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An Evaluation of the Access to Financial Services through Credit Unions Project – First Year Report

An Evaluation of the Access to Financial Services Through Credit Unions Project

FIRST YEAR REPORT

Research Policy Analysis
Ymchwil Polisi Dadansoddi

Views expressed in this report are those of the researcher and not necessarily those of the Welsh Government

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1. INTRODUCTION

1.1 Background

Old Bell 3 Ltd. has been commissioned by the Welsh Government to undertake an Evaluation of the Access to Financial Services through Credit Unions Project (hereafter referred to as the Credit Unions project).

Funded via the Community Economic Development strand of the European Regional Development Fund, the Credit Unions project is now in its second phase of delivery, having been piloted for a one year period between April 2009 and June 2010. The first phase pilot was delivered on behalf of the Welsh Government by the Wales Co-operative Centre whilst The Social Investment Business (TSIB) has been appointed to deliver phase two.

1.2 Aim of the Review

The aim of this evaluation is 'to assess the impact and effectiveness of the access to financial services through credit unions project and the extent to which its aims and objectives have been met.'[1]

The evaluation involves three distinct stages: a formative evaluation (first stage); an interim evaluation (second stage) and a summative evaluation (third stage).

The objectives of this first stage of work were to review:

- the initial and continuing rationale for the project;
- the suitability of the project and delivery structure;
- the relationships between various players (including the Welsh Government, contracted providers, project beneficiaries and other stakeholders);

[1] Invitation to Tender Specification, Page 4

- the suitability of project targets in relation to the aims and objectives of the project;
- the phase one quantitative monitoring data to assess the extent to which the aims and objectives of phase one were met;
- examples of good practice or otherwise from phase one that might be applied to phase two.

The evaluation specification also outlined the need to put forward recommendations on any changes that might be required to current project structures in order to maximise its impact in phase two.

1.3 Method

This formative report is based on a work programme undertaken between May and November 2011 which involved:

- Attending an initial meeting with the Evaluation Steering Group to agree the evaluation work programme and prepare a project inception report;
- Undertaking a literature review of UK and Welsh policy and legislation in respect of the credit union sector;
- Reviewing key documents relating to the design and delivery model for the Credit Unions Project;
- Reviewing phase one and phase two project monitoring and output data with a view to assessing the extent to which phase one targets were met and the extent to which phase two targets are being met;
- Reviewing financial and performance data relating to credit unions in Wales;
- Developing semi-structured topic guides and undertaking consultations with a total of 16 stakeholders, including the two contracted providers (TSIB and Wales Co-operative Centre);

- Developing and deploying a web based survey of the managers of the 16 credit unions supported by the project. Ten responses were received, representing a response rate of 62.5%.

1.4 Structure of this Report

In the remainder of this report, we firstly discuss the policy context for the credit union sector at a UK and Welsh level **(Section 2)** before providing an overview of the phase one and phase two programme **(Section 3).** We then present the findings of our fieldwork **(Section 4)** which takes into account our analysis of project performance data, the findings of consultation interviews and the web based survey. Finally we present our initial conclusions and formative recommendations **(Section 5)**.

2. POLICY REVIEW

2.1 Introduction

In this section, we review a number of key policy and strategy documents of relevance to the Credit Unions project. Our main focus relates to policy and strategy documents in post devolution Wales, though we also consider the UK context in relation to legislative reforms affecting credit unions across Great Britain and an evaluation of the Department for Work and Pensions' Growth Fund.

2.1.1 One Wales

One Wales[2], the programme of government for the former Welsh Assembly Government (2007-2011), recognised the important joint social justice and economic development functions of credit unions. It set out the high level commitment to 'establish credit unions – as a form of social enterprise – in all parts of Wales' and 'against the background of universal coverage', to 'ensure access to a credit union for every secondary school in Wales by 2011'. Moreover, One Wales also made a commitment to 'further develop the ability of Welsh credit unions to take deposits of Child Trust Fund accounts'[3].

2.1.2 The Social Enterprise Action Plan for Wales

Following on from One Wales, The Social Enterprise Action Plan for Wales (SEAP) was published in 2009[4] (which itself built on the first Social Enterprise Strategy for Wales, 2005). This emphasised the need to 'accelerate the number, scale and impact of social enterprises in Wales'[5]. Within this context, the SEAP outlined that 'sensitively designed social enterprises, such as credit unions, can help people to cope on extremely tight budgets'[6].

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[2] One Wales, A progressive agenda for the government of Wales. An agreement between the Labour and Plain Cymru Groups in the National Assembly. 27th June 2007.
[3] Ibid, Page 29.
[4] The Social Enterprise Action Plan for Wales. Welsh Assembly Government. 2009.
[5] Ibid, Page 5.
[6] Ibid, Page 18.

The action plan also set out that 'credit unions are now widely recognised as making a significant contribution to local economies, by contributing to financial inclusion and financial capability'. It also recognised that credit unions have 'the added advantage of ensuring that the money they attract and lend is retained and recycled locally, rather than profiting external company shareholders' and that 'many credit unions in Wales are keen to support local businesses and small social enterprises and will lend to individual members for business purposes'[7].

2.1.3 The Financial Inclusion Strategy for Wales

Taking Everyone into Account is the first Financial Inclusion Strategy for Wales[8]. Published in July 2009, it set out a comprehensive vision for financial inclusion in Wales as being:

> 'A well-functioning, accessible and comprehensible financial system, for all people living in Wales, including those who are marginalised from society. This inclusive financial system should provide a broad range of financial products and services that are supported by the provision of easily accessible and free to use financial education and advice services'[9].

Sitting beneath this vision, the Financial Inclusion Strategy set out a series of aims which are to:

- 'Facilitate a holistic and co-ordinated joint-agency response to financial inclusion;
- Tackle the causes of financial exclusion and reduce financial exclusion in Wales;
- Improve the current provision of support services for all who experience difficulties as a result of being financially excluded;

[7] Ibid, Page 26.
[8] Taking Everyone into Account. The Financial Inclusion Strategy for Wales. Welsh Assembly Government. July 2009.
[9] Ibid, Page 5.

- Respond to the additional challenges to financial inclusion created by current economic difficulties'[10].

The strategy defines financial inclusion as 'everybody having access to an appropriate range of financial products and services, which allows them to effectively manage their money, regardless of their level of income, social status or ability'[11].

In terms of the credit union movement in Wales, the strategy estimates that 'there are currently 29 credit unions, with around 48,000 members and in excess of £20 million of combined assets in Wales' and that 'credit union membership in Wales [grew] from approximately 10,000 at the end of [the year] 2000 to almost 48,000 by March 2009'[12].

The strategy makes the interesting and important point that while 'credit unions are not, and should not, be set up for the specific purpose of providing financial services to the financially excluded'; they can 'under the right circumstances, have a key role to play in the delivery of an all-inclusive range of affordable financial products'[13].

It goes on to argue that 'by offering a variety of financial products, credit unions are well placed to provide affordable financial services to those whose financial circumstances are less secure and, therefore, less attractive to the mainstream, profit-making financial services sector'[14].

Sitting beneath this, the strategy outlines a series of ten ways in which credit unions can help promote financial inclusion. These are presented in Fig. 1 below[15].

[10] Ibid, Page 6.
[11] Ibid, Page 6.
[12] Ibid, Page 25.
[13] Ibid, Page 25.
[14] Ibid, Page 25.
[15] Ibid, Page 25.

Fig. 1: Ways in which credit unions can help promote financial inclusion.

- Provide a range of savings and loan products that meet the financial needs of all members, including those who have difficulty in accessing mainstream financial services.
- Work with the DWP[16] to deliver Growth Fund 2 commitment to providing instant loan service to individuals on low incomes.
- Encourage a savings and asset building culture as a way to longer term financial stability including Child Trust Fund accounts and Individual Savings Accounts (ISAs).
- Improve access to credit union services by increasing office opening hours, establishing more outreach collection points and operating payment collection networks e.g. All Pay, Pay Point etc.
- Provide additional services such as low cost insurance products including home contents and travel insurance and a bill payments service to help members with budgeting plans.
- Work with other local organisations such as money advice services and registered social landlords, to give members access to money advice and other services, such as budgeting and bill paying accounts.
- Work to develop primary schools savings clubs.
- Work with schools to ensure access to a credit union for every secondary school pupil in Wales.
- Consider mergers and opportunities for shared services and joint working with other credit unions to provide better geographical coverage and consistency of service delivery throughout Wales.
- Consider opportunities to promote energy efficiency.

The strategy goes on to argue that 'the growth and sustainability of the credit union movement in Wales is crucial to the delivery of the Financial Inclusion Strategy by:

- Extending affordable credit to those excluded from mainstream services;

[16] Department for Work and Pensions.

- Teaching people the value of saving;
- Providing advice on money management and budgeting'[17].

However, the strategy also makes clear that while there is a great deal of potential for credit unions to assist in tackling financial exclusion, 'they need to be supported in ways that will help them grow and ultimately become self-sustainable'[18].

In this context, the strategy refers directly to the Credit Unions project by saying that 'the Assembly Government has secured funding from WEFO for a project to support credit union development and deliver One Wales commitments within the European Convergence area covering 15 local authority areas in the West Wales and the Valleys region. The Assembly Government is match funding the Convergence funding and adding further resources to create an all-Wales funding programme totalling £750,000 in year one. In April 2009, credit unions were invited to apply for Service of General Economic Interest (SGEI) contracts to deliver specific services'[19].

The strategy describes the overall aim of the funding as being to 'support the movement to become more commercially sound and helping it to expand and improve the delivery of financial services being offered' and that via the project, credit unions will be supported to 'diversify… their range of services and products' which in turn will 'increase their potential membership and contribute to their long term financial stability'[20].

In addition, the strategy points to 'funding of £350,000 [made available by the Welsh Government] for credit unions wanting to become Child Trust Fund (CTF) account providers' to ensure that credit unions are 'able to provide CTF customers with an accessible and competitive service, whilst at the same time

[17] Ibid, Page 41.
[18] Ibid, Page 25.
[19] Ibid, Page 42.
[20] Ibid, Page 42.

providing a welcoming environment, particularly important for those who do not feel comfortable dealing with the mainstream banking sector'[21].

Credit unions are also seen as having an important role to play within the formal education context and the strategy outlines that 'credit unions were able to apply for SGEI contracts for 2009-10 to build their capacity to extend this work' which was also supported by 'a new learning resource for credit unions to use with secondary school pupils…funded by the Assembly Government and developed by the Wales Co-operative Centre'[22].

A further key point made by the Financial Inclusion Strategy is that a collaborative approach, encompassing a range of key partner organisations in Wales is essential to promote effective financial inclusion. Indeed, the strategy highlights credit unions as one of these key organisations, alongside local authorities, housing associations, post offices, banks, Communities First Partnerships and many others.

In this context, the strategy points to the fact that 'local authorities have the potential to play a huge role in promoting financial inclusion in Wales' and that 'most will already have some policies addressing the various aspects of financial exclusion, such as supporting the development of local credit unions, anti-loan shark activity and providing debt and welfare benefits advice'. However, the strategy also identifies that 'the provision of these services varies throughout Wales and is inconsistent, meaning that some areas benefit more than others'[23].

The strategy draws specific attention to the fact that the relationship between local authorities and credit unions is crucially important, and suggests that local authorities can help by 'supporting the development and growth of credit

[21] Ibid, Page 42.
[22] Ibid, Page 43.
[23] Ibid, Page 18.

unions services in their area'[24] and by 'offering the opportunity for employees to make credit union payments via payroll deduction'[25].

The strategy also suggests that housing associations can help promote financial inclusion by 'working closely with local credit unions to encourage tenants to save and have access to a low cost source of credit'[26] and in a similar fashion to local authorities, by encouraging their employees to make credit union payments via payroll deductions.

In the context of banks, the strategy suggests that they too can support financial inclusion by 'provid[ing] support, both financial and in kind, to third sector lenders such as credit unions in Wales'[27]. Moreover, advice providers are expected to work in partnership with 'local organisations with a financial inclusion remit, such as credit unions, and registered social landlords, to identify potential clients and partnership initiatives'[28].

