Establishing a Credit Union in Kensington and Chelsea

Feasibility Study

November 2009

Funded by:

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Executive Summary and Key Findings

Kensington and Chelsea is one of the countries most desirable places to live and work. It is the place that many businesses choose to locate and many affluent and wealthy people choose to reside. Yet this often overshadows the problems that face the borough and large sections of its citizens.

The current economic downturn continues to adversely affect Kensington and Chelsea with the loss of jobs, business and prosperity threatening the cohesion of its communities and negatively impacting upon every household in the borough. Moreover, there continues to be an increasing disparity of prosperity and opportunities within Kensington and Chelsea with areas of extreme poverty living alongside extreme affluence.

Discussions and research has already begun within the borough about establishing a credit union to help mitigate the challenges of the recession and support those residents most disadvantaged to weather the economic storm, access affordable banking services and improve their overall wellbeing.

It is within this context that a feasibility study was commissioned by Octavia Foundation to help advance the work to determine if the development of a local credit union service is needed and viable, as well as demonstrating its commitment to improving financial inclusion for residents within Kensington and Chelsea.

Credit unions are local financial co-operatives that are owned and controlled by their members. Any profits that are generated are given back to the members after the costs of running the credit union have been covered. Each credit union has its own ‘common bond’ which determines who can join it. The common bond may be for people living or working in the same area, people working for the same employer or people who belong to the same association, such as a church or trade union (or a combination of these).

They provide a range of affordable, fair and accessible financial services for all its members, including convenient and safe ways to save. These savings then provide a pool of funds from which low-cost and flexible loans can be made responsibly. It rewards savers by offering them a return on their savings, known as an annual dividend.

Like banks and building societies, credit unions are regulated by the Financial Services Authority (FSA), providing strict regulation and ensuring they operate prudently. They are also covered by the Financial Services Compensation Scheme, which means that individuals money is covered should anything happen to the organisation.

Credit Unions are increasingly recognised for their huge potential to bring widespread benefits to both local people and the local community.

Benefits to Kensington and Chelsea and its economy:

- Stimulating the economic prosperity of Kensington and Chelsea and helping alleviate the impact of the recession by increasing the flow of millions of pounds of credit into the economy.
- Retention of economic wealth within the local economy, preventing millions of pounds each year leaking from the borough’s economy through excessive interest rates.

- For every £100,000 lent by a credit union (even at the maximum 26.7% APR), instead of the average interest rate charged by a home credit company of 177%APR, approximately £51,500 would be retained within Kensington and Chelsea.

- Helping reduce the levels of worklessness by removing the back to work barrier of not having access to banking service, a common obstacle preventing employment.
- Combating the growing cost of financial exclusion, particularly amongst the most disadvantaged families and group within the community.
- Improving the financial health of the borough through reductions of unmanageable personal debt and improvements to household financial management and capability.
- Reducing health issues associated with poverty and financial stress.
- Increases community cohesion by bringing together various parts of the communities.
- Helps reduce the overall levels of social exclusion and poverty within the borough.

Benefits to local residents:

- Increases access to affordable financial services for those increasingly excluded from mainstream financial services.
- Providing accounts for those who find it difficult to access mainstream banking - allowing direct benefit payments and salaries to be accepted.
- Creating a habit of regular saving amongst its members – providing a financial safety net for people who would otherwise not save.
- Access to responsibly-lent credit at competitive interest rates – preventing the need to resort to more extortionate methods of borrowing (maximum credit union loan rate of 26.8% APR) - very competitive particularly with home credit lender who charge upwards of 177% APR.
- Self-help solution that empowers through improved financial literacy and money management skills
- Access to a holistic service for those with financial problems, including debt advice through direct partnership links with local organisations such as the Citizens Advice Bureaus, Nucleus Legal Advice Centre and World End Neighbourhood Advice Centre.
- Supports individuals to improve their overall financial wellbeing and thus increasing the amount of money available within the household and helping move them out of poverty.

Key findings/recommendations:

The findings of the feasibility study have been extremely positive demonstrating; clear need for access to credit union services, widespread local support and potential partnership involvement and a clear and effective method for developing a viable and modern credit union service that can serve and benefit a large cross-section of people in Kensington and Chelsea.

A summary of the key findings and recommendations from the feasibility study are that:

1. There is identifiable need and demand for access to affordable financial services locally

Despite large areas of wealth and affluence, there is still identifiable need for the development of a credit union because:

- The large areas of extreme disadvantage within Kensington and Chelsea with 22.3 per cent of the borough being classified in the top 20 percent most deprived in the country. Concentrations of deprivation are more severe in the North of the borough with the highest concentrations of extreme deprivation located in Golborne, St Charles, Notting Barns and Colville wards, together with pockets of deprivation in Norland, Earl's court, Redcliffe and Cremorne wards.
- There are an estimated 23,670 residents in Kensington and Chelsea suffering from income deprivation and who can be deemed to be financially excluded as they will be marginalized from accessing financial services such as bank accounts, affordable credit and insurances.
- Access to affordable financial services is particularly difficult for certain groups, including those in receipt of state benefits, unemployed and low income households, those living in socially rented accommodation, economically inactive through long-term sickness/disability and lone parents.
- There are significant levels of personal debt problems presented by local residents, demonstrated by over 6,500 residents from Kensington and Chelsea presenting debt problems to the four of the main provider of debt advice in the borough.
- Anecdotal evidence highlighted by some of the Registered Social Landlords (RSLs) and advice agencies during the consultation of the activities of sub-prime lenders – particularly home credit companies on social housing estates,
- Credit union services in boroughs across London are successfully meeting such need and delivering a range of benefits to residents and their local communities.

