

UNLOCKING THE POTENTIAL

**AN ACTION PLAN FOR THE
CREDIT UNION MOVEMENT IN SCOTLAND**

A REPORT BY THE NATIONAL CREDIT UNION STRATEGY WORKING GROUP

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Ministerial Foreword: Jackie Baillie MSP, Minister for Social Justice

Too many Scots in disadvantaged communities, often those in greatest need, do not have the access to financial services the rest of us enjoy, and are worse off as a result. The need for creative solutions is pressing if we are to tackle financial exclusion and deliver social justice. I am pleased that so many organisations and individuals have been willing to work in partnership with the Executive to progress this agenda, not least those involved in the working group that have produced this agenda for action. I am grateful to them for their efforts.

The Executive has recognised that, as providers of low cost financial services, credit unions are one tool in the fight against financial exclusion. But if they are to make a full contribution, the movement needs to grow. It needs to put down deeper and more extensive roots among the communities it serves. Every credit union must be encouraged and supported to develop the skills necessary to provide basic credit union services to all those within their common bond that wish to participate. We want to see people from all walks of life, from all income groups, joining credit unions not only as members but as volunteers bringing skills and enthusiasm and getting actively involved. Then there will be a solid, sustainable base from which the movement in Scotland can grow.

Partnership may be an over-used term, but it is at the heart of our approach to tackling exclusion. We are determined that everyone should work together in innovative ways to tackle poverty and regenerate communities. The work we are doing on financial exclusion demonstrates how harnessing the expertise within the business community, working together with government, local agencies and the community, we can develop new solutions.

I have long been a supporter of credit unions and I am pleased that the Executive is able to put resources behind the action plan. The credit union movement faces challenges and opportunities with the new regulatory framework, legislative changes and the proposed Central Services Organisation. Through the Scottish Credit Union Partnership that is proposed in this action plan, the Executive will continue to work together with all those committed to seeing the credit union movement in Scotland develop – bringing all their skills and knowledge to the table to take on those challenges and make the most of the opportunities that arise.

It is only through such collaborations that we can hope to meet the ambitious targets we set ourselves in our social justice strategy 'A Scotland where everyone matters'. We have an historic opportunity to make the new Scotland a fairer society in which wealth and opportunity are in the hands of the many, not the few.

A handwritten signature in black ink, appearing to read 'JMBaillie', written over a large, hand-drawn circle.

JACKIE BAILLIE MSP
Minister for Social Justice
March 2001.

Introduction

Credit unions are a significant feature in the economy and social fabric of many countries. Their strength lies in their capacity to capture and recycle money within the local economy, to be a resource for all the community and to contribute to community regeneration. They are socially inclusive in nature having to appeal to a broad spectrum of people for membership and to attract volunteers with a range of skills.

Credit unions are not-for-profit, financial co-operatives owned and controlled by individual members, and with strong volunteer involvement. Credit unions provide accessible savings, low cost loans and other financial services. As locally owned businesses they have economic objectives complimented by social objectives with a clear commitment to mutuality, community and social goals.

Credit unions have developed in Britain over the last thirty years or so but still less than 1% of the population in Scotland¹ belong to a credit union. Recent interest in credit unions has stemmed from Government's wish to tackle financial exclusion and the recognition that credit unions have a significant role to play in helping Government deliver. The Treasury Taskforce concluded that while credit unions could indeed play an important role in tackling financial exclusion, this would only be possible through a significant expansion of membership and the services provided so that credit unions would develop as broad based community institutions with a wider appeal which complement the established banking sector.

It is widely recognised that the credit union movement has been more successful in Scotland than other parts of the UK, and indeed there are some strikingly successful examples in Scotland and we need to draw on the experience of these credit unions and learn from them. However, the movement in general in Scotland has some way to go if it is to become financially viable and sustainable in the long term, and credit unions recognised as businesses with a social purpose operating as professionally run financial services providers.

For that reason, and building on the recommendations in the Scottish Social Inclusion Network report 'All together – local anti poverty action' and the work of a group convened by the SCVO², the Scottish Executive set up a small working group to develop a strategy for the future development of the credit union movement in Scotland³.

Our aim as an Executive has been to work with the credit union movement through its representative bodies to develop an integrated strategy that will enable services to be provided to whole communities. This strategy has been devised by a working group drawn from the key players in Scotland who have consulted with their members as discussions have progressed. However, recognising that not all those who wished to be involved in the working group could be, contributions from others

¹ Currently membership in Scotland totals 119,595, FSA

² See appendix 1

³ Details of membership and remit in appendix 1

have been welcomed and we have tried hard to incorporate their thinking into our discussions. We recognise the strategy will need to incorporate action to address the immediate short term needs of many, as well as helping those who are on the way to being sustainable to get there more quickly.

We wish to make clear that we fully recognise the autonomy of the movement, indeed its community and mutual ethos is what sets the movement apart from other financial services providers. The support offered by the Scottish Executive, the financial sector and others must be shown to be, and perceived to be, an opportunity rather than a threat. This strategy is intended to be a framework for action to enable a step change in the growth of the movement in Scotland to take place.

The strategy proposes that a Scottish Credit Union Partnership, SCUP, drawn from organisations represented on the current working group, should be established to oversee the implementation of the strategy's action plan, building on the good relationships that have been fostered during the development of the strategy.

Vision

Our vision is for a vibrant, self sustaining credit union movement in Scotland, accessible to all and used by all, with credit unions being broad based, community owned, financial institutions operating in a sound commercial manner but based on the principles of mutuality and economic justice.

Aim

Our aim is to remove barriers to credit union growth in Scotland and to ensure that all credit unions have access to the support and development services they require to enable them to flourish throughout Scotland.

Objectives

The objectives of the strategy are:

1. To develop sustainable credit unions
2. To assist all credit unions to meet the new regulatory framework
3. To grow the credit union movement throughout Scotland
4. To increase the numbers and skills of volunteers⁴
5. To bring about a change in public attitude/image

The strategy seeks to clarify the roles and responsibilities of the key players active in the development of credit unions, and highlights examples of good practice.