Interestingly, the strategy explores the links between credit unions and the Welsh Government's flagship community regeneration programme, Communities First. It outlines that in considering the second phase of Communities First (covering the period 2009-2012[29]) there would be a need for Communities First partnerships to 'consider how to develop the core financial inclusion themes to maximise incomes and minimise debt within their communities, maximise benefit and tax credit take-up and promote and support credit unions'[30].

However, the strategy also recognises that tackling financial exclusion is a very difficult challenge and acknowledges that in the context of Communities First, 'even the most established [Communities First] partnerships have yet to

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[24] Ibid, Page 18.
[25] Ibid, Page 19.
[26] Ibid, Page 20.
[27] Ibid, Page 23.
[28] Ibid, Page 24.
[29] Sometimes referred to as 'the next phase'.
[30] Ibid, Page 27.

address the hard-edged economic issues relating to the income of local people'[31].

The strategy sets out that while 'credit unions are undoubtedly important players in the on-going battle against financial exclusion' they should not be viewed as 'the complete solution' and that to 'fulfil their potential, credit unions are increasingly organising themselves in ways that are more responsive to the needs of their members and moving away from restrictive practices that were often self-imposed'[32].

In terms of priorities for the future development of the credit union movement in Wales, the strategy sets out that 'the credit union movement needs to focus on how it can attract new members who, for whatever reason, are borrowing from high interest alternative money lenders'. In this respect, the strategy highlights the fact that the 'UK Government Growth Fund contracts in Wales has [sic] already raised the profile of credit unions in some of the most disadvantaged Welsh communities and their profile seems likely to rise higher still with the new Growth Fund contracts that run until 2011'[33].

Building on research undertaken by the [then] Welsh Assembly Government into the credit union movement in Wales, the strategy set out a commitment to develop a Credit Union Action Plan which would address a number of key issues relating to the role and sustainability of credit unions in Wales (Fig. 2):

[31] Ibid, Page 27.
[32] Ibid, Page 44.
[33] Ibid, Page 44.

Fig. 2: Key Issues to be addressed in the Credit Union Action Plan.

- Sustainability and growth issues that credit unions face in delivering accessible and affordable financial services throughout Wales.
- Levels of support needed to address these issues.
- Awareness raising of credit unions and promotion of the services provided by the movement.
- Ways in which credit union membership can be increased, particularly amongst those unable to access mainstream financial services.
- Ways in which credit unions can increase the numbers and skill levels of staff, volunteer workers and directors.
- The feasibility of shared services and mergers to enhance the long-term sustainability of the movement.

2.1.4 The Credit Union Action Plan for Wales

Following on from the first Financial Inclusion Strategy, the then Welsh Assembly Government published an Action Plan for the Credit Union Movement in Wales[34].

The Action Plan notes that the credit union movement in Wales is 'still relatively young compared to other parts of the world' and that Welsh credit unions in general have 'reached a critical point in their development as they endeavour to become recognised providers of community focussed financial services to the people of Wales, based on a co-operative, equitable and trusting financial relationship'[35].

The Action Plan outlines some of the support measures that have been in place for credit unions in Wales since devolution and which have been co-funded by EU Structural Funds. It also makes specific reference to the current, Convergence Programme funded project by saying that 'the Minister

[34] Raising the Profile: Meeting the Challenges. An Action Plan for the Credit Union Movement in Wales. 2010-2013. Welsh Assembly Government. November 2010
[35] Ibid, Page 5.

for Social Justice and Local Government announced new funding of £3.4 million to support the continued growth and sustainability of credit unions in Wales. This is made up of £1.6 million from WAG and £1.8 million from WEFO'.

Despite the growth and expansion of the credit union movement in Wales, the Action Plan outlines that 'there is still work to be done in equipping the movement to fulfil its full potential'[36].

The Action Plan refers specifically to research undertaken into the credit union movement in Wales[37] for the then Welsh Assembly Government in 2009. This research concluded that there was a need to:

- 'Further strengthen the governance and management systems of credit unions throughout Wales;
- Raise the profile of credit unions in Wales to make their services more widely understood and accessible;
- Develop sustainable business models aimed at attracting a wide and economically diverse membership'[38].

Based on the position of the credit union movement in Wales at that time, the Action Plan aims to 'support the development of a strong, sound and effective credit union movement in Wales which provides an accessible, affordable and comparable, high quality financial service, able to meet the needs of all Welsh citizens, including those in greatest need'[39].

Sitting beneath this high level aim are five objectives, which are to:

- 'Strengthen the governance and compliance standards of credit unions in Wales;

[36] Ibid, Page 8.
[37] Realising the Potential: a review of the credit union movement in Wales. October 2009. CICS, UWIC School of Management.
[38] Credit Union Action Plan, Pages 9 and 10.
[39] Ibid, Page 11.

- Support the long-term sustainability of the credit union movement in Wales;
- Raise the profile of the credit union movement in Wales by increasing public knowledge and public awareness;
- Achieve a significant growth in credit union membership in Wales, linked to a steady increase in savings, loans made (current assets) and repaid and the building of sufficient capital assets; and
- Support credit unions delivering financial inclusion initiatives'[40].

In addition, the Action Plan sets out a series of five key targets, which are:

- 'To increase credit union market penetration from 1.82% to 6% by 2020, taking the number of adult members from approximately 43,000 to around 142,000;
- To increase the asset base of Welsh credit unions from £21m to £75m by 2020;
- To increase public awareness of credit unions in Wales by September 2013;
- To increase the number of active credit union volunteers from 754 in 2009 to 1,000 by March 2013; and
- To provide support to all Welsh credit unions in receipt of Assembly Government funding to review and deliver against their current three year business plans identifying how and by when sustainability can be achieved – reviews to have taken place by September 2011'[41].

The Credit Union Action Plan outlines a series of 20, specific action points aimed at developing the credit union movement in Wales, many of which are implicitly intended to help inform the work of the Convergence funded project. In summary, the actions include measures to:

- Put in place a Financial Inclusion Champions Team for Wales which will work with key partners and stakeholders with the aim of developing

[40] Ibid, Page 11.
[41] Ibid, Page 12.

a volunteer recruitment programme with credit unions throughout Wales;

- Develop the skills and capacity of those involved with running credit unions (directors, staff and volunteers) in Wales via training and support packages (including financial management training)and human resource toolkits in order to improve professionalism;
- Promote good practice within the movement;
- Improve the viability and sustainability of credit unions through, for example business plan preparation. The key actions make clear that Welsh Assembly Government support mechanisms (via SGEI agreements) will be targeted at credit unions that demonstrate a commitment and capacity to grow their membership and provide a range of services which meet their members demands and generate sufficient income for them to be self-sustaining;
- Support ‘well planned positive mergers’ between credit unions which will ‘potentially enhance the long-term sustainability of the movement in Wales’;
- Explore (in conjunction with the Communities Two Point Zero digital inclusion programme) the use of digital technology to promote credit union services;
- Support membership growth in Wales with Social Investment Business (the contracted delivery provider for the Convergence project) helping credit unions with their efforts to recruit new members from the public sector an address perceived barriers;
- Undertake a mapping exercise of existing links between the public sector and credit unions in Wales;
- Support credit union work in schools throughout Wales;
- Develop a high level ‘generic service level agreement’ between the public sector and credit unions and to explore a ‘single framework partnership agreement’ between Welsh credit unions and Post Office Ltd.;

- Improve cross-referral mechanisms between credit unions and other advice/service providers[42].

2.1.5 Communities First – The Future

In July 2011, the Welsh Government published a consultation document entitled **Communities First – The Future**[43]. The document proposes that from April 2012, Communities First will involve new delivery structures with 'a greater focus on evidencing the impact that locally funded activities have toward three strategic outcomes – Prosperous Communities, Learning Communities and Healthier Communities'[44].

In the context of developing local 'Communities First Delivery Plans' the Welsh Government sets out a number of proposals that could form part of these delivery plans. Under the theme of 'Prosperous Communities', work to 'support credit unions' is suggested as one of the themes Communities First Partnerships should consider[45].

2.1.6 Programme of Government 2011-2016

In its current Programme for Government[46], the Welsh Government outlines its continued commitment to supporting credit unions as 'key partners in our objective to tackle poverty and financial exclusion wherever it persists in our communities'[47]. It also outlines a commitment to 'continue to support and expand credit unions to provide services to those financially excluded from mainstream providers[48]' in the context of tackling worklessness and raising household income. Furthermore one of the key commitments outlined in the document is to 'explore work with local councils in Wales to promote the provision of accessible payroll deduction facilities, in order to make credit

[42] Summarised from Pages 35 – 38 of the Credit Union Action Plan.
[43] Welsh Government Consultation Document. Communities First – the Future. 5th July 2011.
[44] Ibid, Foreword.
[45] Ibid, Page 19.
[46] Programme for Government (2011-2016). Welsh Government. September 2011.
[47] Ibid, Page 32.
[48] Ibid, Page 33.

union membership more easily available to local authority employees'[49]. This commitment no doubt looks to build upon the success of a Welsh Government payroll deduction scheme which has been in operation for a number of years. The Welsh Government scheme was recently reinforced as a key mechanism for supporting the credit union sector by Carl Sargeant, Minister for Local Government and Communities who announced that: 'the Welsh Government actively promotes credit union membership using payroll deduction to its staff, and I have given a commitment to promote credit union membership across local government in the same way'[50].

2.1.7 Legislative Reform (Industrial and Provident Societies and Credit Unions) Order 2010

Beyond Wales, the legal and political context in which credit unions operate is changing.

In 2010, the UK Government published a consultation document on a Legislative Reform Order (LRO) with the aim of amending the legislation for Credit Unions and Industrial & Provident Societies (IPS) in Great Britain. The LRO is the Government's legislative response to the June 2007 consultation on the 'Review of GB cooperative and credit union legislation'.

The legislation, which came into force on 8th of November 2011, allows credit unions to:

- reach out to new groups by serving more than one group of people;
- provide services to community groups, businesses and social enterprises;
- offer interest on savings, instead of a dividend.

The legislation effectively builds on the desire (at UK Government and Welsh Government levels) to enable and empower credit unions to play a full and active role in tackling financial exclusion, partly by enabling credit unions to

[49] Ibid, Annex Commitment Number 9/012
[50] http://cymru.gov.uk/newsroom/housingandcommunity/2011/5276701/?lang=en&ts=4

become more flexible and competitive institutions. In this context, the new legislation will mean that:

- Credit unions no longer have to prove that potential members have something in common. This means they will be able to provide services to different groups of people within one credit union, effectively enabling them to increase their membership bases with fewer restrictions;
- A ‘field of membership test’ will make sure it is possible for all potential members to be served by the credit union. Credit unions whose ‘common bond’ includes a geographical area are limited to two million potential members;
- Credit unions will no longer be limited to serving individuals but will be able to offer membership (including the right both to save with and borrow from a credit union) to unincorporated associations and corporate bodies (such as companies, community organisations and social enterprises);
- Some Credit unions (subject to certain rules and conditions) will be able to choose to pay a guaranteed rate of interest rather than an annual dividend on members’ savings;
- Members will be able to compare rates of return from Credit unions far more easily with those of other savings providers;
- Credit unions will be able to charge fee rates for ancillary services (such as money transfer services) and will be allowed greater flexibility in developing their services to meet the needs of their members/customers[51].

2.1.8 Evaluation of the DWP Growth Fund

In December 2010, the Department for Work and Pensions (DWP) published an Evaluation of the Growth Fund[52].

[51] Summarised from a briefing note prepared by ABCUL.
[52] Evaluation of the DWP Growth Fund. Revised Final Report. University of Bristol and Ecorys. December 2010.

The objective of the DWP Growth Fund was to ‘raise levels of access to affordable credit by building the capacity of third sector lenders to serve financially excluded households’ and in doing so to ‘disrupt the role of high cost credit in the lives of borrowers’[53].

The DWP Growth Fund had three elements which provided:

- ‘loan capital to third sector lenders, mainly credit unions and community development finance institutions (CDFIs) to lend to financially excluded households;
- revenue to Growth Fund lenders to support the delivery of loans, for example to help cover administrative and staff costs;
- funding to develop the capacity of third sector lenders[54]’.

The Evaluation found that ‘317,798 Growth Fund loans were made from July 2006 up to the end of September 2010, with a total value of over £137 million’[55].