2. The provision of affordable financial services within Kensington and Chelsea should be delivered by the establishment of a credit union service.

The alternative model of developing a Community Development Finance Institution (CDFI) has been explored but the most suitable and viable solution is shown to be the establishment of a credit union as it;

- delivers a complete affordable financial solution,
- provides the greatest opportunity for organisational sustainability and none reliance on grant funding,
- offers accessibility to a complete range of products and not just loans, including current accounts, saving and insurance.
- presents the opportunity to build on the existing capacity of a service already operating locally, and
- enables financial services to be delivered to businesses and organisations in the borough.

3. Strong support exists from key stakeholder in Kensington and Chelsea for the development of a credit union service.

It is essential to have strong partnership support and involvement from the main agencies and organisation in Kensington and Chelsea. Without this continued proactive backing, the new credit union service will not meet its full potential.

- Royal Borough of Kensington and Chelsea is a key strategic partner and is supportive of developing a modern and innovative credit union in the borough. It is keen to explore appropriate support and ways of being involved.
- The development of a credit union would help meet a number of the key policy outcomes and priorities outlined in the community plan for the borough. Developing a credit union had already been identified by

the Kensington and Chelsea Partnership as a potential project for funding from the forthcoming Performance Reward Grant.

- Seven key housing associations operating with almost 17,250 residents in the borough are extremely supportive of the proposed development and have already indicated that they wish to have development representation, potentially commit resources towards its development and growth, as well as proactive promotion to their residents.
- Interest from five local employers with 4,585 staff to become 'Employer Sponsors' offering payroll deduction facilities to their employees.
- Huge backing and future involvement from the voluntary sector including the Voluntary Sector Team within the Council, Westway Development Trust and the various advice agencies delivering services within the borough.

4. Development should exclusively concentrate on extending the geographical operations of an established neighbouring credit union in order to cover Kensington and Chelsea.

The development of a new credit union for Kensington and Chelsea from scratch would be very time consuming and resource intensive in order to undertake the significant work required to apply to the FSA for authorisation. It would also be more financially risky given the reduced economies of scale offered by a smaller 'common bond' and the lack of experience of running such a financial institution.

Consequently, the overriding conclusion of the feasibility study is that, instead of starting a brand new credit union, the forthcoming amendments to credit union legislation should be utilised to extend the common bond of an existing credit union to cover the whole of Kensington and Chelsea. This should provide a geographically, economically and socially cohesive membership with a sufficiently diverse income base to ensure long-term sustainability. Importantly it will also benefit from the experience and the financial assets of the existing credit union.

5. H&F Credit Union represents the most appropriate and effective option for expansion of its services into Kensington and Chelsea and should be pursued for development.

The feasibility study has carefully considered the different credit unions that could be approached to extend their services into Kensington and Chelsea. H&F Credit Union, covering the neighbouring borough of Hammersmith and Fulham is determined as the most suitable option because it has:

- organisational strengths that has seen it become established and a model of good practice for successful credit union development with nearly 1,000 members, saving assets of over £315,000 and a loan portfolio of nearly £100,000 in only its first 12 months.
- a comprehensive range financial products including saving accounts, loan and insurance products.
- the operational capacity and scope it brings to successfully and quickly expand its services into the borough and develop effective local partnerships,
- a delivery model that provides a complete and locally facing infrastructure allowing greater and faster organisational growth and local benefit, both important factors to help Kensington and Chelsea mitigate the effects of the current economic downturn and maximising the number of residents benefiting.
- a long geographical boundary with Kensington and Chelsea that provides huge operational advantages for residents, particularly in the South of the borough to access existing services at their Fulham branch.

6. The new credit union implements progressive and sustainable best practice from the outset to enhance expansion and viability

In order to establish a successful 'sustainable model' credit union, proven best practices should be incorporated within the development and operational delivery of the new credit union, including:

In order to establish a successful 'sustainable model' credit union service, proven best practices should be incorporated within the development and operational delivery of the new credit union, including:

- Ensuring comprehensive member access across the entire borough is essential, therefore, the credit union must implement a complete delivery infrastructure within Kensington and Chelsea that ensures everyone can access a full range of services.
  - centrally located high street branch delivering the complete range of financial services.
  - network of outreach service points across the borough.
  - fully transactional website offering online banking.
  - PayPoint facilities enabling cash deposits to be made across the borough.
  - standing order, direct debit and electronic BACS transfers to enable the simple deposit and withdrawal of funds.
- Securing sufficient funding to employ a suitable staff team to oversee the daily management, without this staffing resource, it will be extremely difficult to sustain a credit union of this size on a long-term basis.
- Applying the full range of products and services available to the credit union to ensure maximum membership growth and income generation – saving accounts, instant access loans and insurances.
- Implementation of modern IT infrastructure and financial accounting software to enable operation over multiple locations.
- Have Kensington and Chelsea representation from skilled and experienced volunteer Directors who will join the existing management structure to ensure local need is met.