⁴ a volunteer is defined as a member that takes an active role in their credit union – either as a committee member or helping them to run their credit union in other ways.

Key targets

The key targets for the strategy are deliberately ambitious, but given the necessary resources, the working group consider them to be achievable by 2005;

- All credit unions to be solvent
- All credit unions to be capable of meeting the FSA's new regulatory framework
- All credit unions to have a business plan setting out their path to self sufficiency
- Increase the average level of savings held (current average share capital £450,207)⁵
- Increase the average number of loans made (current average 488)
- Increase the average total assets held (current average £531,507)
- Increase the number of community based credit unions paying a dividend to members
- Increase the proportion of the population that are members of a credit union in Scotland from <1% to > 5%
- Double the number of people, both volunteers and staff, actively involved in running credit unions (volunteers currently estimated at 1632)
- Ensure the profile⁶ of volunteers is representative of the local community
- Increase the number of volunteers undertaking trade association training courses, HNC training and other formal qualifications
- Increase public awareness and understanding of credit unions

One of the first tasks of the SCUP will be to establish baseline figures for all the targets against which progress can be mapped.

⁵ Credit Union Development Activity in Scotland, Central Research Unit 2000.

⁶ ie by age, gender, ethnicity etc

Objective 1: To develop sustainable credit unions

A number of factors have been identified that are key to achieving a sustainable credit union:

- Sound business planning
- Adequate resources including a strong capital base
- Skilled volunteer leadership
- Suitable premises/access
- Regular opening hours
- Trained staff
- Strong accounting and operating systems
- Effective marketing and promotion
- Emphasis on assessing economic as well as social performance
- IT systems
- Networking

Previous Registry rules, together with inappropriate models of development and funding patterns meant that, over the last twenty years or so, many community based credit unions were established with common bonds that were insufficiently diverse or large. The terms of these common bonds have constrained the ability to grow and currently many community based credit unions are struggling to provide the most basic credit union services to the majority of people in their common bond. There is now a new determination on behalf of the FSA⁷, local authorities and many in the movement itself to progress models of development which will lead to sustainable credit unions, while recognising that such models have to be sufficiently sensitive to local needs and flexible enough to take account of the particular needs of rural communities.

⁷ FSA will replace Registrar as regulator of credit unions as part of the FSMA

ACTION POINTS

1.1 Review common bonds of existing credit unions and, where desired, assist restructuring through extension, merging or collaborating; to ensure bonds are realistically able to support a successful credit union in terms of potential membership size and mix (income, age).

Action by: Trade Associations, Credit unions, Development Agencies

1.2 Feasibility studies and pledge drives should be a prerequisite for new credit unions to establish if sufficient volunteer interest and demand for savings and loans exists locally before study group work starts.

Action by: Trade Associations, Development Agencies, Local Authorities

1.3 Set criteria for registering as a credit union, to be achieved within 12 months, recognising that success will look different in rural areas. (% penetration of common bond, number and skill mix of volunteers, % consumer loans, adoption of minimum standard procedures and models of good practice).

Action by: Trade Associations, Development Agencies, Financial Services Authority

1.4 Every credit union should have a business plan which sets out how resources will be accumulated to enable it to be self-sustaining in 3 years or longer if appropriate⁸. To assist, and to ensure consistency, guidance should be drawn up setting out what such business plans should cover.

Action by: Trade Associations, Credit unions, Development Agencies, Financial Services Authority, Local Authorities, Local Enterprise Companies

1.5 Credit unions to be closely monitored when in receipt of funding, with monthly/quarterly supervision to demonstrate that objectives are being met through local outcome agreements. The principal means of monitoring should be an analysis of existing reports and returns, including updates of the credit union's business plan.

Action by: Local Authorities, Scottish Credit Union Partnership

⁸ Rural areas may require longer

Objective 2: To help credit unions meet the new regulatory framework

If credit unions are to attract the deposit base they need to make a real difference, they need to be regarded as sound, well-managed, business-like operations. In November 1999, the Treasury announced that credit unions would be brought within the regulatory scope of the Financial Services and Markets Bill, which became an Act last year.

The Financial Services Authority published their consultation paper on the Regulation of Credit Unions in December 2000. Consultation on the proposals will finish on 23 March 2001. As expected the proposals set out that in future credit unions will have to:

- Have adequate financial resources to back their business
- Have robust control systems including adequate accounting procedures
- Prove that the people who control the business are fit to do so
- Make timely and regular reports to the FSA as regulator

Credit unions will not only have to be registered with the FSA, but also authorised to conduct either version 1 or version 2 business. Credit unions will be expected to join the Financial Services Compensation Scheme, which will give their members the same level of protection and security as depositors in banks and building societies.

It was recognised earlier this year that some existing credit unions would be likely to fail to meet the FSA requirements. A health check programme⁹ was piloted for six months during 2000, which looked at what measures were required to remedy this situation, to stabilise the existing situation and enable the movement to grow on a more sound foundation. The pilot's findings suggest that the health check approach can be very worthwhile, especially where problems are tackled early. The findings also suggest that greater investment in training is required to ensure that robust control procedures are put in place, and roles and responsibilities are fully understood and adhered to.

Like other financial service providers credit unions need to be able to manage debt. The demand for the debt recovery training run by trade associations and Community Enterprise in Strathclyde demonstrates the desire by credit unions to develop their understanding and improve practice in this area. Further work should be done to improve debt management and to develop debt recovery strategies.

⁹ Details in appendix 1

ACTION POINTS

2.1 Ensure credit unions have a clear understanding of how future changes in legislation/practice standards will affect or impact on their operations. Training plans should ensure that volunteers, staff, and development workers have the required financial and regulatory expertise.

Action by: Financial Services Authority, Trade Associations

2.2 Drawing on the findings of the pilot programme, develop and provide a health check for all credit unions that will ensure that they are able to comply with the regulatory requirements of the FSA. The programme should include a toolkit to enable credit unions to implement corrective actions to achieve compliance.