The Evaluation concluded that:

- ‘The Growth Fund displaced the profits of commercial lenders (including high cost lenders as well other credit providers). Taking into account the evidence that one of the effects of the Growth Fund was to help borrowers repay their debts over a shorter period, the estimated profits displaced were estimated to total between £21.3m to £30.5m;
- The Growth Fund reduced the interest paid by Growth Fund borrowers by reducing the interest rate paid on borrowing and shortening the period over which borrowers repay their debts. Total interest savings were estimated at between £377 and £425 per borrower. Based on the 318,000 Growth Fund loans made to the end of September 2010, this means that total interest savings of between £119.1million and £135.1million were available to individuals and households in the local communities served by the Growth Fund, of which between £41.3m

[53] Ibid, Page 8.
[54] Ibid, Page 8.
[55] Ibid, Page 8.

and £48.9m represented interest rate savings and the remainder, savings to do with the term of loans;

- The Growth Fund was mainly accessed by those in lower income groups, implying a further distributional effect (on the basis that lower income groups place a higher value on additional disposable income than higher income groups). This is estimated at between £89.9m and £101.3m if the total financial saving is treated as a benefit and between £31.0m and £36.7m if only the savings due to interest rate reductions are treated as a benefit'[56].

After the withdrawal of the DWP Growth Fund, the DWP commissioned a study to examine the feasibility of establishing a follow on credit union modernisation and expansion programme. A specific project steering committee is currently reviewing the feasibility study and is likely to make recommendations to DWP Ministers on how and whether the programme should proceed.

2.2 Key considerations in respect of the Credit Unions Project

Our policy review highlights a number of key issues pertinent to the Credit Unions project, including that:

- While the credit union movement in Wales is less well developed than in other countries, the policy context in Wales is very supportive of credit unions as key mechanisms in tackling financial exclusion;
- The expectations on credit unions in Wales are very high and are arguably unrealistic. There appears to be a disconnect between the current capacity of the credit union movement in Wales and the aspirations for it to deliver the expected high level policy objectives spanning social justice, economic development and even education;
- Support for the development of credit unions in Wales is very evident and the project is well rooted in and aligned with key Welsh Government policies, not least the Financial Inclusion Strategy and the

[56] Ibid, Page 67.

Credit Union Action Plan which between them set out a very detailed direction of travel for the movement in Wales;

- A lot of work needs to be done to develop the capacity, viability and governance arrangements of credit unions in Wales so as to enable and empower them to be able to fulfil their potential as community based financial institutions. Legislative changes instigated by the UK Government should help de-regulate the environment in which credit unions operate and enable a more flexible and commercial outlook which is likely to lead to greater competition between credit unions and commercial lenders. However, there is also a recognition that de-regulation will need to be complemented by on-going support for example to improve the skills and capacity of directors, staff and volunteers involved in running credit unions;
- Tackling financial exclusion is a major challenge and credit unions cannot be expected to achieve this working in isolation. Both the Financial Inclusion Strategy and the Credit Union Action Plan stress the importance of local authorities, housing associations, Communities First partnerships and other local stakeholders working in collaboration with and supporting credit unions to achieve this goal.

3. PROJECT BACKGROUND

3.1 The Credit Unions Project: Phase One

The Welsh Government submitted a Business Plan to WEFO to secure European Union Convergence Programme funding to deliver phase one of the Credit Unions project. The Business Plan recognised that EU funding would build upon provision made available to Welsh credit unions under a previous Objective 1 project which had been available up until 2007. The application stated that the project aimed to 'enable credit unions to have the capacity to focus on their sustainability with support and advice from an administrative agent in Wales, including other support services in Wales'[57].

Following WEFO approval in January 2009[58] EU Convergence area funding was drawn down, and was matched by Welsh Government funds. Furthermore, additional funding was made available to support credit unions outside the Convergence area, creating an all-Wales credit union funding programme totalling £750,000 between 1 April 2009 and March 2010.

The phase one project had five key targets, which are presented in Fig. 3 below:

Fig 3: Credit Unions Project Phase One WEFO Targets

	Target
Social enterprises financially supported	14
Social enterprises assisted	14
Number of jobs created	3
Number of people accessing services (financial services)	2,847
Organisations adopting or improving equality strategies and monitoring systems	11

[57] Access to Financial Services through Credit Unions (Phase One): Business Plan p.4.
[58] Source: www.wefo.wales.gov.uk

In line with WEFO and Welsh Government procurement processes the Wales Co-operative Centre was procured by the Welsh Government through an open tendering process to deliver the phase one project.

As part of the phase one project, the Welsh Government made available both revenue and capital funding to Welsh credit unions for the purposes of achieving the project's objectives (an additional £1 million fund for capital expenditure was made available by the Welsh Government in addition to the project funds discussed earlier).

Welsh credit unions were invited to apply for the funds and in all 22 credit unions were awarded funding via SGEI[59] agreements for the 2009/10 financial year[60] - of these 19 were awarded both capital and revenue funding and three were awarded revenue funding only. The delivery contractor (Wales Co-operative Centre) was expected to administer these SGEI agreements on behalf of the Welsh Government.

£1.9 million SGEI funding was made available to the credit union movement during 2009/10 with individual amounts ranging from £8,360 to £179,311. Capital funds were intended to allow credit unions to acquire assets and were deployed to meet the costs of internal refurbishment, external renovations, ICT and office equipment purchases, the purchase of buildings and the repayment of outstanding mortgages. Funding agreements specified that the capital assets were to be retained by the credit unions and used to deliver the services for a minimum of three years.

Revenue funds were allocated across three key areas of activity, namely:

- Staff and other employment on-costs;
- Other costs which included recruitment costs, contribution towards overheads as well as specific projects;

[59] A Service of General Economic Interest
[60] Albeit that the 12 month contracts were extended to September 2010.

- Marketing costs – a fixed sum of £2,000 was made available to each credit union.

The funds allocated to each credit union are presented in Fig 4 below:

Fig 4: Welsh Government Credit Union SGEI[61] Agreements 2009/10[62]

	Capital Funding (£)	Revenue Funding (£)	Total (£)
All Flintshire	10,350	0	10,350
Brecon and District	569	29,429	29,998
Bridgend Lifesavers	122,000	46,584	168,584
Caledfryn	0	42,367	42,367
Cardiff and Vale	24,219	0	24,219
Clwyd Coast Credit Union	82,588	26,552	109,140
Credcer Credit Union	99,995	54,735	154,730
Dragonsavers	151,767	27,545	179,312
Gateway	34,029	98,941	132,970
Haven	0	8,360	8,360
Islwyn Community	16,061	28,245	44,306
Landsker Community	62,250	75,000	137,250
Llandudno and District	60,060	0	60,060
LASA	3,491	38,758	42,249
Llyfni Valley	0	27,122	27,122
Merthyr Tydfil Borough	120,000	49,291	169,291
Neath Port Talbot	19,000	57,921	76,921
Newport CU	36,000	28,302	64,302
Smart Money	26,526	99,508	126,034
Robert Owen Montgomeryshire	4,000	106,448	110,448
Wrexham CB	146,412	13,734	160,146
Y Llechen	13,500	28,050	41,550
Total	1,032,817	866,892	1,919,709

Each credit union had specific targets to meet as part of their funding agreements and these are discussed in detail in Section 4.3.

[61] A Service of General Economic Interest
[62] Awarded during 2009/10 for an initial one year period but were later extended until September 2010.

3.2 The Credit Unions Project: Phase Two

An application for funding was submitted to WEFO to part-fund the phase two Credit Unions project across the Convergence areas of Wales. WEFO informed the Welsh Government in September 2010 that its application for Convergence ERDF had been successful and the project was awarded £1,880,762 EU funding. The total funding made available for phase two was £3,496,010 with £1,615,248 of this being made available by the Welsh Government.

The phase two project has been implemented since October 2010 and will continue until December 2013.

The aim of the phase two project, as set out in the business plan, is:

'to support the development of a strong, sound and effective credit union movement in Wales which provides an accessible, affordable and comparable, high quality financial service, able to meet the needs of all Welsh citizens, and especially those in greatest need.'[63]

Whilst the Business Plan had been prepared in advance of the publication of the Credit Union Action Plan, the aim was nonetheless consistent with the eventual aims of the Action Plan (considered earlier in 2.1.4). The objectives however, were somewhat less specific than those of the Action Plan:

'To

- strengthen the governance and compliance standards of credit unions in Wales;
- Support the long-term sustainability of the credit union movement;
- Raise the profile of the credit union movement;
- Encourage membership growth – achievement of a significant growth of credit union membership in Wales, linked to a steady increase in

[63] Access to Financial Services through Credit Unions (Phase Two) Business Plan prepared by Welsh Government and submitted to WEFO (Case ID 806617) Page 3

savings, loans made (current assets) and repaid and the building of sufficient capital assets; and

- Support credit unions in delivering financial inclusion initiatives'.[64]

The business plan also stated that the project would be delivered by a dedicated team of three staff within the Financial Inclusion Unit of the Communities Division of the Welsh Government and that a procurement exercise would be undertaken to appoint a delivery contractor.

The targets approved by WEFO for the three year period during phase two were:

Fig 5: Credit Unions Project Phase Two WEFO Targets

	Target
Social enterprises financially supported	17
Social enterprises assisted	17
Number of jobs created	7
Social enterprises created	1
Number of people accessing services (financial services)	7,500
Enterprises adopting or improving Environmental Management Systems	17
Enterprises adopting or improving equality strategies and monitoring systems	17
Net social enterprises created	1
Net jobs created	1

The target for one new social enterprise to be created (and one net social enterprise created) related to the merger of a number of credit unions in North Wales to create one new credit union. This is significant in the sense that it demonstrates a policy of consolidating and strengthening the existing credit union base, rather than focusing on creating additional, new ones.

The target beneficiaries (within the Convergence Areas) were identified as:

- Credit unions, their staff, volunteers and board members;
- Existing members of credit unions; and
- Financially excluded individuals accessing financial services.

[64] Ibid., p.3

A specification for the delivery of the Credit Unions project (phase two) was issued by the Welsh Government. The specification noted that funding of £3 million would be made available to a service provider to deliver the project but that it was expected that no less than 70% of this budget would be made directly available to credit unions and no more than 30% retained by the delivery organisation to meet the costs of administering the project and providing the relevant support. In the event TSIB was contracted to deliver the phase two project.

In preparation for phase two of the project, the Welsh Government invited credit unions to apply for further funding and issued a second tranche of one year SGEI Agreements to 19 credit unions covering the September 2010 – 2011 period. Revenue only funding of just over £750,000 was made available with individual funding amounts varying from £21,260 (Brecon credit union) to £50,000 (Clwyd Coast, Gateway, Credcer, ROMCUL and Smart Money), as presented in Fig. 6 below. No Welsh Government funding was available to offer capital funds to credit unions during this period. In addition, funding for two specific projects was made available - namely to fund the Debt Recovery Officer at Smart Money credit union (£27,464) and the Financial Harmonisation project and Document Scanning project (both delivered by Gateway credit union and amounting to £22,937).

Offers were made on the basis of one year, with an option to extend for further years, subject to an assessment of the first year performance achieved. Similarly to phase one, funded credit unions had specific targets to meet, which are discussed in detail in Section 4.3 of the report.

During August 2011 the Welsh Government issued a third set of credit union SGEI funding agreements covering a two year period from October 2011 to September 2013. The amounts confirmed are presented in Fig. 6 below. It is worth noting that funding is currently made available to 16 credit unions following the merger of five north Wales based credit unions in early 2011 -

and as would be expected the funding made available to the newly merged credit union is much greater than for other, smaller ones.

Fig. 6: Phase Two SGEI Funding Agreements for Credit Unions (Revenue Funds)

Credit Union	Phase Two First Year Funding (1 Oct 10 – 30 Sept 11) (£)	Phase Two Second and Third Year Funding (1 Oct 11 - 30 Sept 11)	Total Phase Two Funding
Brecon and District	21,260	42,520	63,780
Bridgend Lifesavers	34,453	68,906	103,359
Caledfryn	35,537	-	35,537
Cardiff and Vale	22,374	44,748	67,122
Clwyd Coast	50,000	-	50,000
Credcer Credit Union	50,000	90,000[65]	50,000
Dragonsavers	46,000	92,000	138,000
Gateway	50,000	127,500	177,500
Haven	30,000	70,000[66]	30,000
Islwyn Community	23,500	47,000	70,500
LASA	24,406	48,812	73,218
Llandudno and District	34,676	-	34,676
North Wales	n/a	396,178	396,178
Merthyr Tydfil Borough	39,431	81,377[67]	39,431
Neath Port Talbot	45,558	91,116	136,674
Newport CU	35,000	72,500	107,500
Robert Owen Montgomery (ROMCUL)	50,000	Not confirmed	Not confirmed
Save Easy	30,453	60,906	91,359
Smart Money	50,000	89,000	139,000
Wrexham	46,876	-	46,876
Y Llechen	31,000	-	31,000
Total	750,524	1,181,186	1,931,710

[65] Includes a debt recovery supplement of £10,000.
[66] Includes a debt recovery supplement of £10,000.
[67] Includes a debt recovery supplement of £2,500.