7. A short development phase should be implemented within Kensington and Chelsea.

Implementation of an outlined development plan would lead to the launch of the new credit union service by late summer 2010 and would include:

- Establishing a steering group with representatives from key stakeholder and H&F Credit Union to oversee the implementation of development phase.
- Appointment of Octavia Foundation as lead partner, providing in-kind project management and hosting facilities.
- Employment of a project development consultant to undertake the key elements of the development phase.
- Implementing a fundraising strategy that secures start-up costs of £132,050 and the estimated operational costs of £387,752 between the proposed expenditure and generated income over the first four years of operations (£134,922 in year 1, £145,226 in year 2, £ 90,050 in year 3 and £ 17,555 in year 4). After such time, it is projected the credit union would be self-sufficient.
- Developing a new corporate brand for the credit union service Kensington and Chelsea that fits within the wider corporate brand of H&F Credit Union.

- Finalise a 5 year Business Plan.
- A Special General Meeting is held to gain agreement from HFCU's membership.

Once all development work is completed, the application to the Financial Services Authority for the extension of the common bond can be made. It is anticipated the application would be ready for submission following the legislative changes in April 2010, enabling the new credit union to be operational in late summer 2008.

With the highlighted investment of resource and ongoing partnership support, the proposed credit union has the potential to grow significantly within the initial years of operations. It will have the development foundations to fulfil its potential and bring substantial benefit to Kensington and Chelsea.

By the end of the first five years, it would have already become a self-sufficient social enterprise that has involved and benefited well over 4,250 local people, a high proportion of which will be from low-income backgrounds and have accumulated saving assets of nearly £2.9 million and provided over £5.3 million in loans to local residents.

Acknowledgements

We would like to thank the following for their involvement and support in this project.

Mandy Ala	Campden Charities
Baljit Badesha	Nucleus Legal Advice Centre
Charles Barbour	Chelsea and Kensington CAB
Ian Cann	Kensington Housing Trust
Vicki Laville-Davies	Dalgarno Neighbourhood Trust
Martyn Freeman	Westway Development Trust
Stuart Freeman	CHAS Central London
Cheryl Gale	H&F Credit Union
Mary Gardiner	Kensington & Chelsea Social Council
Jan Gates	Campden Charities
Jane Gray	World's End Neighbourhood Advice Centre
Grahame Hindes	Octavia Housing
Roxy Hotten	Royal Borough of Kensington and Chelsea (Economic Development)
Roger Marshal	Financial Services Authority
Sarah Mitchell	Westway Development Trust
Mirca Morera	Family Mosaic
Reena Mukherji	Octavia Foundation
Abbie Shelton	Association of British Credit Unions Ltd (ABCUL)
Rachel Smith	Kensington and Chelsea Partnership
Wendy Stevenson	K&C Tenant Management Organisation
Caroline Sugrue	Stadium Housing Association
Harry Tedstone	Advice Now
Vincent Thomas	Notting Hill Housing
Michelle Thurston	Peabody
Jane Trethewey	Royal Borough of Kensington and Chelsea (Housing)
Damon Venning	Stadium Housing Association
Deborah Wallworth	Royal Borough of Kensington and Chelsea (Voluntary Sector)
Eugene Waters	H&F Credit Union

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1. Introduction

1.1 Background to the feasibility study in Kensington and Chelsea

Discussions have taken place over the last 12 months around increasing access to affordable financial services and whether the establishment of a credit union was an appropriate solution. This has primarily originated from the voluntary sectors and the advice agencies within the borough. More recently, the concept was raised at the Kensington and Chelsea Partnership and officers from Royal Borough of Kensington and Chelsea charged with researching credit union development.

Simultaneously, a number of social housing providers with large concentrations of tenants in Kensington and Chelsea had also identified;

- A lack of appropriate financial service options for their tenants living in Kensington and Chelsea,
- Successful credit union development in neighbouring boroughs, supporting their residents who were financially excluded,
- Evidence showing growing household debt amongst tenants, particularly through rent arrears and anecdotal evidence of the activities of home credit companies and other sub-prime lenders on their estates,

In order to further progress the efforts of determining if a credit union service would be viable in the borough and to demonstrate its commitment to increasing financial inclusion within Kensington and Chelsea, the Board of Octavia Foundation agreed to the funding of an initial feasibility study.

1.2 Feasibility study sponsors

As identified above, funding to undertake the feasibility study has been provided by the Octavia Foundation.

Octavia Foundation is a registered charity working in central and west London to improve the quality of life of individuals and local communities. It was established by Octavia Housing, a housing association with around 4,000 homes mainly across Brent, Hammersmith and Fulham, Westminster and Kensington and Chelsea.

The Octavia Foundation aims to help establish strong and vibrant communities in central London and improve the quality of life for individuals. It has funded the feasibility study as part of its ongoing commitment to financial inclusion work.

1.3 Commissioning the feasibility study

In late July 2009, GRE Consulting was commissioned by the Octavia Foundation to undertake the feasibility study and initial business planning exercise. GRE Consulting is an independent social regeneration consultancy firm with a firm focus on financial inclusion work, particularly credit unions development. Over the last five years, it has worked on the formation of credit unions across London and the South East, including Hackney, Camden, Hammersmith and Fulham, Hertfordshire and Surrey.

1.4 Purpose of feasibility study

The purpose of this study is to ascertain whether the establishment of a credit union service is feasible within in Kensington and Chelsea. The feasibility study examines the factors required to ensure the development of a sound and sustainable credit union and proposes options in key areas, including:

- Evidence of local need and demand for access to affordable financial services in the borough,
- Suitable development options for establishing a credit union service,
- Legal and regulatory issues and the establishment of an effective 'common bond' that could achieve registration with the Financial Services Authority,
- Key linkages and potential support from a range of local stakeholders including; public and voluntary/community sector organisations,
- Potential credit union products and services and how they will be delivered,
- Detailed financial projections demonstrating viability and business growth assumptions,
- Availability of funding and other resources for the initial development and subsequent operational phase of the credit union,
- Organisation and management issues including board development and training needs,
- Marketing and promotional requirements,
- Potential risks to the project during the development phase, and
- Key activities to be undertaken in the form of a Development Phase Action Plan to make a new credit union a reality.