Action by: Scottish Credit Union Partnership, Trade Associations, Development Agencies, Credit unions

2.3 Develop a strategy to tackle bad debt, including training for staff and volunteers in debt management. The strategy should identify the level of bad debt in existence, the credit control procedures required to recover the bad debt, the amount of bad debt required to be written off and the level of funds required to restore an impaired asset base caused by bad debt. The feasibility should be explored of setting up a fund to underwrite any insolvency discovered during health checks as a transitional measure, as credit unions move towards the new regulatory regime.

Action by: Scottish Credit Union Partnership

2.4 Look at measures to improve the dialogue between the regulator and Scottish credit unions including the possibility of establishing an FSA office with credit union expertise in Scotland.

Action by: Scottish Credit Union Partnership, Trade Associations, Financial Services Authority

2.5 Create a Scottish standard of auditing good practice, which addresses the roles and responsibilities of auditors. Good practice to draw on the expertise of both CoSLA and the wider voluntary sector.

Action by: Financial Services Authority, Trade Associations

Objective 3: To grow the credit union movement in Scotland

The value of early investment, both financial and technical assistance, is recognised as critical to enable new credit unions to grow quickly and so achieve sustainability. Under-capitalisation limits the ability to grow, many existing credit unions need to increase their reserves to allow them to not only pay dividends to members but provide a wider range of services. Resources should be focused on the early years.

Funds spent on credit union development have too often in the past not gone to the credit unions themselves. The need for a central loan fund that could assist credit unions in their move towards sustainability has been identified. The nature of this central finance capacity requires further consideration, but it could operate as a credit union for credit unions, providing loans to implement debt recovery strategies or to fund initiatives such as the purchase of premises that would facilitate growth. Such a loan fund could also help to address the liquidity requirements that the FSA are likely to demand. The establishment of a central finance capacity will require a change to primary legislation, but is something that should be taken further by the Scottish Credit Union Partnership once the nature of the proposed Central Services Organisation has been determined.

Credit unions need to be visible and people need to know when and where services will be available. In urban areas a high street presence or location in a place where people regularly go is important. In rural areas other avenues may need to be considered to ease access and provide a fixed base or collection points, such as partnerships with the Post Office, housing associations, mobile banks.

The use of IT systems and accounting packages helps the smooth and efficient running of credit unions and should be encouraged. Credit unions should take advantage of the resources being directed by the Executive to connect up the voluntary sector.

Having staff to carry out the day to day duties can take the pressure off the volunteers enabling them to concentrate on policy, promotion and direction, ensuring membership growth and service development. Working with volunteer management boards, professional managers and staff can play a key role in the development and success of credit unions. Where possible volunteers should be encouraged to progress into paid positions of responsibility. The New Deal and Intermediary Labour Market models provide opportunities for credit union employment and should be explored further by SCUP.

Joint ventures and partnership working offer many opportunities for the movement and should be encouraged and further developed; there is potential for greater synergy between credit unions and other social economy organisations and developments in housing, care etc. In particular more should be made of the opportunities for workplace and community based credit unions to work together. For example, the development of 'live or work' credit unions is one opportunity for local employers to be more involved with the community in which their workforce is based.

ACTION POINTS

3.1 Establish a Scottish Credit Union Partnership to monitor implementation of the action plan, promote good practice, explore the potential for new services such as New Deal, micro-credit, debt consolidation and, above all, successful models of credit union development. SCUP to be serviced by Scottish Executive but chaired by a representative from the credit union movement.

Action by: *Scottish Executive and NDS Working Group.*

3.2 Provide an early support package to provide start up grant direct to credit unions to purchase/lease premises, employ staff, pay for IT, train staff and volunteers, and promote services. Package to be available for maximum of three years and will require:

- an approved Business Plan setting out how they will achieve self-sustainability within 3 years;
- a local outcome agreement to ensure business plan targets are being met;
- a training and education plan.

Action by: *Scottish Executive, Scottish Credit Union Partnership*

3.3 Taking account of the proposed CSO, consider the feasibility of establishing a central finance capacity for the movement in Scotland¹⁰.

Action by: *Scottish Credit Union Partnership in conjunction with Financial Services Authority*

3.4 Guidance to be issued to local authorities recommending that 100% rates relief should be available to all credit unions.

Action by: *Scottish Executive, CoSLA*

3.5 Suitable retail properties to be made available at nominal rent to start with but increasing with ability to pay, tapering should be built into business plan.

Action by: *Banks, Local Authorities, Housing Associations*

3.6 Within legislative constraints, low cost loans to be provided to credit unions to purchase and refurbish premises.

Action by: *Credit unions, Banks, (others post July 2002)*

¹⁰ Will have to take account of proposed CSO

3.7 Housing associations, other voluntary sector organisations, and other credit unions (in particular workplace ones) should consider offering shared space to fledgling credit unions, including satellite collection points.

Action by: SCVO, Scottish Homes, Scottish Federation of Housing Associations, Credit unions

3.8 Credit unions should be encouraged to use computerised accounting packages, and to make appropriate use of the internet.

Action by: Trade Associations

3.9 Credit Unions to be encouraged to take advantage of voluntary sector IT initiatives.

Action by: SCVO

3.10 Explore the possibility of making available affordably 'off the shelf' IT packages or plug ins from a central resource, for example the online transactions that will be offered by the voluntary sector portal.

Action by: Scottish Credit Union Partnership

3.11 Look at reducing IT costs through negotiating bulk purchasing agreements.

Action by: Scottish Credit Union Partnership, Scottish Executive, Central Services Organisation

3.12 Explore the potential of recruiting office support staff through the New Deal and ILM models.

Action by: Credit unions, Development Agencies, Local Enterprise Companies, Trade Associations

3.13 Consider what advice, appropriate staff secondments and training opportunities can be offered.

Action by: Banks, Local Authorities, Local Enterprise Companies, Housing Associations, CVS Network

Objective 4: To increase the numbers and skills of volunteers

The heart of any credit union, and what sets it apart from other financial service providers, is its volunteer base. Not only does a credit union need a pool of committed volunteers to serve as committee members, but often also to run the operation of the credit union. It should be a pool with a mix of experience, skills, and ages, and with leadership potential. Volunteers need to be trained not only to deal with the financial aspects of running or overseeing the running of a credit union but also the management skills required, for example to employ staff. Such training must be sensitive to the needs and circumstances of volunteers.