4. FINDINGS

4.1 Introduction

In this section we consider the initial and continuing rationale for the project (Section 4.2), before turning to review project targets and achievements (Section 4.3). We then explore project delivery arrangements (Section 4.4) and present the feedback from credit unions on the support received to date (Section 4.5). Section 4.6 looks at some of the changes that have taken place within the credit union sector and considers the contribution made by the project. Finally we present some examples of good practice and lessons learnt from phase one (Section 4.7) and summarise the current objectives and challenges facing the sector (Section 4.8).

4.2 Project Rationale

4.2.1 Need and Demand

Consultees were in agreement that there was, and continues to be, a need for public sector intervention to support and develop a financially sustainable credit union sector in Wales. Much of the case for intervention, it was argued, was well documented in various policies and strategies and there remained a strong political will to sustain and develop credit union provision in Wales.

However, there was a lack of consensus amongst consultees about the priorities which should have been adopted by the project. One consultee, for example, thought that the project should have focused upon maintaining pan-Wales credit union provision and that support should have been geared towards ensuring that no credit union was allowed to 'go under' whilst another stressed the importance of targeting credit unions that demonstrate the potential to grow and succeed. This consultee went on to question the value in 'throwing good money after bad' in the context of offering a universally available support service.

Having said this, consultees were in agreement about the issues facing the credit union movement in Wales and the specific challenges that the project needed to help tackle. Many consultees took the view that the credit union sector was far from being self-sustaining when the phase one project was initiated and thus required both funding and advisory support to address this challenge. Others pointed to inherent cultural issues such as a lack of ambition and a sense that some credit unions were simply too small to be able to function efficiently.

Whilst there was clarity about the issues facing the sector, several consultees drew attention to the difference between what was expected of the credit union sector (particularly via the Credit Union Action Plan) and the level of resources allocated to the development of the sector – particularly in terms of the level of support made available to credit unions via the project. Some took the view that credit unions should have been better resourced to take forward some of the expectations outlined in various strategy documents, while others argued that expectations ought to have been kept more realistic and that credit unions should be encouraged to focus on their core remit.

In contrast to the view of Welsh Government officials and to stated policy, a minority of consultees felt that during phase one and in the early part of phase two, the support provided via the project has been overly focused on the merger of credit unions, driven by the widely held belief that this focus would result in a greater level of sustainability within the sector. However, it was suggested that the focus upon mergers had reduced in priority in recent months - 'mergers have taken a back seat' – with the focus now being placed upon getting existing credit unions to become more financially viable organisations in their own right.

Several consultees were of the view that that other priorities for the sector via the project have changed over time. It was argued, for example, by a small number of consultees that the importance of supporting credit unions to become a conduit for tackling financial exclusion had become a greater priority over the last year or so – albeit that this priority had been a focus for the project for some time. Consultees also stressed that the credit union movement was, and continues to be, considered an integral part of the Welsh Government's financial inclusion strategy. On the other hand the initial high priority given to credit unions to work with secondary schools, which was a One Wales commitment, was thought to have reduced in importance over time. It was suggested that this decision had come about as a result of several factors including a poor response from some secondary schools to credit union efforts and the fact that the work often distracted credit unions from their core remit. In recent months it was argued that Welsh Government representatives have come to accept that other stakeholders are better placed to take a lead role in ensuring greater understanding of and involvement with financial inclusion issues in the education system than credit unions – most notably DfES[68].

Finally, despite the targets set out in the Credit Union Action Plan having been developed in conjunction with credit unions themselves, a small number of consultees suggested that the target for recruiting large numbers of volunteers, as outlined in the Credit Union Action Plan, had proved inappropriate, since, in their view, the main challenge facing many credit unions was not the quantity of volunteers but the difficulty of recruiting and retaining the small number of volunteers capable and willing to serve as Directors.

Whilst there was generally little knowledge of the business plan objectives amongst stakeholders, consultees who were familiar with both the Credit Union Action Plan and the project's business plan (as submitted to WEFO) felt that there was a disconnect between their respective objectives. This misalignment, it was felt, had given rise to a number of operational and delivery issues – particularly in terms of setting service delivery targets for individual credit unions and in measuring progress.

[68] Department for Education and Skills, Welsh Government

4.2.2 External Changes

In addition to the key policy and legislative developments discussed in Section 2, consultees argued that other changes within the external environment had resulted in making the project even more relevant.

The most pressing of these external changes were thought to be the effects of the economic downturn and the need to strengthen the role of credit unions as a real alternative to the growing problem of irresponsible and illegal money lending in Wales. In this context, some stakeholders also thought that negative perceptions relating to private sector financial institutions as a result of the global credit crisis presented credit unions with potential opportunities, as it was thought that they offered a more socially worthy and acceptable alternative for investment.

Consultees also commented that the introduction of the Child Trust Fund had initially presented credit unions with an opportunity to take advantage of a potential new product. However, some consultees felt that the credit union movement in Wales had 'not [been] quite ready' to take advantage of this development. Of those that did, a significant effort had been expended in trying to get on the list of HMRC approved institutions only to face difficulties in trying to compete with commercial providers. It was thought that the termination of the Child Trust Fund had only had a marginal bearing upon the credit union movement in Wales, largely due to the limited number of Child Trust Fund accounts opened. One consultee went on to argue that as it had only been the 'more dynamic' credit unions that would have included these as part of their offer, and they would have been financially robust enough to deal with the ending of the CTF scheme.

Similarly, the provision of the DWP's Growth Fund, available since 2006, had provided some credit unions in Wales with the opportunity to access funds for the purpose of offering affordable loans to people on low incomes. It is understood that six Welsh credit unions[69] took advantage of the DWP led initiative and that some 8,700 loans were made in Wales for the value of £4.1 million between 2006 and the end of 2010[70]. The Growth Fund also provided additional resources for the Wales Co-operative Centre (which was tasked with managing the Fund in Wales), which was used to complement the project's funds in providing support to the sector. It was thought that the Growth Fund had been well received in Wales and the DWP's decision to bring the Fund to an end posed several issues for many credit unions and the Wales Co-operative Centre – not least a reduction in resources to run their operations and support services. However consultees generally welcomed the proposed follow-on programme to the Growth Fund and argued that the Credit Union Modernisation and Expansion Programme, should it go ahead, could offer similar levels of resources to Welsh credit unions. DWP consultees stressed, however, that any future funding made available via this programme would need to both demonstrate better value for money and be used more effectively to 'modernise' credit union operations.

Interestingly, consultees with knowledge of policy and legislative developments at a UK level generally thought that the UK Government was placing a greater emphasis upon the UK credit union sector to achieve self-sustainability and giving greater emphasis to support programmes that offered better value for money. One consultee added that at a UK level there are a number of good examples of credit unions achieving this goal of improved sustainability though they tended to be larger credit unions or cases whereby smaller credit unions had merged. In their view, those unable to become self-sustaining were likely to come to a 'natural end' as the UK Government would not be intervening in the future to support grant-dependent credit unions.

4.2.1 SGEI Funding Agreements

It was suggested by a small number of interviewees that the provision of capital funding to credit unions during 2009/10 had been an opportunistic,

[69] Bridgend Lifesavers, ELM Moneyline, Merthyr credit union, Neath Port Talbot, North Wales. Credit Union and Smart Money credit union.

[70] Raising the Profile: Meeting the Challenge (Nov 2010) page 6.

rather than a strategic intervention, in that the Credit Union Unit had been able to tap into a Welsh Government capital under-spend. However, some stakeholders were concerned that as a result of credit unions having had discretion over what they spent capital funding on, there was little consistency with one or two consultees arguing that that the process of allocating capital funds may not have been thought through as thoroughly as it might have been.

The majority of consultees who were in a position to comment argued that the principle of providing capital funding had been appropriate but that significant lessons had been learnt from the experience. In particular, it was argued by some consultees that the Welsh Government should have provided a greater steer and direction as to how capital funds ought to have been deployed by credit unions, particularly given that the funds available were fairly limited. Furthermore some consultees raised concerns that the due diligence process adopted by the Welsh Government had been inadequate given that one credit union (Lansker) had ceased trading due to financial difficulties some three months after the capital investment had been made. It was suggested that the Welsh Government should have carried out a more rigorous due diligence exercise of credit unions applying for funding and also extended the contractual period (set at three years) for the funds.

Despite these concerns, however, consultees took the view that the capital investment, where used effectively, had been instrumental in helping some credit unions to develop their physical presence. Consultees provided examples of credit unions which had benefited from the capital investment – Credcer for example had been able to buy and move to new premises and thus reduce their running overhead costs. Likewise, Merthyr credit union was known to have secured high street premises with the funding and as a result had developed a much better shop front window for their operation.

The provision of revenue funding for credit unions was in the main considered by consultees to be a logical aspect of the support made available although some expressed concerns that the revenue grant was, to some extent, fuelling a grant dependency culture amongst credit unions. Furthermore some consultees also suggested that the provision of revenue funding to credit unions for specific 'provisions' as opposed to 'core' or unrestricted funds had been a difficult concept for credit unions to grasp – particularly given the fact that many needed funding to cover core running costs, rather than fund specific strands of additional delivery.

Finally, consultees stressed the challenge posed for credit unions in the project's design to link revenue funding to targets associated with supporting financially excluded members. Whilst it was widely understood that this requirement stemmed from WEFO's regulations to avoid state aid complications, it was claimed by some consultees that not all credit unions fully understood or embraced this agenda. It was argued that some credit unions continued to pursue their existing strategies of boosting membership numbers more generally as they could not survive solely on providing services to financially excluded members. As one consultee stated, there is 'something of a contradiction between sustainability and financial exclusion'. Indeed the Wales Co-operative Centre in its support to the credit unions during phase one recognised this issue and claimed to provide a holistic intervention model of support as a result.

This point was further exacerbated by the lack of a consistent definition of 'financially excluded individuals' to which credit unions and the Welsh Government subscribed – although we understand that a common project level definition has recently been agreed.

In recent months, and in developing the current round of funding agreements (for 2011/12), feedback from Welsh Government representatives points to a better understanding amongst credit unions about how targets for supporting the financially excluded can be met whilst also developing a sustainable credit unions operation. Credit unions will be expected to increase their financially excluded membership to be more representative of the communities that they serve but it has been made clear that the Welsh Government also actively encourages credit unions to grow their general membership levels simultaneously. Despite this, some credit unions noted the perceived contradiction that 'SGEI is encouraging us to concentrate on people receiving income related benefits for membership. If we follow that route it will make it near impossible for us to reach self-sustainability'.

4.3 Project Targets and Performance

In this section we discuss the extent to which phase one targets (WEFO targets, provider targets and individual credit unions targets) were achieved before turning to discuss the performance to date against phase two targets.

4.3.1 Phase One Project Targets

As discussed in Section 3.1, the phase one project had five high level targets to meet across the Convergence areas of Wales. According to data made available in various reports produced by the Wales Co-operative Centre the project was able to either meet or exceed the majority of these targets but was unable to meet one (support individuals to access financial services), as shown in Fig. 7 below.

Fig. 7: Performance Against Phase One Targets[71]

	Target	Achieved
Assist social enterprises	14	19
Financially support social enterprises	14	19
Create new jobs	3	3
Support individuals to access financial services	2,847	2,417[72]
Organisations adopting or improving equality strategies and monitoring systems	11	13

[71] Taken from the Final Phase One Report produced by the Wales Co-operative Centre Progress Report for September 2011 produced by the Wales Co-operative Centre
[72] Taken from the Progress Report for up to September 2011 produced by the Wales Co-operative Centre.