It is intended that this feasibility study forms the basis for the production of the business plan that would be required as part of any approach made to the Financial Services Authority.

1.5 Methodology

The feasibility study was conducted between August 2009 and October 2009. The methodology focused on a combined qualitative and quantitative approach using the analysis of relevant local and national research, strategies and statistical data, as well as consultation with a broad range of stakeholders in the borough.

The consultation element was undertaken during August 2009 and early September 2009. A comprehensive list of key stakeholders was devised in conjunction with the Octavia Foundation. Face to face meetings (and in a few cases, telephone discussions) were established with the following organisations:

- Advice Now
- Association of British Credit Unions Ltd,
- Campden Charities
- Dalgarno Neighbourhood Trust
- Family Mosaic,
- Financial Services Authority,
- H&F Credit Union,
- K&C Tenant Management Organisation
- Kensington and Chelsea CAB Service,
- Kensington and Chelsea Partnership,
- Kensington and Chelsea Social Council
- Kensington Housing Trust
- Notting Hill Housing
- Nucleus Legal Advice Centre
- Octavia Housing,
- Octavia Foundation,
- Peabody,
- Royal Borough of Kensington and Chelsea.
- Stadium Housing Association,
- Westway Development Trust, and
- World's End Neighbourhood Advice Centre

In addition, the feasibility study also took account of the latest research and guidance on credit unions and their development. This included desk-top research of successful models in other areas, together with latest recommendations from the credit union trade association, ABCUL (Association of British Credit Unions Ltd) and the proposed changes to credit union legislation, likely to come into effect in early 2010.

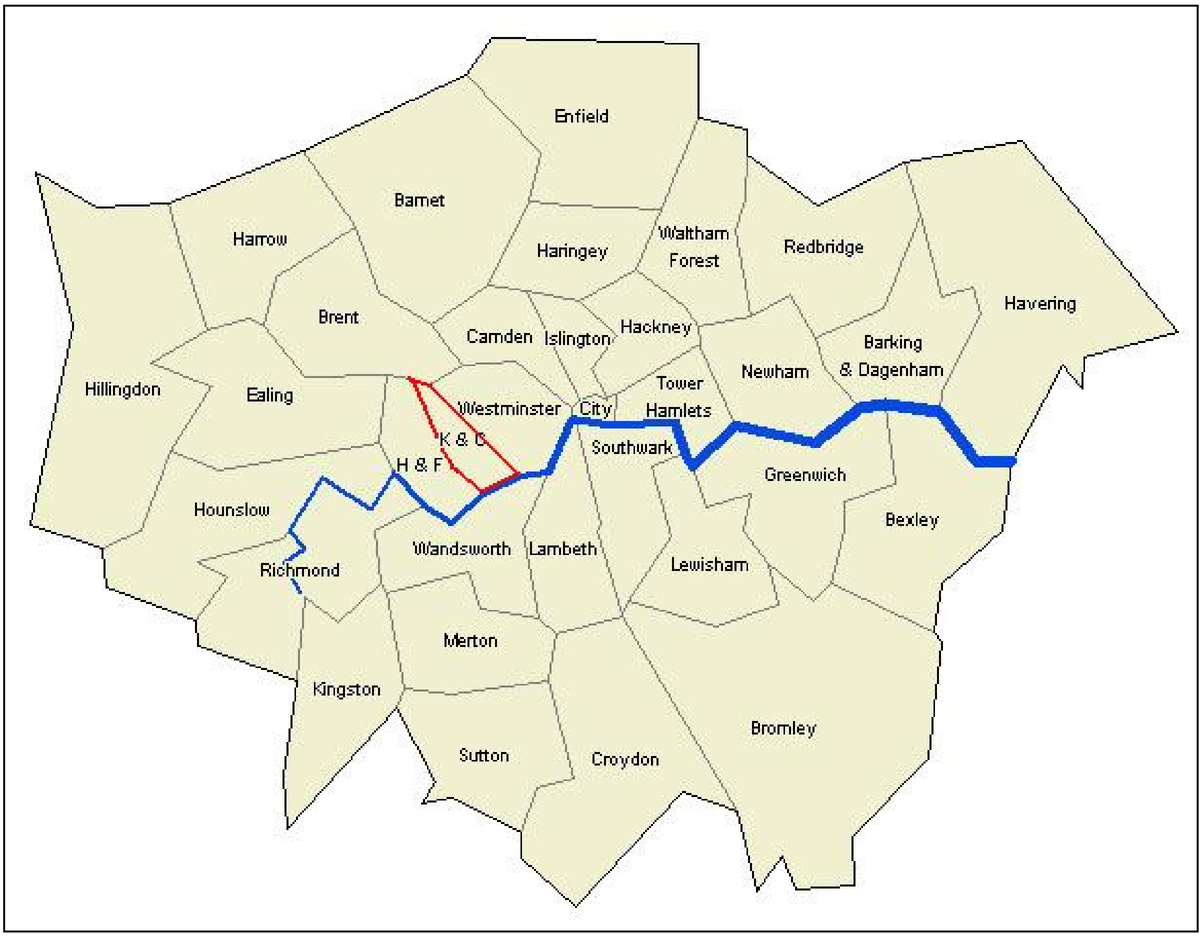
The latest financial modelling programme developed by ABCUL was also used to produce detailed financial projections.

