



LOCAL CREDIT UNIONS – POTENTIAL FOR MERGER

BOARD MEETING: 30 APRIL 2009

1. PURPOSE OF REPORT

- 1.1 To advise of discussions held with and between Cumnock and Doon Valley Credit Union and East Ayrshire Credit Union in order to consider and explore the potential for these organisations to merge; and to report the outcomes of these discussions to the Community Planning Partnership Board.

2. BACKGROUND

- 2.1 Three Credit Unions are currently active in and open to all residents of East Ayrshire:
- East Ayrshire Credit Union;
 - Cumnock and Doon Valley Credit Union; and
 - Scotwest Credit Union.
- 2.2 East Ayrshire and Cumnock and Doon Valley are community based credit unions with office premises in Kilmarnock and Cumnock respectively. Both offer 'over the counter' cash handling facilities which can be essential to the financially excluded. Scotwest is the former Strathclyde Regional Council credit union and serves the whole of the West of Scotland from a Glasgow base.
- 2.3 Financial Inclusion funding was allocated to East Ayrshire by the Scottish Executive for 2006/07 and 2007/08 to support the development of actions and initiatives aimed at taking forward its 'Closing the Opportunity Gap' approach to tackling poverty. One of the three priorities for use of the funding was the development of financial services, in which credit unions were identified as key partners.
- 2.4 Both East Ayrshire and Cumnock and Doon Valley credit unions had been the recipients of Financial Inclusion funding (Scottish Government funding routed through Community Planning Partnerships) from 2006 aimed at promoting their development and expanding the range of products and services they were able to make available.
- 2.5 From 1 April 2008, the Financial Inclusion Fund was incorporated with a range of other funding streams into the new Fairer Scotland Fund. As a consequence, the Community Planning Partnership required to review its existing commitments and determine future funding allocations.
- 2.6 A Special Community Planning Partnership Board meeting on 10 June 2008 considered a report by the Depute Chief Executive/Executive Director of Corporate Support, containing proposals arising from the review process for projects and initiatives previously funded from funding streams to be covered by the Fairer Scotland Fund.

- 2.7 Community Planning Partners approved continuation of funding to both of the community based credit unions but requested that the “potential for a merger” between Cumnock and Doon Valley Credit Union and East Ayrshire Credit Union be explored.
- 2.8 Fairer Scotland Funding of £50,000 for 2008/09 was allocated to each of the credit unions by the Community Planning Partnership Board and provisional allocation of the same amounts has been recommended for 2009/10, with Fairer Scotland Fund being mainstreamed in 2010/11.

3. CURRENT CREDIT UNION ACTIVITY

- 3.1 In agreeing and identifying actions for inclusion in the 2007-2011 Eliminating Poverty Action Plan, Community Planning Partners recognised the importance of continuing to support the expansion and further development of credit union activity and the development of an enhanced range of financial products and services, with a view to tackling financial exclusion in the most disadvantaged communities in East Ayrshire.
- 3.2 This activity has been reflected in the section relating to National Outcome 7 of East Ayrshire’s Single Outcome Agreement and both Credit Unions are working toward a target of increasing their active adult membership by 15% annually and contributing to the target of, by 2011, increasing by 2% the number of local households with savings or investments.
- 3.3 The 2008 East Ayrshire Residents’ Survey found that 41% of those surveyed had an awareness of credit unions (a 3% increase from 2005) and that 11% of respondents currently used credit union services (a 7% increase from 2005).
- 3.4 In order to encourage junior savers, East Ayrshire Credit Union has recently established a school based credit union within Silverwood Primary School; while Cumnock and Doon Valley Credit Union has established collection points in five primary schools and one secondary school. There are plans to expand the Silverwood Savers model to additional schools and to establish a presence within Kilmarnock College.
- 3.5 Both credit unions regularly participate in a variety of community based events and undertake promotional activities to raise and increase public awareness of the services which they offer.
- 3.6 Cumnock and Doon Valley Credit Union has successfully piloted a collection point scheme within Muirkirk Local Office and is now looking at rolling this out to other local Council Offices. It is also exploring the potential for a Saving in Prison Project, liaising with the Volunteer Centre to identify new volunteers, revising and updating its business plan and continuing to work in partnership with local organisations to reach potential service users.
- 3.7 East Ayrshire Credit Union relocated to new office premises in the Foregate, Kilmarnock in April 2009 with the move largely funded by an allocation from the former Financial Inclusion Fund. It has also joined the Paypoint scheme. There are plans to introduce capacity based, as opposed to share based, lending arrangements as the membership and consequent shareholding for capitalisation purposes increases.

4. POTENTIAL FOR MERGER

- 4.1 Formal meetings to explore the potential for merger have taken place between officers of the Council with each credit union and between the two credit unions independently at board level. Both credit unions have expressed a willingness to engage in continued dialogue.
- 4.2 Both are open to the possibility of merger. However, for any such merger to progress there is a range of practical and regulatory issues that would require to be addressed and any decision to merge would require the approval of the memberships of both credit unions.
- 4.3 There are two possible routes to merger:
- (i) winding down the existing credit unions and creating one entirely new entity; and
 - (ii) a 'transfer of engagements'.
- 4.4 Creation of a new entity is a lengthy legal process that requires the approval of the Financial Services Authority (FSA) and can take up to a year.
- 4.5 Transfer of engagements is a simpler and faster process – essentially it is the absorption or takeover of one credit union by another (again with FSA approval).
- 4.6 The two community based credit unions in East Ayrshire have grown differently and offer a range of products and services, which have been developed in response to local need and demand in the context of the geographical and demographic differences between the north and south of the authority area.
- 4.7 The benefits to be gained by the customer from a merger have not been identified as significant at this stage. Whilst there could be equalisation of product range and availability across the area, essentially at present the product range can be characterised by similarities rather than differences.
- 4.8 Whilst some potential efficiency savings could be identified through merger there are also potential costs. Significant efficiency savings could only be achieved through closure of an office base or a reduction in staffing. However, the desirability of retaining a base in each area is presumed and given that the credit unions operate largely on the basis of volunteers, savings in staff salary costs would be minimal and could if effected impact upon the capacity of the enlarged credit union to service financially excluded customers. On the cost side, the two credit unions use different IT systems.

5. THE WAY FORWARD

- 5.1 Whilst the potential benefits of merger are acknowledged by both credit unions, they are neither easily quantifiable nor easily achieved. Significant work would require to be undertaken by and within each organisation to effect a merger. Prior to embarking upon that course the real benefits to financially excluded people would require to be fully evidenced.

- 5.2 Both credit unions are very aware of the benefits of a collaborative approach and each is committed to ongoing dialogue with the other to explore possibilities.
- 5.3 The forum exists for a strategic approach to collaboration between the credit unions (and with other partners) within the Community Planning framework through the newly established Financial Inclusion Sub Group of the Improving Health and Wellbeing Action Plan.

6. RECOMMENDATIONS

- 6.1 It is recommended that the Community Planning Partnership Board:
- i) notes the position as set out in the report;
 - ii) remits the matter to Financial Inclusion Sub Group to keep the possibility of merger under review; and
 - iii) otherwise, notes the content of the report.

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