Our analysis of outputs reported at the end of phase one reveals some confusion about what was achieved as various reports provided by the Welsh Government reveal different data[73]. The confusion about the outputs achieved at the end of phase one is further compounded by both the lack of evidence available to validate some of the outputs reported to WEFO at the end of phase one as well as the lack of consistency in the definitions adopted by the project when reporting these outputs.

4.3.2 Phase One Credit Union Targets

The number and nature of the targets agreed with credit unions for phase one varied. They ranged from three targets (e.g. Smart Money and Wrexham) to six targets (e.g. Newport). The type of targets adopted included:

- Increase in membership (adult and junior membership);
- Increase in Child Trust Funds;
- Increase in School Collection Points;
- Increase in Volunteers;
- Increase in Bad Debt Provision/Recovered;
- Increase in Loans Agreed.

Our fieldwork revealed several issues with the targets adopted by credit unions during phase one. It was suggested that the variety in nature and number of targets stemmed from the fact that targets had been offered by the credit unions themselves during the application stage and lacked any consistency in terms of definition. Furthermore, there had been no attempts by the Welsh Government to develop a consistent definition for the targets adopted. This has created difficulties for the Welsh Government in trying to measure the comparable success of credit unions and in assessing the value for money being obtained from the financial investment made.

[73] a Progress Report for up to September 2011 produced by the Wales Co-operative Centre provides different project output figures to that of the final phase one report produced by the Wales Co-operative. For example the Progress Report for up to September 2011 shows that 12 organisations adopted or improved their equality strategies and monitoring systems whereas the final phase one report presents this as being 13 organisations.

There appears to be no clear alignment between project level targets which were agreed with WEFO and individual credit unions targets. Some stakeholders commented that this was a flaw in the design of the project and went on to say that WEFO targets ought to have been more clearly linked with individual credit union funding agreements.

The final phase one report produced by the Wales Co-operative Centre[74] presents performance data on 18 credit unions supported via the project[75]. Analysis of the data shows a fairly weak out-turn in terms of credit unions performance against their targets:

- Only two credit unions (Wrexham and Clwyd Coast) managed to achieve or exceed all of their targets and a further six credit unions were reported as being likely to achieve their targets. Interestingly the Wales Co-operative Centre reported that all eight had been successful in achieving or exceeding all of their SGEI targets despite the outputs being anticipated rather than achieved in the majority of cases;
- Only seven of the fifteen credit unions had actually achieved their membership increase target[76] (three credit unions did not have any targets relating to membership increases). Two (out of a total of four) credit unions had managed to achieve their junior membership (i.e. young people[77]) targets (one of whom had also achieved their adult membership target). Despite this, the Final Report narrative states that the 'majority of credit unions exceeded their target membership figures' which is arguably an over-optimistic interpretation of performance;
- Three credit unions failed to meet any of their targets (Y Llechen, Llyfni and the Gateway credit unions) although the narrative only identifies one of these (Y Llechen) and put this down 'largely to a shortage of funding resulting in a reduction of staff hours and increased levels of staff turnover';

[74] Produced in December 2010 to the period ending September 2010.
[75] Excluding Haven Credit Union.
[76] Defined as either general membership or adult membership target
[77] A definition of what constitutes a young person in this context was not available.

- Five of the seven credit unions who had agreed to Child Trust Fund targets were unable to meet them and according to the Final Report this was largely due to the UK Government's decision to stop issuing the Child Trust Fund vouchers;
- None of the five credit unions who had targets for establishing school collection points were able to meet these.

The final report for phase one also notes that two credit unions had over spent at the end of the project and had to apply to the Welsh Government for additional funding to cover these amounts while six credit unions had under spent at the end of the project. The total project under spend (taking any over-spend into consideration) was reported at £77,626 (mainly due to money having been withheld from Lansker credit union).

4.3.3 Phase One Wales Co-operative Targets

The original phase one Business Plan outlined six key areas of activity that the contracted provider would be expected to deliver over the course of the year:

- Making credit unions Better Businesses via the provision of business advice and support to enable credit unions to meet the requirements of the Financial Services and Markets Act 2000 and the rules in the FSA's credit unions handbook. As part of this it was expected that the project would support credit unions to prepare and review their business plans with a focus on becoming sustainable operations in the long term;
- Conducting Health Check reviews of credit unions – this would involve undertaking a strategic review of the credit union and ensuring that appropriate business planning procedures were put in place. It was also anticipated that the project would support credit unions to identify their strengths and weaknesses and prioritise future business planning priorities. Furthermore, it was expected that each credit union would be subject to quarterly reviews of their business plans;
- Carrying out Skills Audits and training needs analyses – in order to improve the business skills and standards of governance amongst

credit unions it was proposed that Skills Audits of credit unions be undertaken which would outline an action plan to address any gaps in management and business skills. It was also expected that the project would deliver bespoke in-house training for both staff and volunteers (covering a wide range of areas including marketing and human resources) and to sign-post credit unions to other sources of training;

- Promoting innovative pilot projects and links to UK wide initiatives – it was expected that the project would support the development of pilot projects (such as the then Child Trust Fund accounts and the proposed Community Banking Partnerships). It was also anticipated that the project would maintain and further relationships with UK financial inclusion projects (such as the Oak Foundation Preventing Homelessness Project) and the DWP Growth Fund provision;
- Maintaining specialist money advice provision – by recruiting a specialist advisor who would effectively continue the provision made available at the time via the Debt Redemption and Money Advice (DRAMA) Scheme[78] but which was expected to come to an end in October 2008;
- Further developing access to secondary schools – it was anticipated that a feasibility study would be commissioned by the Welsh Government to explore the effectiveness of credit unions in engaging with secondary schools (and also primary schools) and that support would be made available directly to those credit unions with capacity to engage with secondary schools by setting up collection points.

In addition to these support related activities, it was also expected that the provider would administer the SGEI Funding Agreements on behalf of the Welsh Government. The agreement specifies that the Wales Co-operative Centre would support:

[78] The Debt Redemption and Money Advice (DRAMA) scheme was set up in 2003 and funded initially by the Coalfield Regeneration Trust to support individuals with debt problems. It worked closely with Credit Unions to improve their own credit granting procedures by gathering more accurate and detailed information from local applicants.

‘Credit unions to become better businesses and achieve sustainability and economic stability’

by providing a range of services including making payments to the credit unions, carrying out auditing and monitoring of credit unions, dealing with queries and provide a range of business support services.

The Welsh Government did not allocate specific targets to the Wales Co-operative Centre over and above these activity objectives but the organisation was expected to report on the performance of individual credit unions who were in receipt of support.

A review of various documentation and feedback from consultations suggests that the Wales Co-operative Centre was largely able to fulfil its contractual obligations during phase one and deliver the support provision outlined above, albeit that the focus of work was weighted towards the administration of the SGEI funding agreements. The final phase one report notes that the Wales Co-operative Centre undertook direct marketing to over 220 secondary schools via a postcard mail-out in September 2010 and that bespoke training was made available to credit unions on four key areas:

- Business Planning and Ratio Analysis training;
- Basic Marketing training;
- Equalities Strategy training (a two day course);
- Credit Union Management Information Toolkit (CUMIT) Workshops (two day course).

Given the lack of specific Key Performance Indicators for the Wales Co-operative Centre to deliver in phase one it is very difficult to assess its success, or otherwise, in meeting Welsh Government objectives. A review of its services and feedback from credit unions is presented at Section 4.4.

4.3.4 Phase Two Project Targets

The phase two project has nine high level targets and consultees who were familiar with these targets were confident that they would be achieved by 2013. Fig. 8 presents the current performance of the project (as at end of September 2011) which shows that the project is broadly on track to support the 17 social enterprises required of it. Whilst no jobs created outputs have been reported to WEFO to date, project representatives were confident that these had already been achieved (directly within the credit unions as a result of the revenue funding provided to support jobs at the organisations) but needed to be evidenced before reporting them to WEFO. In contrast, consultees thought that the target of supporting people to access financial services (set at 7,500 individuals) was much more challenging, particularly given the fact that none of the previous credit union SGEI contracts have been directly aligned to this target to date and without change (to make a more direct link between activity on the ground and the headline target) would be very unlikely to result in achievement of the 7,500 target.

Fig. 8: Performance Against Phase Two Targets September 2011

	Target	Achieved to Date
Social enterprises financially supported	17	16
Social enterprises assisted	17	16
Number of jobs created	7	0
Social enterprises created	1	1
Number of people accessing services (financial services)	7,500	3,710
Enterprises adopting or improving Environmental Management Systems	17	9 adopted[79] 4 improved
Enterprises adopting or improving equality strategies and monitoring systems	17	7[80]
Net social enterprises created	1	0
Net jobs created	1	3

4.3.5 Phase Two Credit Union Targets

The targets set for credit unions during the first year of phase two were even more wide-ranging than those adopted during phase one and the number of targets per credit union increased from four (e.g. Brecon) to ten (e.g. Dragon

[79] As at November 2011.
[80] As at November 2011.

Savers and LASA). Many of the targets continue to be activity based (e.g. recruit new member of staff, recruit volunteers or open new collection points) whilst others are focused upon outputs (e.g. increasing membership numbers, recruiting junior members, opening new accounts). Three credit unions (Bridgend, Cardiff and the Vale and Merthyr) had value added service targets such as increase in Junior Savers and number of school initiatives launched.

Whilst bearing in mind that credit unions had a final quarter to achieve their annual targets, the data made available to us for the October 2010 – June 2011 period suggests that the progress being made by individual credit unions to meet their annual targets was mixed. Data made available by TSIB on the achievements of 15 credit unions against their service targets for the first three quarters of phase two shows that:

- Three credit unions [81] appear to be making very good progress against their annual targets, having already achieved all but one or two of their targets;
- Eight credit unions appear to be making reasonable progress against their annual targets, bearing in mind that the final quarter for 2010/11 were yet to be reported at the time of our research;
- Four credit unions [82] were making poor progress against their annual targets – one had not achieved any of their targets and the remaining three had only achieved one of their targets.

Given the significant variety in targets and the lack of alignment between individual credit union targets and those of the project as a whole it is extremely difficult to elaborate further on the performance of supported credit unions in contributing towards the project's Business Plan targets.

The Welsh Government's recent decision to simplify credit unions SGEI Funding Agreements for the remaining part of phase two and to align them more clearly with project level targets is, in our view, a welcome development.

[81] Brecon, Bridgend and Dragon Savers
[82] Cardiff and Vale, Gateway, Haven and Romcul

As from October 2011, credit unions are required to deliver against two key objectives, namely to:

- Provide access to basic financial products that are simple, transparent and low cost to people who are considered to be financially excluded using the definition provided by the Welsh Government; and
- Offer support and information to people considered to be financially excluded about money management and affordable credit.

Most significantly however, credit unions are now required to achieve and report against one key target as opposed to the previous plethora of targets, which is to:

> 'offer the services … to not less than [number] people not previously members of the credit union and who are considered as being financially excluded'.

4.3.6 Phase Two TSIB Targets

The role which TSIB is expected to play, as the project's contracted provider, is similar to the Wales Co-operative Centre's role during phase one, in that the specific requirements of the contract are to manage the distribution of SGEI grant payments to credit unions and to deliver support and advice to credit unions. The nature of the support and advice is similar to that of the phase one project and involves the following activities, each resulting in a particular Key Performance Indicator (KPI):

Fig 9: Phase Two (First Year) Key Performance Indicators for TSIB[83]

1. Business Support
• All credit unions supported by the project to have business plans compliant with FSA requirements by March 2011. Also introduction of model business plan and financial forecasting template (which would become a requirement of future SGEI support from the Welsh Government) • Complete Healthcheck for all credit unions supported by the project by October 2011 • Complete skills audits and training needs analysis for all credit unions supported by the project by October 2011 • Support offered to all credit unions to diversify services and ensure compliance with HMRC and FSA guidelines.
2. Improving Corporate Governance Standards
• Offer financial management training to senior credit union staff and financial directors by July 2011 and governance training to Board members by March 2011 • Deliver a volunteer training programme • Produce a human resources toolkit and make it available online by June 2011 • Ensure succession plans are in place for all credit unions by October 2011
3. Mergers and shared services
• Professional advice offered to credit unions in accordance with FSA requirements and guidelines. • Undertake a cost benefit analysis to demonstrate the economies of scale which can be achieved through use of shared services by June 2011
4. Awareness-Raising and Marketing
• Distribute promotional material where provided and suggest new ways to market the work of credit unions • At least five print media articles per year in the north and south; promote credit unions at three national and three regional events per year and provide five new case studies per year to be promoted on website • Ensure that UK wide initiatives are highlighted on project website and flagged up in correspondence with credit unions • Promote and support (and also ensure credit unions promote and utilise) credit unions at secondary schools
5. General support and activity
• Ensure all quarterly reports, financial information and claims provided on time and to satisfactory standards • Produce map of all links between work carried out on behalf of and contact points for all organisations working with financially excluded people and publish on website by September 2011 • Complete agreement on local authority/credit union partnerships which can be introduced at public sector board by October 2011 • Help credit unions develop and improve environmental sustainability and equality strategies and system • Monitoring and evaluation of work with full evaluation report by December 2013.