2. Evidence of Need

2.1 Kensington and Chelsea

The City of Kensington and Chelsea is one of the 14 Inner London boroughs and is located on the north bank of the River Thames in central London. It is flanked by the four London boroughs of Brent, Westminster, Hammersmith and Fulham and Wandsworth.

Map of London Boroughs showing Kensington and Chelsea



Source: Government for Office London

It covers an area of just 4.7 square miles (12.13 km2) making it the second smallest borough in the country. It is an extremely long and narrow borough, extending from Kensal Green in the North to its southern boundary, which follows the north bank of the River Thames.

Kensington and Chelsea is now the 92nd most populated borough in the country with a population of approximately 180,000. It has a number of factors that make its population levels harder to measure, including high population turnover and poor census response rates.

Kensington and Chelsea Population Estimates (2008 Mid Year)

All ages Mid-2008	**Children** 0-15 years	**Working age** 16-64 years (Male) 16-59 years (Female)	**Older people** Over 65 years (Male) Over 60 years (Female)
180,300	**27,800**	**124,100**	**28,400**

Source: Office for National Statistics

2.2 Potential size of Kensington and Chelsea common bond

A credit union's 'common bond' defines the area of eligible membership. A '*live or work*', community-based credit union would result in the greater number of people having full access to the affordable financial services. Anyone who could demonstrate that they live, work (including volunteering) or study within Kensington and Chelsea would be eligible to become a member.

This would encompass a potential membership of at least **256,163** people, comprising of 180,300 people who live in Kensington and Chelsea and an additional 75,863 people who live outside Kensington and Chelsea but commute into the borough for work.

Estimated resident and employee population figures for Kensington and Chelsea

Area	**Total resident population (A)** **(Mid 2008 estimate)**	**Total no of employees (B)**	**Total no of employees (living outside area) (C)**	**Total (A+C)**
Kensington and Chelsea	**180,300**[1]	101,744	**75,863** [2]	**256,163**

The figures for the resident population are from estimates for 2008 via the Office for National Statistics (based on the 2001 Census). However, the figures for those working in Kensington and Chelsea are less accurate as there appear to be no revised estimates available. Therefore, these figures are from the Census 2001 figures contained within the Greater London Authorities' 'Commuting in London' Report published in February 2007.

The financial projections (see Section 10 – financial projections) assume a conservative penetration rate of approximately 1.7% (4,250 members) of the total potential common bond population within five years.

[1] Office for National Statistics – Mid Year Population Estimates 2008
[2] Commuting in London (2007) Greater London Authority

2.3 Characteristics of population

Age profile
Kensington and Chelsea population has a greater proportion of older people than Inner London as a whole, whereas it has a smaller proportion of children aged less than 16 years.

Mid-2008 Population Estimates: Age groups and gender for Kensington and Chelsea

Age ranges	All persons	Males	Females
Under 1 year	2,100	1,100	1,000
1 to 4	7,500	3,800	3,700
5 to 9	9,200	4,600	4,500
10 to 14	7,700	3,900	3,800
15 to 19	7,500	3,800	3,700
20 to 24	12,800	6,100	6,600
25 to 29	19,200	9,800	9,400
30 to 34	19,000	10,100	8,900
35 to 39	16,500	8,300	8,200
40 to 44	15,400	8,100	7,300
45 to 49	12,200	6,100	6,100
50 to 54	9,700	4,600	5,000
55 to 59	9,300	4,400	4,900
60 to 64	8,900	3,900	5,100
65 to 69	7,000	3,000	3,900
70 to 74	5,200	2,400	2,800
75 to 79	4,300	1,800	2,400
80 to 84	3,200	1,400	1,800
Over 85 years	3,700	1,400	2,200
TOTAL	**180,300**	**88,700**	**91,600**

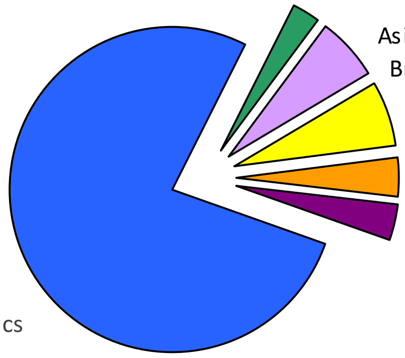
Source: Office for National Statistics; General Register Office for Scotland; Northern Ireland Statistics and Research Agency
(Note: Figures are rounded to the nearest hundred persons so some figures may not total up correctly.)

Ethnicity
Kensington and Chelsea has a diverse ethnic profile. Over half of Kensington and Chelsea's residents are White British, and a further quarter is White from outside the UK.

The borough also has high concentrations of Black African, White Irish, Indian and Black Caribbean.

The numbers of Chinese, Indian, Bangladeshi and Pakistani residents has increased since the 2001 census, while the proportion of Irish, other White background, Black Caribbean and Black African residents has declined slightly during the same period.

