors.

### **Topic 1**

***Concerns will be disrupt operational tasks increase revenue, strategic planning, institution may need to adjust and take on new portfolio/business, onboarding and training. The institution in question did not have a good system for loan applications, tax monitoring, escrowing process and other tasks.***

It is inevitable that the directors will need to work with CUS and Swan to minimise the disruption caused by a change of system and processes. With good will on all sides, this disruption will be minimal. However the long term benefits and financial strength of the combined organisation exceed these concerns. As part of the merger the Swan board will be strengthened and there will be opportunities to look at things like tax monitoring, as the tax charge in the past two years has been £729 and £595. Swan has an internal auditor and his reports demonstrate a willingness to constantly improve internal procedures and controls.

### **Topic 2**

***The RJRF has highlighted that the information systems are crucial and Incuto has failed miserably.***

The OCU board agree that information systems are crucial for management of the credit union. The Incuto system will be a big step forward from the current systems to allow greater targeted marketing and controls over accounts. The chasing of arrears is enhanced significantly by the incuto module. The Directors have a legal responsibility for the management of the credit union and to achieve this it needs prompt and detailed answers about control issues. This will be achieved in the new environment using Incuto.

### **Topic 3**

***The third party vendor uses a smart and efficient reporting system that was able to highlight the problem areas. A fresh pair of eyes may be able to uncover the problem areas and offer new effective solutions. The number of CUs using various systems other than Incuto are higher in use there are 40+ using Lace Curtains and minimal changes. The Incuto system has not been as efficient.***

This is a similar topic as others about the efficiency of the Incuto system compared to Curtains. The current system is vastly better than what OCU currently has, and is still being developed and improved. The system is just one of many reasons why this proposal is good for the members.

A merged OCU will have a stronger capital base, a Board of Directors capable of managing and controlling the business, a wider product offering and significantly more members than it has had.

### Results on votes for proposal 1

	Online	Postal	At SGM	TOTAL
For	8	7	15	30
Against		1	3	4
Abstain			2	2
Total	8	8	20	36
% in favour	100.00%	87.50%	75.00%	<b>83.33%</b>

4 duplicate votes were declared at the time of the vote and the online votes were reduced by 4. The votes above are after this adjustment. Duplicate votes were allowed by the Chair as it provided an opportunity for the member to change their mind after hearing the discussion. All voted were checked to ensure there were no other duplicates.

#### 5. Summary of decisions

The Chair confirmed that both proposals had been approved by more than the minimum 66% required. However, the votes were to be checked to ensure no duplicates and only qualified members had voted. The numbers noted above are correct after this checking. **Both proposals are therefore approved.**

#### 6. Close of meeting

The Chair closed the meeting at 7.10 and apologised for going 10 minutes past the specified agreed end time.