In addition, the specification states that other priorities would be identified over the duration of the contract and that there was an expectation that the provider would assist credit unions identified as ‘struggling or failing’.

[83] Taken from the Specification for Access to Financial Services through Credit Unions (Phase 2) December 2010.

Feedback from consultees familiar with the work of TSIB suggested that the provider is making reasonable progress against the majority of its KPI indicators; albeit that it is generally behind profile in terms of the timescales set for achieving these indicators. Business support related activities appear to be much closer to the agreed timescales than other activities.

4.4 Project Delivery Arrangements

In this section we discuss the specific delivery arrangements for phase one (Section 4.4.1) and phase two (Section 4.4.2) before turning to discuss more general project structures that have been adopted (Section 4.4.3) and presenting the feedback on these arrangements from credit unions surveyed (Section 4.4.4).

4.4.1 Phase One Delivery Arrangements

Before discussing the phase one project in detail, it is worth highlighting the fact that some consultees conveyed their concerns that there had been a gap in support for credit unions between the end of the Objective 1 provision and the phase one (Convergence) project coming on-line. It was acknowledged that although the Welsh Government had provided interim funding to support some of the credit unions as a ‘stop gap’ measure during this period, there was evidence to suggest that some credit unions had regressed in their operations during this period.

The Welsh Government appointed a temporary Project Manager to oversee the project for some of the phase one delivery period. The Project Manager was supported by some administrative resource but in all the resources made available within the Welsh Government to manage the pilot was not substantive.

During phase one a National Credit Union Liaison Group was put in place and consultees familiar with it thought that it worked well. Established by the

Welsh Government during 2009, the Group continues to meet on a biannual basis to ‘test the project approach being adopted at regular intervals throughout the lifespan of the project’[84]. This Group was thought by the majority of credit unions to be an effective mechanism for liaising across the sector. Having said this, one surveyed credit union did question the ability of the Group to represent the views of all credit unions and the same respondent thought that it did ‘a very poor job’ in representing their particular credit union.

Feedback from Wales Co-operative Centre representatives points to the main focus of the phase one provision as being the management of the SGEI funding agreements with credit union development provision having taken somewhat of a secondary role. Furthermore, some argued that although the first phase was clearly badged as a pilot by the Welsh Government, it was not considered a pilot in the sense that credit unions viewed the funding from the Welsh Government as a continuation of previous funds. It was suggested that phase one was viewed a stop-gap intervention before a more comprehensive project could be put into place.

In this sense, questions were raised about the effectiveness of the phase one project with one consultee arguing that the Wales Co-operative Centre had simply carried on with their previous offering to the sector as opposed to providing a new, pilot provision: ‘they continued with what they did before – nothing had changed’. One consultee suggested that the limited resources made available by the Welsh Government restricted the Wales Co-operative Centre’s ability to provide a more comprehensive support service to credit unions.

Following on from this point, in their final report on phase one, the Wales Co-operative Centre drew attention to several delivery related issues which it felt had restricted the success of the project[85]:

[84] Ibid, p. 5
[85] Final Report – SGEI Phase One Wales Co-operative Centre p.5

- Poor communication between credit unions and between credit unions and the Welsh Government;
- Lack of standardised budget headings and target definitions adopted within SGEI Funding Agreements;
- Difficulties associated in making virement of funds across budget headings;
- Lack of organised financial procedures within credit unions relating to evidencing expenditure.

However in respect of the phase one provision, Welsh Government representatives argued that the project had in fact usefully piloted several new approaches during this phase including collaborative working across credit unions. Many of the lessons learnt, not least that the wide ranging aims and objectives of the project required adequate resourcing, had subsequently been used to inform the design and development of the phase two business plan. It was also argued that the approach adopted during phase one had been endorsed by the findings of the research undertaken by UWIC during 2009.

4.4.2 Phase Two Delivery Arrangements

By phase two a better resourced core Welsh Government project team was put in place within the Third Sector Unit to maintain responsibility for the management and co-ordination of the Credit Union project. In addition, a small team at TSIB (compromising a Project Manager, Project Administrator and a team of advisors) have been contracted to work directly with credit unions.

It was suggested by stakeholders familiar with the provision made available that there are clear differences in the approach adopted by TSIB during phase two in comparison with the Wales Co-operative Centre's approach during phase one – for example it was argued by one consultee that a more proactive account management system has been adopted (whereby an advisor works directly with individual credit unions) and the provision is more proactive in its efforts to identify and resolve difficulties being faced by credit unions.

However, there was a general consensus amongst those who could comment that the phase two funding contract for TSIB should have been more challenging. In particular, it was widely acknowledged that many of the KPIs set have, in practice, already been achieved and needed to be reviewed (upwards) to reflect the provision made available.

Overall, the relationship between the Welsh Government and TSIB was thought to be constructive by stakeholders we interviewed. Regular monthly progress meetings were held and formal quarterly reports produced for Welsh Government officials.

4.4.3 Generic Delivery Arrangements

An Operational Project Board (OPB) was established by the Welsh Government during 2010, with members drawn from internal staff, to oversee the delivery of the Credit Unions project. Its establishment, it was argued, had come about in an attempt to formalise the management and decision making processes and was perceived to work effectively. Indeed it was thought that many of the phase one lessons had been discussed and adopted by the OPB including the adoption of a project risk register.

Those familiar with recent project delivery arrangements also took the view that the introduction of the Welsh Government's Stabilisation Initiative (which has made available additional resources for those struggling credit unions) had been a welcome development.

At a general level, stakeholders thought that the administrative costs for the project were high. It was argued that this was mainly the result of having three tiers of administration (at the credit union, contracted provider and Welsh Government level) as well as what some perceived to be fairly onerous reporting requirements imposed upon credit unions.

According to several consultees (also acknowledged in some key documents[86]) one of the key stumbling blocks for the project was deemed to be the lack of staff continuity within the Welsh Government. Consultees noted that there had been regular staff turnover within the team overseeing credit union support. The majority of consultees felt that this lack of continuity had contributed to some of the issues discussed earlier (such as the disconnect between project targets and ground level activity as well as regular changes in project priorities). According to some stakeholders, the lack of continuity and also at times, the lack of a dedicated resource, within the Welsh Government proved unsatisfactory - 'not only has it impacted on the wider work of the Financial Inclusion Unit but it has also not provided the support demanded by the project, the delivery organisation and credit unions.'[87] However, other stakeholders pointed out that given the lack of cohesion across the credit union 'sector' as a whole in Wales and the fact that there is no umbrella body to represent credit unions, channelling support to them is by definition highly resource intensive.

Despite the existence of a Welsh Government led credit union brand and a requirement for credit unions to adopt it, consultees were also critical of the absence of any high profile marketing campaign to increase public awareness of credit unions to date - 'they talked about a national brand but where's it gone? I've not seen it'. Indeed there was a general feeling that this was one of the least well developed areas of the project so far and consultees expressed their disappointment at this. Some consultees argued that the original Credit Union Action Plan target to increase credit union membership in Wales to 6% by 2020 had been reasonable but that the project needed to act immediately in order for there to be a realistic prospect of it being achieved.

[86] For example the Phase Two Business Plan.
[87] Phase Two Project WEFO Business Plan

4.4.5 Credit Unions Feedback

In terms of feedback from credit unions on the work of the Wales Co-operative Centre, surveyed respondents viewed the support as being reasonable (see Fig. 10) - the type of support most commonly received had been training for staff and volunteers, followed by advice relating to Welsh Government SGEI funding agreements, reviews of business plans, marketing advice and equalities related advice or training. The strengths of the support received were deemed to be:

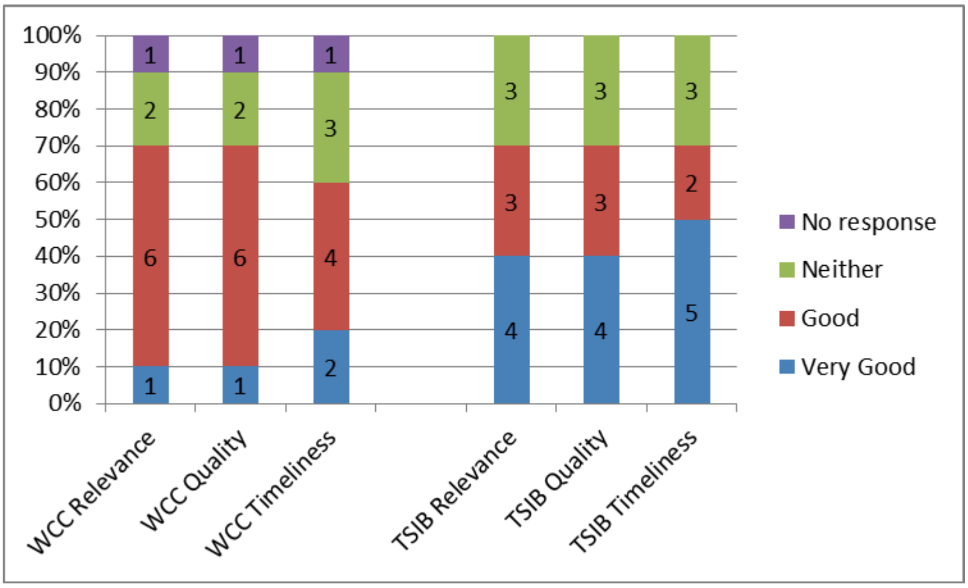
- Accessibility of service: 'easy to contact the centre' and 'always available';
- Understanding of the sector - 'how credit unions work' and good knowledge of staff;
- Free, relevant training made available which met the needs of the sector – 'the abundant free training opportunities were particularly valuable'.

A number of suggestions for improving on the support which had been provided by the Wales Co-operative Centre were made – most of which revolved around the training provision and included:

- More accessible and local training opportunities, better aligned with public transport routes and timings;
- More flexible training provision e.g. distance learning, on-line resources and as and when required by credit unions;
- More specialised training, including visits to successful credit unions in Ireland or Scotland.

Feedback from surveyed credit unions on the support made available by TSIB was largely positive (as shown in Fig. 10 below) with slightly more respondents stating that the support had been 'very good' in comparison with that of the Wales Co-operative Centre. Indeed five of the ten credit unions surveyed thought that their experience of TSIB had been 'much better' than that of the Wales Co-operative Centre, with a sixth taking the view that it had been 'slightly better'. Of the remaining four – one thought that they had been similar, one slightly worse, one much worse and one did not know. The nature of the support accessed was similar to that accessed under phase one, albeit that a higher number of credit unions noted that they had received support to implement their business plan as well as advice relating to mergers and sharing of credit union services. However this feedback needs to be taken in the context of the different contractual agreements put in place for TSIB and the Wales Co-operative Centre and the fact that there may well have been some frustration amongst credit unions as a result of a gap in support provision available to them between the end of the Objective 1 project and the beginning of phase one.

Fig.10: Credit Union Feedback on WCC and TSIB Provision



Source: Survey of 10 Credit Unions

The particular strengths of the support received from TSIB were highlighted as:

- Sound experience and knowledge of the credit union sector;
- Proactive and well-researched provision: ‘it had been very hands on’ and ‘they seem to be much more prepared than Wales Co-op’;
- Direct support in preparing business plans and advice on operational issues of credit unions.