Proportion of Kensington and Chelsea population in each ethnic community in 2006



Source: Office for National Statistics (2006 Mid Year Population

Proportion of Kensington and Chelsea population in each ethnic community in 2006

Ethnicity	
White	
White British	50.3%
White Irish	2.6%
White other	24.0%
Subtotal	**76.9%**
Mixed	
White & Black Caribbean	0.8%
White & Black African	0.6%
White & Asian	1.2%
Mixed other	1.3%
Subtotal	**4.0%**
Asian or Asian British	
Indian	3.1%
Pakistani	1.1%
Bangladeshi	0.9%
Other Asian	1.4%
Subtotal	**6.6%**
Black or Black British	
Caribbean	2.1%
African	3.4%
Black other	0.6%
Subtotal	**6.2%**
Chinese or other ethnic group	
Chinese	2.8%
Other ethnic group	3.6%
Subtotal	**6.3%**

Source: Office for National Statistics (2006 mid-year population estimates)

The wards in the north of the borough have larger minority ethnic populations. For example, in Golborne and St Charles black and minority ethnic communities make up almost half of the total population.

Housing tenure
There are nearly 119,000 household in Kensington and Chelsea of which nearly one quarter are social housing sector properties.

Total number of households	**86,116**
Local authority	6,921
Registered social landlord	12,088
Other public sector	0
Private sector	67,032
Total social sector	**22%**
Total private sector	**78%**

Source: Housing Strategy Statistical Appendix 2007/08, DCLG

2.4 Polarisation of wealth and poverty

Although Kensington and Chelsea is often seen as a very wealthy borough containing some of the most affluent areas in the country such as Brompton, Chelsea, Kensington and Notting Hill, there are huge wealth disparities within the borough as it also includes some of the countries most deprived areas.

Kensington and Chelsea has areas of high deprivation, the Index of Multiple Deprivation (IMD) 2007 ranks Kensington and Chelsea as the 101st most deprived local authority out of 354 local authorities in England in terms of average deprivation (where one is most deprived and 354 is least deprived).

This is represents a deterioration in the boroughs overall ranking from 2004, when the IMD 2004 ranked Kensington and Chelsea as the 116th most deprived local authority. However, it should be remembered that this is a comparative ranking to other local authorities in England and therefore does not necessarily indicate actual deterioration.

In London, Kensington and Chelsea is ranked the 18th most deprived of the 33 London Boroughs.

Patterns of deprivation in Kensington and Chelsea
Analysis of data at electoral ward and small area level demonstrates wide variations within the Kensington and Chelsea with some of the most deprived areas in the country located alongside some of the most affluent.

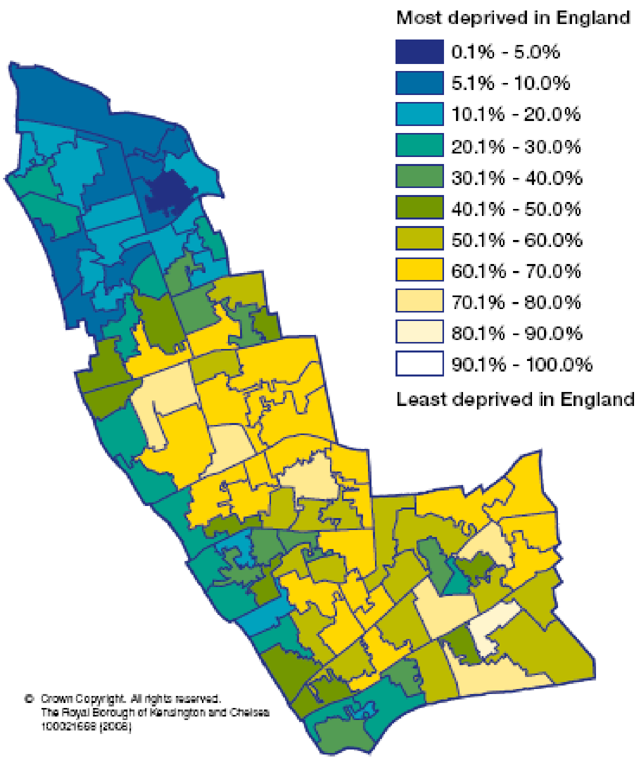
According to the Index of Multiple Deprivation 2007, 23 of the 103 Super Output Areas (SOAs) in Kensington and Chelsea are within the top 20 per cent most deprived in England – so that 22.3 per cent of the borough suffers from extreme disadvantage. Of these disadvantaged areas, 9 are amongst the top 10 per cent most deprived in the country (one of these ranks in the top 5 percent most deprived). This means that 8 of Kensington and Chelsea's 18 electoral wards had at least one SOA in the worst 20 per cent deprived in England.

Index of Multiple Deprivation 2007 – Kensington and Chelsea Super Output Areas which are in the top 10 and 20 per cent for deprivation in England

Ward	No of SOAs in Ward	No of SOAs in top 10% most deprived	No of SOAs in top 20% most deprived	Percentage of SOAs amongst the top 20% most deprived.
Golborne	6	5	1	100
St Charles	6	1	4	83
Notting Barns	6	2	3	83
Colville	5	-	3	60
Norland	6	1	-	17
Earl's court	6	-	1	17
Redcliffe	6	-	1	17
Cremorne	6	-	1	17

Source: Government Office for London - Index Of Multiple Deprivation Data Explorer 2007

Index of Multiple Deprivation 2007, national deprivation quintiles



Source: A Picture of Our Community – Facts and Figures about Kensington and Chelsea (the Kensington and Chelsea Partnership)

From the evidence above, deprivation is more intense in the North of the borough with the highest concentrations of extreme deprivation are located in Golborne, St Charles, Notting Barns and Colville wards, together with pockets of deprivation in Norland, Earl's court, Redcliffe and Cremorne wards.