The report produced by the Liverpool John Moores University (December 1998) stated, that in order to achieve greater financial stability and growth, credit union volunteers would need to be more professional, directing their activities towards the strategic development of the credit union. Their capacity to manage needed to be increased. Similarly research by Community Enterprise in Strathclyde (1997) identified the difficulty in recruiting sufficient volunteers with the necessary skills as a constraint to growth.

Networking between volunteers is particularly important for rural credit unions. The difficulty of recruiting and retaining volunteers from across a wide area of scattered communities makes mutual support and opportunities for joint working particularly important. Existing channels for networking tend to be much better developed in urban areas.

The involvement of volunteers is a challenge that spreads beyond credit unions to the wider voluntary sector and indeed to the greater goal of building Active Communities. There is an opportunity for credit unions to engage in the Active Communities Strategy being championed by Scottish Ministers and shared across the public, private and voluntary sector.

ACTION POINTS

4.1 Diversify common bonds to increase the pool of skilled volunteers available.

Action by: *Credit unions, Trade Associations*

4.2 Boost recruitment by developing a Scotland-wide credit union volunteer initiative to promote the merits of volunteering in credit unions.

Action by: *Scottish Credit Union Partnership with the Active Communities Forum*

4.3 Develop a specific rural volunteering initiative, which should include the establishment of volunteer forums in rural areas and take advantage of new technology for networking throughout rural areas.

Action by: *Scottish Credit Union Partnership with the Active Communities Forum*

4.4 Develop (and enhance existing) programmes for training volunteers, to build confidence, improve skills, and increase the numbers taking HNC, specialised credit union training packages and other training opportunities.

Action by: *Trade Associations, Development Agencies, Community Learning Scotland*

4.5 Improve networking channels for volunteers by establishing a national forum for the exchange of best practice and sharing of common issues linked to a Scottish Website that individual credit unions can tap into. This website should build on, and link to, existing websites and the voluntary sector portal.

Action by: *Trade Associations, SCVO*

4.6 Develop a tool-kit to enable credit unions to undertake a skills' audit of their volunteers to establish where gaps exist and where additional training/recruitment should be focused to develop the necessary skills mix and which takes account of the proposed Approved Persons regime.

Action by: *Trade Associations, Development Agencies, SCVO*

4.7 Produce accessible reference manuals which set out the roles, responsibilities and step by step guidelines on the tasks that should be undertaken to help new volunteers/committee members in the early stages.

Action by: *Trade Associations, Development Agencies, SCVO/VDS*

4.8 Build local partnerships to enable transfer of skills from other credit unions, the private sector, other local social entrepreneur/enterprise initiatives and voluntary organisations, involving twinning and mentoring arrangements.

Action by: *CVS/LVDA, Development Agencies, Local Enterprise Companies*

4.9 Explore the potential offered through the New Deal, Millennium Volunteers, Individual Learning Accounts.

Action by: CVS/LVDA, Local Enterprise Companies, CEiS

Objective 5: To bring about a change in public attitude/image

The image of credit unions in Scotland is mixed. Despite the success of a number of community and workplace credit unions the overall perception is that too often they are the 'poor man's bank' offering inferior services. This perception is not helped by the high profile that failing credit unions receive in the press. This view that credit unions are primarily for the poor has inhibited their success. There is a need to challenge this perception and the lack of knowledge about credit unions in the general population. Steps should be taken to promote the message of independent organisations acting collectively for the common good, offering dividends on savings higher than bank interest, loan rates at APR below most of the financial sector, and providing these services promptly and sensitively to a wide range of people.

Securing visible premises with regular and convenient opening hours will do much to raise the profile of credit unions as professional financial service providers, but there is also a need to promote the ethos/philosophy behind credit unions as well as the practical benefits of membership. Promotion should detail descriptions of credit unions' competitive edge, services and benefits, and philosophy. While there is a need for the message to be coherent and consistent, credit unions are well placed to market themselves to suit their sector of the market. There is also a need to give consideration to the development of appropriate materials etc for communities of interest, such as ethnic minorities, that is sensitive to cultural issues around finance.

ACTION POINTS

5.1 Design and run an awareness-raising programme to promote credit unions at a local and national level. The programme should have a coherent and consistent message but reflect the:

- different sectors in which credit unions operate;
- the greater need in rural areas to develop knowledge and understanding of the difference credit unions can make to both members and communities.

Action by: *Scottish Credit Union Partnership, Trade Associations*

5.2 Develop a marketing strategy which:

- encompasses a range of tools/advertising materials e.g. leaflets, booklets, local newspapers, videos;
- considers targeted marketing approaches – such as loans for home energy work with EAGA, promotion of insurance services, e-commerce opportunities, provided these strengthen the credit union.

Action by: *Scottish Credit Union Partnership, Trade Associations*

5.3 Increase sponsorship of credit unions by other community organisations, as well as public and private sector bodies.

Action by: *SCVO/CVS, Business organisations*

5.4 Promote membership in public sector organisations.

Action by: *Scottish Executive, Local Enterprise Companies, Local Authorities, Health Boards, Scottish Homes*

5.5 The number of credit unions operating in schools should be increased, linked to both workplace and community credit unions but with satellite collection points run by and for students.

Action by: *Credit unions*

5.6 Develop appropriate teaching material for use within the curriculum to encourage and help understanding of credit unions.

Action by: *Local Authorities, Trade Associations, Learning Teaching Scotland*

5.7 Credit union volunteers and staff should make themselves available to be involved in discussions at schools and through the Employment Service/New Deal programmes, provided this does not weaken their ability to run their businesses.