Indeed one respondent specifically noted that the support received from TSIB has been ‘more focused and strategic’ and that as a result ‘we are more likely to achieve sustainability with TSIB assistance than with the Wales Co-op’. Another respondent noted that communication specifically relating to the SGEI agreements have been more frequent and useful via TSIB.

Only a very small number of credit unions suggested improvements to the support available via TSIB, namely:

- A more ‘localised’ provision to ensure more regular contact with the credit union;
- More direct and regular communication such as newsletters;
- Specialised training on aspects such as accounting and performance management;
- Improvements to the administration of SGEI contracts and a reduction in the evidence required to be submitted with each funding claim.

A couple of surveyed credit union respondents commented that the level of training made available by TSIB had been lower than that of Wales Co-operative Centre.

Credit unions were also asked about their experiences of Welsh Government SGEI Agreements. The following feedback was obtained on SGEI Agreement application, performance, monitoring and spend:

- Half of the credit unions (five respondents) had found the SGEI funding application forms easy to complete and four had found them difficult or very difficult. One had not been involved in the application process;
- The majority (seven of ten respondents) had found the decision making process either acceptable or quicker than anticipated;
- Three of the surveyed credit unions thought that they were ahead of profile on their current SGEI agreement targets, a further four thought they were on profile and three thought they were slightly behind profile;
- Two of the surveyed credit unions thought that they would achieve all of their targets by the end of the funding period, while seven thought

that they would achieve most of them. One thought that they would achieve only some of their funding targets;

- The main challenges envisaged by the surveyed credit unions in achieving their targets included the impact of external, unforeseen circumstances; being able to raise the profile of the credit union adequately and hitting the most difficult targets of increasing loans and membership numbers;
- The majority of credit unions surveyed (seven respondents) thought that they were spending according to profile, one noted that they were ahead of profile due to escalating costs and a further one noted that they were behind profile – largely due to the late start of activity[88];
- Surveyed credit unions generally perceived the financial and monitoring requirements put on them by the Welsh Government, and which were often administered by either the Wales Co-operative Centre or TSIB, were onerous (two thought them far too onerous and seven thought they were somewhat onerous) with only one of the view that the requirements were about right. Several suggestions were made on ways the financial and monitoring requirements could be improved, the most commonly cited being:
    - Providing support to assist credit unions implement internal improvements to enable the automatic production of data and outputs from databases;
    - A reduction in the amount of evidence required and a slight shift in focus from paper based evidence to 'visit' based evidence.

4.5 Relationships between Key Stakeholders

In this Section, we examine the relationships between the Welsh Government, contracted providers and credit unions.

[88] One did not know.

4.5.1 Relationships between Credit Unions

In the main it was thought that relationships between credit unions were varied. Some consultees suggested that relationships between North Wales credit unions prior to their merger were good whilst relationships between South Wales based credit unions were weaker ('there are more tensions and personal conflicts amongst credit unions in the south'), albeit that a small cluster of south east Wales credit unions were deemed to work closely with each other. It was thought that the north-south split had been largely fuelled by the existence of credit union Chapters covering these two regions. A small number of consultees took the view that 'credit unions are quite territorial' and that this could potentially be exacerbated by the introduction of the Reform Order enabling credit unions to operate across wider geographical areas.

Feedback from surveyed credit unions largely supported this view – with six of the ten surveyed noting that communications between credit unions was either good or very good and three noting that they were either poor or very poor[89]. Some of the issues identified by credit union respondents included:

- Attitudinal issues such as the reluctance of other credit unions to hear about and take up good practice from their own organisation 'they [other credit unions] are all extremely tribal in their attitude to sharing information or skills, I have offered a number of credit unions help…yet no takers';
- Historic or wider circumstantial issues such as 'geographical separation, inadequate technology [and] historical divergence';
- The lack of an 'official protocol' for credit union communication.

4.5.2 Relationships between the Welsh Government and Credit Unions

Several stakeholders thought that the relationship between the Welsh Government and credit unions had improved over time. A handful of consultees thought that the level of communication between the Welsh Government and credit unions had been fairly weak during phase one but that this had improved recently due to the Welsh Government's efforts to set up

[89] One respondent did not know.

regular dialogue with the sector – particularly via the Stabilisation initiative. It was also suggested that relationships had improved as the focus on the credit union merger agenda had been reduced, thus removing some of the initial tensions between the Welsh Government and credit unions.

Eight of the surveyed credit unions thought that the communication between the Welsh Government and credit unions was either good or very good whilst two thought they were poor or very poor. Those most critical of the quality and frequency of communication argued that apart from the bi-annual All Wales Credit Union Liaison Group there had been no real communication between themselves and the Welsh Government. It was also suggested that communication between the Welsh Government and credit unions was less than consistent – 'some credit unions enjoy direct and frequent communication with the WG, others do not'.

4.5.3 Relationships between Contracted Providers and Credit Unions

The Wales Co-operative Centre had a long standing relationship with credit unions prior to the delivery of phase one which was considered by most consultees to be positive in nature and meant that the organisation could hit the ground running very quickly. Some consultees did highlight the fact that the relative drop in provision since the Objective 1 funding via the Wales Co-operative Centre meant that the organisation had to manage expectations from within the sector. Only one consultee suggested that there had been tensions on the ground during phase one, adding that 'there was a lot of anti-Co-op attitudes from within the community' at the time.

Consultees who could comment on the relationship between TSIB and credit unions thought that the relationship had improved over the course of the year as the initial apprehension about working with a new provider (which was thought to have been fuelled in part by TSIB's lack of a Welsh presence) had dwindled. It was felt that the initial concerns had been allayed however by the appointment of a Project Manager with a strong background in the sector in Wales and who was known to many of the credit unions.

All but one of the surveyed credit unions thought that the communication between TSIB and themselves was either very good or good.

4.6 Difference Made to Credit Unions to Date

This section is based upon feedback received from ten surveyed credit unions (a 62.5% sample of the 16 credit unions supported by the project) as well as an analysis of financial performance data made available to us on supported credit unions.

4.6.1 Credit Union Views

Credit unions were fairly up-beat about the changes experienced within their organisations over the previous two years. The vast majority of the credit unions surveyed stated that they had experienced increases in their asset base as well as increases in their member numbers over the last two years. Credit unions were less confident about reporting increased local awareness of their organisation and improved financial sustainability – with the majority stating that they had experienced 'some' changes in these areas. Credit unions were also less likely to report changes in the number of volunteers and in their number of collection points – for example, only half of the credit unions surveyed reported an increase in their volunteer numbers.

Credit unions who reported positive changes in these aspects of their operations were asked to note what contribution, if any, the Credit Union project had made towards the change. Credit unions were more likely to attribute the contribution of the project towards some changes (increase in member numbers, increase in asset base, improved financial sustainability and increase in local awareness of credit union) and less likely to attribute the contribution of the project towards the final two types of changes (increase in volunteer numbers and increase in the number of collection points). These findings suggest that the project is rightly focusing its provision upon the most challenging aspects of credit union financial performance as opposed to some of the easier targets. However an analysis of financial performance data (at Section 4.6.2) suggests somewhat of a disconnect between credit union managers' positive perception of improvement in credit union performance with actual changes in credit union financial performance.

4.6.2 Financial Performance Analysis

Data was made available and analysed on the performance of credit unions in relation to the standardised PEARLS measures.[90] As 2009 and 2010 PEARLS data for the various North Wales credit unions was not available they have not been included in the following analysis. Each of the six measures of PEARLS are discussed in this section. It is worth noting that the financial performance of credit unions is affected by a number of factors, and that the contribution made by the Credit Unions Project is only one such factor.

The first measure, Protection, is measured by the credit union's solvency ratio i.e. the degree of protection that a credit union has for the savings of its members in the event of liquidation. The PEARLS standard is that net assets should be equal to or greater than 111% of savings (shares and deposits). Analysis of the data reveals that:

- Five of the 14 credit unions achieved the PEARLS solvency ratio target in June 2011 (compared to two in September 2010 and none in September 2009);
- 10 of the 14 credit unions increased their solvency ratio between September 2010 and June 2011.

Secondly, two calculations are used to assess Effective Financial Structures of credit unions – Net Loans to Total Assets Ratio and Institutional Capital to Total Assets. The net loans to total assets ratio measures the percentage of total assets invested in making loans. Loans to members generate income for the credit union through interest.[91] The PEARLS target is for a 70% to 80%

[90] PEARLS stands for Protection, Effective Financial Structure, Asset Quality, Rates of Return, Liquidity, and Signs of Growth.
[91] If loans to assets are too high then the credit union may be over exposed to risk on re-payment.

loan to assets ratio. Analysis of the data reveals generally weak performance on this measure. In particular:

- Only two of 13[92] credit unions achieved the 70-80% target in June 2011 (a broadly consistent finding since September 2009);
- Credit union performance generally weakened against this measure between Sept 2010 and June 2011 (i.e. 10 of 12 credit unions moved further away from the target range between September 2010 and June 2011).[93]

The Institutional Capital to Total Assets is a measure of the institutional capital – or statutory reserves – held by the credit union as a means (of last resort) for meeting liabilities. Five of the 14 credit unions achieved the 10% PEARLS target in June 2011, compared to two out of 14 in September 2010 and none of the 14 in September 2009. Five of those not meeting the target in June 2011 did however improve against the measure over the period September 2010 to June 2011.

Thirdly, the Asset Quality measure is calculated as a credit union's bad debt provision (total delinquency to loans ratio). This measures the percentage of loan balances on the books that are vulnerable to default and write-off. The PEARLS target is that the delinquency ratio should be no more than 5% on loans one month or more in arrears. In June 2011 five of the 14 credit unions had achieved this target. Two credits unions had ratios over 20%. In eight credit unions their position had worsened between September 2010 and June 2011; in five it had improved.[94] This broadly reflects the pattern for the longer term period between September 2009 and June 2011 and ought to be considered in the context of the current economic climate.

Fourthly, the Rates of Return measure is calculated as the credit union's Operating Expenses to Average Assets ratio. Operational efficiency is

[92] No data was available for Merthyr Credit Union for June 2011.
[93] One credit union (Newport) remained in the 70-80% range in September 2010 and June 2011.
[94] There was no change in one credit union's position

measured by comparing expenses with average assets i.e. the cost associated with the management of a credit union's assets. PEARLS target is 5% or less. Data was available for September 2010 and shows none of the credit unions achieved this target (indeed in five credit unions the percentage was over 20%). This means that the operating costs for the credit unions are currently too high, and this has implications for the amount of interest credit unions can offer savers.

Fifthly, credit union's Liquidity measure is taken as the Short Term Payables to Total Deposits ratio. This measures whether credit unions are holding adequate liquid cash reserves (i.e. to satisfy savings withdrawal requests and all payment obligations for the next 30 days). The PEARLS ratio target is for cash reserves to be between 15-20% of total savings deposits. The findings reveal none of the credit unions achieve this target range. All 14 hold very much more cash reserves than desired under PEARLS (10 of 14 credit unions hold more than 50% of total deposits and 6 of 14 credit unions hold more that 70%). On the one hand this means that all credit unions have strong short term liquidity position. However, the size of the cash reserves suggests an overcautious approach to lending or difficulties in delivering loans, though DWP Growth Fund deposits might also explain high cash reserves in some instances. That lower cash reserves as a percentage of savings were held in September 2009 hints that it is more likely to be the former rather than the latter.

The sixth and final PEARLS measure, Signs of Growth, is calculated as the credit union's Growth in Total Assets and the data suggests:

- Good levels of growth in the asset base of the credit unions - all 14 credit unions had increased their total assets by June 2011 compared to September 2009 (39% increase) and September 2010 (19% increase);

- Adult membership had grown in eight of the 14 credit unions between September 2010 and June 2011 (11 of 15 from September 2009 to June 2011);
- Junior membership had grown in eight of the 14 credit unions between September 2010 and June 2011 (12 of 15 from September 2009 to June 2011);
- 10 of the 14 credit unions increased their loan portfolio between September 2010 and June 2011 (with similar increases in 10 of the 14 credit unions for the period September 2009 to June 2011).

4.7 Good Practice and Lessons Learnt

Feedback from both consultees and credit unions highlighted examples of good practice as well as constructive lessons to be learned. We consider some of these in the following paragraphs.

Several consultees and credit union respondents drew attention to collaborative work across credit unions as examples of good practice. This included the sharing of services during phase two such as:

> 'We share a Debt Recovery Officer and a Financial Harmonisation Officer with three other credit unions.'