Income deprivation
Levels of income deprivation are shown to be extremely high in parts of Kensington and Chelsea. In 2007, Kensington and Chelsea was ranked 95th out of the 354 local authorities in England for the proportion of its resident who are deemed to be living on low incomes (where household income is 60 per cent below the median - before housing costs). These figures show that an estimated 23,670 adults and children live in households that are considered to be income deprived.

Index of Multiple Deprivation 2007 – Kensington and Chelsea Super Output Areas which are in the top 10 and 20 per cent for Income deprivation in England
Source: Government Office for London - Index Of Multiple Deprivation Data Explorer 2007

Ward	No of SOAs in Ward	No of SOAs in top 10% most deprived	No of SOAs in top 20% most deprived	Percentage of SOAs amongst the top 20% most deprived.
Golborne	**6**	**4**	**2**	**100**
St Charles	**6**	**1**	**3**	**66**
Notting Barns	**6**	**3**	**1**	**66**
Cremorne	**6**	**1**	**1**	**33**
Colville	**5**	**-**	**1**	**20**
Norland	**6**	**1**	**-**	**17**

The most deprived SOAs for the Income deprivation domain of the IMD 2007 are found in the Golborne ward which has all its six SOAs in the top 20% most income deprived in the country. In addition, St Charles, Notting Barns, Cremorne, Colville and Norland wards have at least one of their SOAs in the top 20% most income deprived.

Levels of economically inactive residents
Rates of unemployment and physical incapacity amongst the working age population are relatively high in Kensington and Chelsea compared to the rest of the London and the country. Of the working population in Kensington and Chelsea, there are approximately 34,800 people who do not work (of whom 5,700 wish to find work).

Economic inactivity (Apr 2008-Mar 2009)

	Kensington and Chelsea (numbers)	Kensington and Chelsea (%)	London (%)	Great Britain (%)
Economically inactive	34,800	27.1	24.2	21.1
Wanting a job	5,700	4.5	6.6	5.6
Not wanting a job	29,000	22.6	17.7	15.5

Source: NOMIS Official Labour Market Statistics by the Office for National Statistics

With the current recession, the unemployment rate for Kensington and Chelsea continues to increase and is approximately 2.6 per cent. However, this only includes those out of work and actually claiming Job Seekers Allowance. This figure rises to 9.5 per cent or 11,820 residents when you include those claiming 'out of work' benefits.

Total JSA claimants (October 2009)

	Kensington and Chelsea (numbers)	Kensington and Chelsea (%)	London (%)
All people	3,563	2.9	4.5
Males	2,152	3.3	5.7
Females	1,411	2.4	3.2

Source: NOMIS Official Labour Market Statistics by the Office for National Statistics

The recession has seen the situation in Kensington and Chelsea continue to worsen with Jobseekers Allowance (JSA) claimants up nearly 68 per cent from 2,110 residnets in May 2008[3].

Working-age client group - key benefit claimants (May 2009)

	Kensington and Chelsea (numbers)	Kensington and Chelsea (%)	London (%)
Total claimants	**12,950**	**10.4**	**15.2**
Job seekers	3,190	2.6	4.0
ESA and incapacity benefits	6,140	4.9	6.1
Lone parents	1,860	1.5	2.8
Carers	540	0.4	0.8
Others on income related benefits	630	0.5	0.6
Disabled	480	0.4	0.7
Bereaved	120	0.1	0.2
Key out-of-work benefits†	**11,820**	**9.5**	**13.5**

Source: NOMIS Official Labour Market Statistics by the Office for National Statistics

*Key out-of-work benefits consist of the groups: job seekers, incapacity benefits, lone parents and others on income related benefits.

Kensington and Chelsea's social housing tenants are among the poorest with over 70% in receipt of housing benefit. Many households are entirely dependent upon benefits as their sole source of income.

[3] A Picture of Our Community – Facts and Figures about Kensington and Chelsea (the Kensington and Chelsea Partnership)

2.5 Need for affordable financial services in Kensington and Chelsea

Levels of financial exclusion in Kensington and Chelsea

There is now a large body of evidence linking financial exclusion to other forms of social exclusion and deprivation which affect the most deprived neighbourhoods including low income, unemployment, crime and poor levels of education and health. Lack of access to even basic financial services can undermine peoples' efforts to take jobs, secure reasonably priced credit and move out of poverty.

As shown above, Kensington and Chelsea has relatively high levels of deprivation located within specific areas of the borough and would give reason to suggest that the level of financial exclusion in these areas will be significantly higher than the national average.

Extensive research into the characteristics of financially excluded individuals enables a detailed profile to be formed of their attributes and likely location. Being on the margins of financial services depends mainly on social and economic factors of who you are and your financial circumstances[4].

The following groups are shown to be more likely to be financial excluded - lacking access to basic banking facilities, using high-cost credit and are most in need of face-to-face money advice[5]:

- **Living in socially rented accommodation:** People living in social housing are much more likely to be at, or on the margins of financial exclusion. Research shows that as many as 84 per cent of financially excluded people are likely to be living in either housing associations or local authority accommodation[6].
- **Being economically inactive:** Those who are out of work or unable to work through long-term illness or disability are far more likely to be financially excluded. Moreover, the longer the head of the household has been inactive, the greater the chance of that household being excluded from appropriate financial products[7].
- **Being in receipt of state benefits:** The vast majority of households in the UK with no access to affordable banking facilities are in receipt of some form of state support or benefit payment with;
- **Being a lone parent:** There is strong evidence that lone parents are over-represented in the population of the financially excluded relative to their proportion in the population as a whole. Approximately a fifth of households with no access to bank accounts are lone parents, roughly double the proportion of the population as a whole.