Action by: *Credit unions*

5.8 The opportunities to use links with local schools for school children to undertake work experience in credit unions should be explored.

Action by: *Careers Scotland, Trade Associations, Local Authorities*

Implementation and Funding

The strategy proposes that a Scottish Credit Union Partnership (SCUP), drawn from organisations represented on the current working group, should be established to oversee the implementation of the strategy, building on the good relationships that have been fostered during the development of the strategy. As well as implementing the action plan the SCUP will have responsibility for collating baseline data against which progress towards targets will be measured, and for monitoring that progress.

Discussions in the working group have centred around the belief that funding should be accountable, focused and seen as investment rather than subsidy. There is a strong feeling that the way in which funding has been distributed in the past could have been more effective. Instead the argument is now being made for the purchaser/provider relationship to be changed, and that money should be channelled directly to credit unions who can then choose who they approach for support. However, more consideration needs to be given to how this change could be implemented and the SCUP is tasked with taking this forward, working closely with the local authorities that currently provide the bulk of development funding and trade associations who have experience of how funding can be best used.

There are many areas in the action plan that will require funding:

- Health check programme
- Central Finance Capacity
- Early support package
- Volunteering initiatives
- IT support
- Undertaking feasibility studies
- Development of business plans
- Training
- Marketing and awareness raising programme

The working group recognises that there is already activity in many of these areas but through the action plan seeks to focus activity (and funding) on steps that will result in significant growth.

The working group acknowledges that resources are finite and there is a need to prioritise areas of the strategy for funding. It considers that priority should be given to:

- Efforts to stabilise existing activity by ensuring that all existing credit unions are able to meet the forthcoming regulatory framework through a programme of health checks, and rescue packages where appropriate.
- Support in the early stages through short term start up grants to ensure that new credit unions are sufficiently capitalised.
- Supporting and developing the skills and size of the volunteer base.
- Ensuring credit unions take advantage of the benefits of IT.

The need for the establishment of a central finance capacity has been identified to deal with both development and insolvency issues. Under current legislation this would have to be established by the credit unions themselves. The SCUP is tasked with progressing discussions on this matter, in particular whether there is likely to be a willingness on the part of credit unions to set up such a fund in Scotland, and how it would link to the proposed CSO.

Credit unions are currently restricted to borrowing from other credit unions and banks, though this is expected to change in July 2002. They are unable to access lottery funding directly because their objects in law are not charitable. But there are other possible ways that they could benefit e.g. setting up a charitable sibling organisation etc. Europe is another important potential source of funds depending on locality. While some in the movement have been successful in accessing a variety of funding sources, the case has been put for the provision of guidance on the different types of funding available and ways of accessing those funds to increase the resources that can be harnessed.

The SCUP is tasked with undertaking/commissioning work to clarify the sources of finance available and how best they can be accessed.

Roles and responsibilities

A range of organisations in Scotland have an interest in credit union development and many have a contribution to make. If action is to be focussed and resources deployed in the most effective manner clarity is required over roles and responsibilities. What must be recognised is that credit unions are owned and controlled by their members – others can provide help and support but ultimately, within the confines of the laws and regulatory requirements, the choices should lie with the individual members. Credit unions are located within the following framework.

CREDIT UNION MOVEMENT

Credit unions are responsible for provision of core financial services to members: savings and loans, financial advice, life savings and loan protection insurance, and training and education for members. Additional services may be provided once a credit union has built up sufficient reserves.

Trade associations provide a strong central voice to represent credit unions' interests to Government, government departments, the regulator, the media and external organisations interested in supporting credit unions. The strategic approach, policy objectives and work of trade associations are established by individual credit unions at the annual general meeting of the trade association. A trade association is therefore accountable to credit unions and at all times strive to operate in the best interest of credit unions.

In addition to a trade associations' important role in lobbying for an improvement in the external operating environment for credit unions, a trade association also provides a centralised delivery of information, training and technical services, which are a crucial contributory factor to enable a credit union to grow.

Chapters and Forums facilitate networking, provide training and enable discussion between credit unions in a defined area.

OTHER KEY PLAYERS

Development agencies alongside the trade associations, deliver development and support services at a local level, in particular the provision of training and education courses.

Local authorities are the main providers of funding for development. A number are currently revising their strategies for work in this area. Through the Community Planning process local authorities have the opportunity to ensure that credit union development is taken forward in a strategic manner and as an integral part of their economic development strategy.

Some banks already provide assistance to credit unions at a local level, for example tailored banking products with favourable terms and conditions. The **financial**

sector could also usefully support the movement through secondments and the provision of training, premises, and equipment.

The **Scottish Executive** convened the national development strategy working group to establish a strategic national framework for Scotland, and will provide resources to kickstart the implementation of the strategy.

The **Financial Services Authority** is responsible for the regulation and supervision of credit unions.

Social Inclusion Partnerships provide funding for a number of credit unions operating in areas of low income and deprivation.

POTENTIAL FOR FUTURE

CoSLA, through its Credit Union Taskforce, will be able to provide a link between the national framework and local delivery, enabling local authorities to work closely with credit unions and their representative bodies.

Local enterprise companies through the local economic forums will have the opportunity to ensure that credit union development is incorporated into an area's economic development strategy. They also have the potential to provide secondments, training, business skills, support and advice as part of their role in supporting the social economy.

Scottish Homes/New Executive Agency will be able to ensure that credit union development is considered as part of regeneration strategies. Through its wider action programme it will be able to encourage housing associations to work with local credit unions.

The proposed **Central Services Organisation** is likely to provide a range of services, including a central finance capacity, controlled by the movement; a challenge fund to enable credit unions playing a particular role in achieving financial inclusion to reach more people and become sustainable; support with training, business planning and marketing. The CSO will be owned and controlled by the credit union movement in Scotland, England and Wales. It will have full regard to the nature of devolved government, will be sensitive to the different needs that exist in the three nations, complimenting the development strategies in Scotland and Wales.