It also included the merger of credit unions. In particular, several consultees referred to the merger of five credit unions in North Wales as an example of good practice in credit unions developing a financially sustainable operation. It was argued that the merger had been successful as it had brought together credit unions serving wide geographic areas, whilst retaining local linkages. Consultees suggested that the merger had helped individual, smaller credit unions overcome rurality related issues (small operations serving large geographical areas) as the new organisation could offer a wider range of services, including current accounts which could be accessed via ATM points.

Other consultees pointed to the recently introduced Welsh Government Stabilisation initiative as another good practice element of the project during phase two. It was felt that the additional resources (in the form of Welsh Government personnel) had been of value to those credit unions who were deemed to be struggling in that it had provided additional capacity and expertise to tackle specific issues. One credit union respondent noted in particular that they had:

> 'received support from TSIB and additional support from [name of officer at] WG over the last 5/6 months which has enabled the CU to strengthen and increase the Board. Both have also supported the manager in various roles including board reports, support with the launch of our new offices etc.'

Some consultees thought that this support could be strengthened further if a greater level of expertise could be made available to those credit unions – particularly in terms of financial accounting expertise.

Other more specific examples of good practice were cited by credit unions although it was not clear whether these related to phase one or two, including:

- improved operational efficiency such as 'fast processing of loans,' more effective use of technology, increased accessibility (particularly via increased access points, changes to opening times) and reducing costs (such as using alternative collection points at shops or other agents);
- the importance of training staff such as 'train your loans officers and then train them again. And keep training them!'

Several consultees and a few credit unions highlighted some of the credit union promotional activities as being good practice which could be taken on board by other organisations. One credit union, for example, had seen the benefits of their direct promotional activity and suggested that others should emulate this by focusing more upon 'marketing face to face'. Another stressed the importance of building strategic and operational relationships with key organisations such as local housing providers, local authorities, post offices, Citizens Advice Bureaux and other advice services which had ‘proved beneficial in raising the profile and awareness of the credit union’ for them. In particular one such consultee went on to stress the need for credit unions to raise their profile amongst public sector employers with a view to encouraging public sector employees to save with credit unions. Indeed, this is outlined as a commitment in the current Programme for Government. Payroll deduction schemes, including the Welsh Government payroll deduction scheme, were considered to be good practice by several stakeholders. Aligned to this, another consultee also noted that there was a case for credit unions to raise awareness amongst local authorities and NHS bodies in order to improve the referral process between other support agencies and credit unions.

It was argued that many lessons had been learnt from the phase one capital and revenue funding investment experience. In particular consultees suggested that any future funding investment should:

- be made available to credit unions on a much more strategic basis and for specific developments and projects (e.g. to extend credit unions’ product range including pre-paid cards);
- be made available for specific activities that are directly linked to comparable outputs e.g. increasing membership levels and increasing the number of financially excluded individuals supported;
- be awarded following a thorough due diligence process (applicable more so to capital investment);
- be withdrawn from Credit Unions via a tapered process as opposed to an abrupt and complete withdrawal.

4.8 Credit Unions’ Thoughts on the Future

The web survey of credit union managers questioned them about their priorities for the future, their anticipated challenges and likely support requirements.

The objectives that were deemed important to credit unions[95] over the next year were:

- To improve the long-term sustainability of the organisation – identified as being in the top two priorities for eight of the ten credit unions surveyed;
- To improve the financial performance of the organisation – identified as being in the top three priorities for six of the ten credit unions surveyed;
- To enhance the profile of the organisation – identified as being in the top three priorities for five of the ten credit unions;
- To improve the governance and management of the organisation – again identified as being in the top three priorities for five of the credit unions.

The key challenges facing surveyed credit unions over the next year[96] or so were deemed to be:

- Funding constraints and uncertainties (cited by nine of the ten surveyed credit unions);
- Premises related issues (cited by six credit unions);
- Governance related issues (cited by three credit unions);
- Difficulties promoting the credit unions (cited by three credit unions).

In terms of the support required over the next year to address these challenges credit unions tended to emphasise two main requirements. The first was the need for continued financial support from the Welsh Government for capital funding - 'we need capital grants made available' and to fund specific activity 'we require funding for the ground breaking project we hope to introduce.' The second was the need for marketing support to deliver a pan-Wales campaign and the comments made by one respondent conveyed the view of several:

> 'The Welsh Government could really assist credit unions nationally by a concentrated effort to market the credit union movement on a Welsh-

[95] Respondents were asked to rank the three most important objectives.
[96] Respondents were asked to rank the three most important challenges.

> wide basis. Credit unions can't compete with the marketing budgets of competitors who target the financially excluded, such as Provident, payday loan providers, Moneyline Cymru[97] etc and there is clearly a need to continue to improve awareness of what credit unions can offer anyone in the community. Whilst working with partner agencies and community work can assist with this, a concentrated national marketing campaign would no doubt significantly assist credit unions to reach all sections of the community'.

Finally, other credit unions noted very specific requirements such as 'to shorten the time lag of payroll deductions of the local authorities and NHS'.

[97] Moneyline Cymru is a Community Development Finance Institution (CDFI) developed by housing associations in Wales to provide affordable, responsible loans within a business model.

5. CONCLUSIONS AND RECOMMENDATIONS

In this section, we outline our overall conclusions and a series of five initial recommendations for the remaining phase two delivery period.

The policy context in Wales is highly supportive of the credit union movement albeit that expectations of the sector are arguably too high and wide-ranging. Despite the Credit Unions project being well rooted in and aligned with key Welsh Government policies there has been tendency to expect credit unions to provide solutions for a range of policy objectives with limited resources to do so, possibly at the expense of developing sustainable and strong performing operations.

We conclude that there was a strong need for and clear policy rationale for public sector intervention to support and develop the credit union movement in Wales at the outset of phase one and that the issues and challenges facing the sector were well researched and widely understood by those supporting the sector.

We also conclude that, in the context of the on-going policy focus at UK and Welsh Government levels, the rationale for continued public sector intervention remains strong with clear opportunities for further improvements in the financial performance of credit unions in Wales. The continuing uncertain financial and economic conditions also mean that credit unions are very likely to need continued and direct support in order to overcome significant challenges and embrace new opportunities. There is also a strong case for focusing future support upon those credit unions which demonstrate the ambition and capacity to grow.

While the Credit Union project was well rooted in a supportive policy context, too many priorities were initially set for the project and the wider development of the sector (including priorities identified via the Credit Union Action Plan, the Financial Inclusion Strategy and the WEFO Business Plan). The result is that it has proved very challenging to deliver against all of these priorities during the phase one period within the resources available. Furthermore, it is clear that the disconnect between the objectives and targets of the Credit Union Action Plan and those of the WEFO Business Plan (which is solely focused upon financially excluded individuals) resulted in significant delivery issues and has created additional difficulties in measuring the achievements of the phase one project.

In terms of the project delivery structure, the appointment of a specialist delivery contractor to support the development of the sector in Wales was appropriate. The argument for sub-contracting the SGEI administration work is weaker, however, and despite positive feedback on the work carried out by the current delivery contractor, we suggest re-visiting this model in future years in order to reduce the administrative costs and increase efficiency associated with this element.

The availability of both capital and revenue funding to the sector has been appropriate but, we conclude that some of the mechanisms adopted for awarding funding have been flawed. We are of the view that capital funding could have been invested in a more strategic manner so as to ensure that every investment made was used effectively for the purposes of transforming credit unions into self-sustaining operations. Likewise the provision of revenue funding could have been made available to credit unions for the purposes of achieving much 'SMARTer' outcomes more closely aligned with the WEFO Business Plan targets.

It is very positive that current SGEI funding agreements have been simplified and better aligned with WEFO Business Plan targets (i.e. a single target focused on financially excluded individuals). However, it would be beneficial to maintain a very limited number (one or two at most) other consistent targets which would assist in assessing and measuring the progress of individual credit unions towards self-sustainability. This, in our view, would help reduce the inherent tensions between the need for financial viability and sustainability on the one hand and financial exclusion and social justice policy objectives on the other. This would also help connect the objectives of the Credit Union Action Plan and the project Business Plan. One option might be to introduce formal targets for credit unions along the lines of 'new members recruited' and 'financially excluded individuals as proportion of overall membership' to ensure that any increases in financially excluded clients are in line with overall membership increases.

Phase one reporting suggests that the project did meet most of its WEFO funded targets albeit that some questions were raised about the reliability of the data reported and the lack of evidence available to verify outputs. We found that the credit union data revealed a fairly weak out-turn in terms of performance against individual targets. The lack of alignment between project level targets and individual credit union targets was a fundamental issue during this phase, and had these been better aligned at the outset, it is likely that the project would have been more successful in achieving its objectives. There is little evidence to suggest that the phase one support made available via the contractor was breaking any new ground in terms of its provision to credit unions (as the main focus had been upon the administration of SGEI funding agreements), albeit that feedback on the training made available by the Wales Co-operative Centre was good.

The performance to date during phase two of the project (as measured against WEFO funded targets) appears acceptable and the recent decision to better align credit union targets with WEFO funded targets is, in our view, a sound and logical move. We see no reason as to why the WEFO targets cannot now be achieved over the lifetime of the project – particularly since credit union outputs will feed directly into the WEFO reporting process. However, while the nature of the project's support to credit unions during phase two is geared towards supporting self-sustainability there are some fundamental questions as to whether and to what extent the project can be expected to achieve the five longer-term, headline level targets set out in the Credit Union Action Plan. This is brought into sharp focus by the apparent lack of priority given to the public awareness campaign and volunteer recruitment process which is perhaps a reflection of the limitations currently imposed upon Welsh Government and wider public sector expenditure on such activity.

Evidence shows that credit unions supported by the project have made some positive progress to date in a number of key areas and credit unions were able to attribute some of this progress directly to the project. When looking at the PEARLS financial data in particular it is clear that improvements have been made in terms of membership growth, solvency ratios and institutional capital to total assets measures over the project timeframe. In contrast, less progress appears to have been made in improving net loans to total asset ratios, bad debt provision, operating expenses to average assets ratio and liquidity ratios. There is every reason to expect that further progress and improvements to credit unions in Wales are a realistic prospect provided appropriate support is continued.

Relationships between various players (including the Welsh Government, delivery agents and credit unions) have improved over time and no real communication issues were identified other than some weaker relationships amongst credit unions themselves which need to be addressed going forward.

Recommendation 1: We recommend that the Welsh Government and WEFO continue to fund the Access to Financial Services Through Credit Unions Project.

Recommendation 2: We recommend that a smaller number of key priorities focused upon the WEFO Business Plan targets and credit union financial sustainability indicators (as presented by PEARLS) be adopted and agreed as the focus for the remaining phase two period.

Recommendation 3: We recommend that both capital, if possible, and revenue investment is made available to credit unions in Wales via the project. However, the Welsh Government needs to revisit the mechanisms for awarding such funding and in particular ensure that funding is provided for the purpose of achieving SMARTer outputs.

Recommendation 4: We recommend that the current delivery arrangements be continued, and as part of the recent Stabilisation initiative that the Welsh Government looks to provide more specialist expertise to the sector in areas such as accountancy and financial control. We further recommend that the Welsh Government should explore the option of administering credit union SGEI funding agreements directly so as to simplify and to reduce project administration costs.

Recommendation 5: In terms of developing relationships a greater focus should be given to improving communication amongst credit unions, with a view to promoting good practice and exploring opportunities for sharing resources/services.

Annex 1: List of Interviewees

Name	Organisation
Sheila Adams	Wales Co-operative Centre
Stephen Chamberlain	Welsh Government
Teej Dew	Wales Co-operative Centre
Nigel Draper	Moneyline Cymru
Chris Gittins	Communities First Unit, Welsh Government
Barbara Hann	ACE Credit Union Services
Steve Hay	Illegal Money Lending Unit, Trading Standards
Bill Hudson	TSIB
Lindsey Kearton	Consumer Focus Wales
Delyth Morgan	Citizen's Advice Cymru
Jo Oak	Wales Co-operative Centre
Lynne Schofield	Financial Inclusion, Welsh Government
Molly Scott	UWIC
Abbie Shelton	ABCUL
Lindsay Watt	DWP
Claire Williams	Moneyline Cymru