The wider **voluntary sector** can assist with the development of volunteer skills, for example through local volunteer development agencies and the cross fertilisation of social economy organisations, such as housing associations and care organisations, through local councils for voluntary services (CVS).

Examples of good practice

The case studies that follow are examples of good practice identified by the working group. Further work needs to be done by the SCUP on assessing which elements are more critical to success than others and then disseminating that information.

Vale of Leven

The Vale of Leven credit union is in its 21st year of operation, putting service to its members as paramount. It has always embraced modern technology and is looking to drive forward by introducing a website enabling members to download forms and information. Vale of Leven is self-supporting, has 15 board members and employs 2 members of staff, being paid out of own revenue. It is now seeking to buy the property it has been utilising rent-free from the local authority and will carry out a major refurbishment plan, which will hopefully raise the profile of the credit union, increase membership and boost the economic regeneration of Alexandria. The Scottish League of Credit Unions provided training and assistance, with the knowledge gained being shared among all volunteers. Within a year of this development, the credit union was able to employ an office manager who worked along with the Board of Directors to improve service delivery to members. Vale of Leven is open four days a week, one evening and has achieved a steady growth rate of 25% over the past 3 years. Membership is now almost 2,000 with assets in excess of £1,000,000.

Contact : Cathy Greig 01389 721803

Newarthill

Newarthill credit union was formally established in 1977, being a collection point for Mossend credit union prior to that date. In the early years it was operated from officer's homes and latterly from local community centres, and was open for no more than 6 hours a week. The credit union grew continually throughout the subsequent years with no direct advertising, with the best method being word of mouth. In 1997 it invested in its own High Street premises, which was seen as a great achievement by the local community and was well publicised by the local press. The credit union has one paid staff member and 30 dedicated volunteers. It is open Monday to Friday at the main office and at a number of satellite points on Tuesday and Thursday evenings, which reflects the tight community driven nature of the common bond, and is open for a total of 44 hours weekly. Currently, Newarthill has 4,800 adult members and 1,100 junior members; its share value has broken through £2,000,000, and estimates reaching £3,000,000 within the next 2-3 years.

Contact: Ann Hattie/Richard Hart 01698 862770

Dalmuir

Dalmuir credit union was established 23 years ago by a handful of people meeting in a church hall. It now owns its own premises and has two collection points in community halls, and is open everyday of the week including Thursday evening and Saturday morning. The local council helped with accommodation; and local companies help employees to save with the CU by payroll deductions, but the credit union had no grant assistance to establish itself. It is based in a predominantly deprived area so to ensure the large savings pool necessary to supply the loans, an important factor for financial stability was a good balance between those in work and those not. It currently has 6,500 members, predominantly low and middle-income, with a common bond of 40,000, including the whole of Clydebank, and has 5 paid members of staff (3 full-time and 2 part-time). The credit union aims to grow over the next few years, with aggressive marketing being one of the devices to do so.

Contact: Roseanne Downie 0141 952 3776

Bridgeton, Calton and Dalmarnock

Bridgeton, Calton and Dalmarnock credit union was established in 1991 with the initial aim of anti-poverty. The credit union has been run with the philosophy of being a business, and has been very successful from doing so, being the one of the largest and fastest growing of over 30 community credit unions in Glasgow. It's premises look like a bank, it provides many of the services of a commercial bank, has similar opening hours, and the 4 staff and 20 volunteers wear uniforms. Their membership is over 3000 (25% penetration), which includes over 500 children, have a turnover of £1.5 million, and a dividend of 2.5%. The credit union believes confidence has played a major role in their success, and their plans for the future include offering members start up business loans, mortgages for 'right to buy' and bill paying facilities, giving more access to services usually associated with banks.

Contact: George Redmond 0141 550 4171

Tail o' the Bank Credit Union

Tail o' the Bank is an example of a re-launched credit union. It was registered in 1986 as Greenock East Credit Union and it's common bond, as the name suggests, covered part of the town of Greenock, which lays approximately 20 miles west of Glasgow. After 12 years of operating from rent-free collection points they had built up a membership of 1000. However, they realised that to portray an image of an organisation that could be a major financial services provider, they had to look for their own customised premises.

The Credit Union had a bank balance of £100,000, which of course was made up of members' shares and reserves as well as profit. Having identified suitable town centre premises they then sought the advice of their accountant. The premises would cost £67,000 to buy, plus renovation costs. They then arranged to meet the manager of the Clydesdale Bank, where their account was held. Due to the liquidity

of their account the bank agreed to give them an interest free overdraft capacity of £40,000. The remaining balance of £27,000 was met by the Credit Union.

Once they had bought the premises they had to find the cost of renovation. Although the local authority could not give them a grant to buy the premises they were prepared to grant them funding under the Urban Programme to pay for renovation cost.

The credit union extended the common bond to take in the whole of the Inverclyde area and therefore changed their name to Tail o' the Bank Credit Union, which was now more geographically accurate. They officially opened their premises in the town centre on 6th January 1999. In the first 3 months they had recruited 350 new members and perhaps even more pleasing, around 40 members with dormant accounts had now become active members again. Eighteen months after their re-launch they have recruited over 1300 new members and are now in a position to be able to afford to recruit staff.

Contact: Pat McGowan 01475 734655

East Kilbride Credit Union

Whether recruiting volunteers for a new credit union or supplementing/replacing volunteers in an existing credit union, people with useful skills can be targeted. The John Moores Research reported that East Kilbride Credit Union, one of the largest in the country, had recruited original volunteers who had previous experience in organisational and office management. East Kilbride see themselves as first and foremost a co-operative business that has a strong sense of professionalism. East Kilbride and other successful credit unions owe much of their success to dynamic and charismatic leadership, people with a vision of where they want to be and the plans and personnel to get there. Another key ingredient of the success of East Kilbride has been their systems, policies and procedures. Credit unions are businesses and businesses need professional structures within which to operate. Every officer having a job description of what his/her role and responsibilities are makes for a more professional organisation that instils confidence in the membership that their money is in safe hands.

Contact: Moira Gordon 01355 224771

Drumchapel Credit Union

Drumchapel Credit Union is working in partnership with the local Citizens Advice Bureau, Drumchapel Law and Money Advice Centre and the Social Work Department of Glasgow City Council in helping the financially excluded.

Local people with multiple debt problems are referred by any of the above agencies to the Credit Union's Bill Paying Service Development Officer, a post funded for 2 years by the Social Inclusion Partnership. After joining the credit union the member makes a cash payment every week and the credit union arranges for payment to all the member's creditors. The immediate benefit to the member is the ability to repay

all debts locally without the cost of transport or postal orders, with the longer term benefit being membership of an organisation which can help prevent them being in same situation in the future. The obvious benefit to the credit union is the increase in members who understand the value of the credit union from the day on which they join. The referral process can be two way as the credit union can refer existing members who have debt problems to the local agencies.

Contact: Mary Clark 0141 944 8593

Western Isles & Shetland

The Western Isles and Shetland Isles Councils have recently asked ABCUL to carry out feasibility studies into the possibility of setting up credit unions. This will entail contacting local agencies and people to assess the level of interest and support which exists for the idea of a credit union. The main benefit from this approach is the existence of evidence of support before the local authorities or other agencies commit themselves to any major investment. It also helps raise awareness of the credit union, which will help membership recruitment if the recommendations are positive.

Contact: Ian McCormack 0141 304 5553

Edinburgh

The future of the credit union movement in Edinburgh was investigated this year by Capital City Partnership. A report was commissioned to assess the current situation of Edinburgh's 8 credit unions, the potential for a city-wide credit union framework and the potential role for the Bank of Scotland in such a development. Particular reference was to the broader social inclusion context and the development of potentially more favourable conditions within which credit unions operate. The intention of the report is to provide a stimulus for further discussion around both the issues of credit union development within Edinburgh, and the potential role for a closer relationship between the banks and the credit unions within any such development.

Contact: Jim Rafferty - Capital City Partnership 0131 469 3821

Capital Credit Union

Capital Credit Union is in its thirteenth year of operation. Capital began its existence in 1989 as Lothian Regional Council Employees Credit Union with 600 members, no staff, no premises and no computer. Today Capital bears no resemblance to its humble beginnings. Capital is an industrial credit union serving public sector employees and their families in mainly the Lothian area. The credit union currently has 22 sponsoring employers from local government, fire, police, water services, further and higher education institutions, public transport and voluntary organisation workers taking its membership to over 7500. With assets of over £7,000,000, and 12 employees, Capital is about to outgrow its current premises and is looking to expand.

Since 1992 Capital has paid a dividend to its members and since 1999 has maintained an annual dividend of 4%.

Capital Credit Union is the only CU in Britain that has set up a charitable Trust. The Trust, set up in 1998, has awarded over £15,000 in grants to local credit unions and individuals working in the Credit Union movement. Awards are made for training, publicity, and development in the Lothians. More recently however, the Trust has awarded funds to help set up a British Foundation for training and development of individuals within the credit union movement.

In the last year, Capital has set up its own website where members can not only access information regarding the credit union, but download application forms and its quarterly newsletter, Focus. Capital retains its relationship with every sponsoring employer and members through regular visits to each workplace promoting the benefits of membership. Capital also has a network of over 150 volunteer workplace representatives who assist members with enquiries, as well as promote the Credit Union to new employees.

Contact: Marlene Shiels 0131 225 9902

Dundee

The Dundee City-wide credit union aims to provide the highest quality financial services and support, and be responsive to the ever-changing financial needs of its members. The credit union aims to build upon the continuing success of the city's existing credit unions, whose members will have the opportunity to join from the outset or at a later date, by increasing access to these services for the employees and the citizens of Dundee. A working group has produced a three year business plan and funding strategy, which if successful will establish a financially independent city wide credit union in Dundee within a three year period. The working group membership is drawn from the public, private and voluntary sectors and includes representation from the existing community based credit unions, Dundee city council, the Dundee anti-poverty forum, the Royal Bank of Scotland and ABCUL. The working group will be responsible for bringing together a formal steering group with view to registration sometime in the new financial year.

Contact: Ian McCormack 0141 304 5553

Inverness Credit Union

Inverness Credit Union registered in September 2000 with a 'live or work' common bond. The common bond could prove crucial to the success of the Credit Union as it increased the potential membership from a population of 40,000 to approximately 100,000.

However, the mere existence of a large potential membership is no guarantee to success. Inverness formulated a comprehensive marketing plan, using networks to enlist the help and expertise of a student from University College Cork who brought the experience of working in an environment of successful credit unions.

The plan was based on sectorial marketing with the Co-operative sector the first to be targeted. Networking within the Co-op sector afforded them the use of premises in central Inverness at affordable rates courtesy of the Scottish Co-op. They have secured payroll deduction agreement with Highland Wholefoods, a workers co-op based in Inverness, which will allow them to perfect the arrangement before making presentations to other employers in the City. Standing orders are also used for paying in to the credit union. The credit union's logo was the result of a competition among the primary school children in Inverness.

Contact: Christine Gower 01463 220884

Scottish Passenger Transport Credit Union

SPT Credit union offers more than just the basic savings and loan facilities to its members. The credit union holds a Consumer Credit license and can therefore offer to undertake debt advisory and reconciliation services to its members. If a member is experiencing financial problems, the credit union can offer a valuable service for which there is no charge.

The credit union may identify a member in difficulty through 3 methods.

1. The members borrowing patterns.
2. Referral by trade union or employer.
3. Member requests help.

The main advantages, which the credit union has over other organisations that provide this service, are:

- Accessibility - the credit union is open 9-5, 5 days a week.
- The members know the credit union staff and are used to dealing with them.
- If necessary the credit union can lend money.

The answer to every problem of finance is not necessarily injecting more money. If a member is in arrears with rent or mortgage the credit union will offer to restructure the member's finances and, if necessary, negotiate and discuss the situation with the landlord or lender. An option could be the credit union making payments to the landlord/lender until any arrears are paid. On a number of occasions the credit union has been solely responsible for preventing a member and their family from being evicted from their home.

Contact: John Mackin 0141 221 7474

Rhu and Shandon

Rhu & Shandon Credit Union Ltd. was established on 20th March 1980. Their membership and common bond is regarded as small (115 adult members and 19 junior accounts) in comparison to today's registered community credit unions. Dividends have been paid to members for many years – the last two years this has been 4%. Loans out to members continues to increase reaching £70,000 last year, in addition there is no serious bad debt.

Rhu & Shandon Credit Union is a good example of a long established, successful and well managed small rural credit union that provides its members and community with a healthy financial service.

Contact: Maria Marton 01436 820703

Lochaber

Lochaber Credit Union Ltd was established in March 1999. The Common Bond covers the whole geographical area of Lochaber and the Islands Rhum, Eigg and Muck (200 square miles). They have five collection points, four of which are centred in outlying rural areas, where access to financial facilities is extremely inadequate.

From the beginning they have worked in partnership with various organisations and have recently purchased computers, software and commenced training to improve and offer a more efficient and professional community service. One of their main aims is to provide an accessible service for their members.

With that in mind, Lochaber CU are hopeful that a future pilot study with rural post offices will provide an opportunity to extend their service and develop an extremely useful partnership between the two. They understand that being flexible and continually developing will ultimately provide their members with a valuable alternative banking service.

Contact: Tish Hoole 01397 700746

SCVO Credit Union

SCVO Credit Union started operation in November 1998 having a unique common bond, which allows any employed, volunteer, or Trustee of any organisation within the Scottish Council for Voluntary Organisations to join. This is further enhanced by also allowing any family members within the same household as their members the right to join. Consequently the SCVO credit union brings the strength of the majority of the membership in paid employment together with the opportunity for those not in employment to join.

Being a national based credit union they have to reach to all corners of Scotland to serve their members. They do this by regular advertising in the voluntary sectors weekly publication, Third Force News, speaking to groups and by attending voluntary sector conferences. This enables them not only to advertise the Credit Union, but also spread awareness of the Credit Union Movement in general. They do not see themselves in competition with the locally based Credit Unions but rather in partnership, offering choice where they overlap and filling in some gaps, where no other CU exists.

SCVO credit union members are drawn from some 100 different organisations and mainly operate through a direct debit system. In order to encourage more members from these organisations, they are presently piloting payroll deduction and will roll

this out in the near future. Membership is nearing 300 and steadily increasing. There is great interest in Credit Union services, but suffer from a low priority to commit to paper. They are on target with the current business plan, and are looking employ a part time member of staff from April 2001. Having achieved a 92% loan/assets ratio, they are critically watching the possible effect of FSA liquidity ratios.

Contact: Godfrey Farrugia 0131 556 3882

Working group

The establishment of the working group was announced in March 2000 by Jackie Baillie, then Deputy Minister for Communities.

Remit

To address the development needs of the credit union movement in Scotland ensuring that quality support and development services are available across Scotland, highlighting and supporting good practice and local action – while looking for new and innovative interventions and programmes.

Membership

Jackie Baillie	Minister for Social Justice, Convenor
Ian McCormack	ABCUL Scotland
George Redmond	Bridgeton Calton Dalmarnock Credit Union
Marlene Shiels	Capital Credit Union
Philip McGuire	Castlemilk Credit Union*
Dave Carson	Castlemilk Credit Union
Eunice Lancaster	Community Enterprise in Strathclyde
Florence Burke	Community Enterprise in Strathclyde
Declan Jones	Social Enterprise Institute
Sheila Houston	Lochaber Credit Union / Argyll & Bute Credit Union Development Agency
Stephen Walsh	Scottish League
John Kerr	CoSLA
Lucy McTernan	SCVO
Marion Lacey	SCVO**
Ewan McCulloch	The Committee of Scottish Clearing Banks
Gail Newton	Scottish Homes*
Kirsteen Thomson	Scottish Homes**
Louise Christie	Scottish Homes
John Laydon	The Royal Bank of Scotland
Tom McVay	Credit Union Enterprise Services
Aileen Edwards	Scottish Enterprise Dunbartonshire
Secretariat	
Gill Glass	Scottish Executive
Scott McEwen	Scottish Executive

* first meeting only

** second meeting only

Credit union development activity in Scotland

The Scottish Executive commissioned research to assess the resources, both people and money, allocated to current development activity in Scotland. The final report identified that in Scotland the development support consists of 2 representative bodies, and 3 development agencies. The report also identified that of the 32 local authorities, 8 either employed credit union development workers or had committee funding approval to do so, and 3 provided funding for development agencies or voluntary bodies but did not directly employ staff. There were 5 local authorities that had staff who provided support as part of a wider remit, and a further 4 were currently considering providing support and had committed resources to feasibility studies or initial exploratory meetings. A sum of £835,000 was identified as dedicated to the development of credit unions in Scotland during 2000-2001.

Scottish Health check programme

The Scottish Executive, in partnership with Glasgow City Council and the Scottish Banks, funded a £60,000 pilot health check programme for credit unions in Strathclyde which was undertaken by CEiS/SCUDA. The aim of the health check programme was to explore ways of ensuring that existing credit unions are robust and able to deal with the new regulatory changes and it is hoped that a self help tool kit will be developed from the evaluation of the programme.

SCVO group

At the beginning of 2000 a small group convened by SCVO and representing a wide range of interests discussed how development support for credit unions in Scotland could be enhanced. The group discussed the problems of failing credit unions, the weaknesses in the movement, the poor public understanding of credit unions, models of excellence and the requirements for sustainable growth. The SCVO group considered a number of options for the way forward, but favoured a Scottish Credit Union development partnership, which would bring together key interested parties jointly to drive a strategic development approach.

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Central Services Organisation: Draft Business Plan, ABCUL, 2000

CP77: Financial Services Association 2000