However, the single factor that most determines levels of financial exclusion is shown to be living within a low income household. This means that considering the level of income deprivation experienced within Kensington and Chelsea, the numbers of individuals experiencing financial exclusion could be around 23,670 residents.

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[4] Kempson, E and Whyley, C, (1999) - Kept Out or Opted Out: Understanding and Combating Financial Exclusion, Bristol Policy Press.

[5] HM Treasury (2004) - Promoting Financial Inclusion, HM Treasury, London.

[6] Newcombe R, Cox A, Neuburger J and Whitehead C, (2002) - Partnerships for financial inclusion: housing associations and financial institutions, Cambridge University.

[7] Kempson, E and Whyley, C, (1999) - Kept Out or Opted Out: Understanding and Combating Financial Exclusion, Bristol Policy Press.

There is a fundamental underlying relationship between financial exclusion and poverty. Those who are economically inactive, unemployed or on a low income are not an attractive customer group for the financial service sector. This is particularly true for access to small scale affordable borrowing and those on low-incomes are shown to be significantly more likely to experience such exclusion. More than half of all households in serious debt have incomes of less than £7,500 a year[8].

Household debt in Kensington and Chelsea

Total UK personal debt at the end of August 2009 stood at £1,457bn which means that every household owes on average of £9,180 (excluding mortgages) or 58,290 (including mortgages). The amount of interest paid by each household on their total debt is approximately £2,645 each year[9].

Debt has become an enormous problem that is set to worsen as more and more households are unable to service their outstanding debts as a result of the economic recession. According to the head of financial capability at the FSA, 'advice agencies have been swamped with a tidal wave of debt cases as a result of the credit crunch.'

Nationally, debt remains the biggest volume of enquires for the Citizens Advice Bureau services with 1.93 million new debt problems in 2008/09, an 11 per cent increase on 2007/08. The problem is deteriorating with debt enquiries shooting up 27 per cent in the three months to the end of June 2009 compared with the same period last year (with mortgage arrears issues up 44 per cent and fuel debts up 53 per cent).

CAB debt clients owe an average of £16,971 (two thirds more than in 2001), which is the equivalent of almost 18 times their total monthly household income[10].

Unfortunately, household debt affects those on the lowest incomes hardest with a fifth of working-age adults in the poorest fifth are in arrears with one or more of their bills, three times the rate for those on average incomes[11]. CAB debt clients also tend to be poorer than the population at large, with an average net annual household income under £12,500 - less than two-thirds the national average.

As with financial exclusion, low income, combined with irresponsible lending, unreasonable borrowing practices and badly informed financial decisions are at the root of many CAB clients' debt problems.

The scale of the national debt problem is also reflected in Kensington and Chelsea. Discussions with the advice agencies involved on the K&C Voluntary Advice Agencies Forum highlighted the strain currently being placed on resources from personal debt enquiries. Both the number of enquiries and the levels of indebtedness have been seen to be increasing across all advice agencies.

Nucleus Legal Advice Centre, which delivers advice services within Kensington dealt with over 2,500 enquiries in 2008/09, with 450 of these being debt related, representing 18 per cent of its overall enquiries that year. Levels of enquiries have remained relatively constant. Of these it has dealt with 215 specific debt cases of which the average debt is £4,631 (but varies from £58,000 and £200).

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[8] Kempson, E, (2002) - Over indebtedness in Britain, Department of Trade and Industry. London.

[9] Debt Facts and Figures, Credit Action, (October 2009).

[10] A life in debt: The profile of CAB debt clients in 2008 (February 2009),

[11] Family Resource Survey 2007/8

World's End Advice Centre (WENAC) provides services primarily to residents in the SW10 postcode and had 2,058 enquires through its surgeries and telephone advice in 2008/09. Debt was the second most common enquiry, representing 18 per cent of total cases seen by WENAC. Of these it 219 specialist cases were opened (36 per cent of all cases dealt with that year). Demand for debt advice has increased with 9% more debt enquiries and 7% more specialist cases during 2008/09 compared to the previous year.

Both providers noted that debt and money issues would be under represented as only the main enquiry is record and there is a widespread overlap between welfare benefit, housing and debt (for example, clients with housing benefit problems will also have rent arrears but will generally be listed under the welfare benefit category).

Information from Capitalise, London's debt advice partnership has shown Kensington and Chelsea has a high demand for debt advice and the urgency of debt issues. The combined number of debt enquires with both Capitalise and Kensington and Chelsea was over 4,097 clients in the year to March 2009. Worryingly client from the borough presented the third highest average level of debts at approximately £30,500 per person[12].

This means that collectively, over 6,500 Kensington and Chelsea residents presented themselves to one of the four main providers of debt advice in the borough.

The Voluntary Advice Agency Forum stated that there is huge need for a credit union in Kensington and Chelsea and that there would be large demand for its financial services from their individual clients. The major financial issues seen would be addressed by a credit union included;

- Difficulties opening bank accounts for clients due to poor credit ratings, lack of identification (particularly asylum seekers and migrants) and those made bankrupt Debt Relief Orders (DRO)
- Lack of affordable options for small scale loans – many advice clients are forced to sub-prime lender (identified anecdotal evidence of use of home credit companies by low-income clients)

[12] Capitalise (2009) - Up to our neck in it: The debt crisis in London and the impact on London's free face-to-face debt advice services.

3. Background of credit unions

3.1 What is a credit union?

Credit unions are ethical financial co-operatives that are owned and controlled by the people who use their services, their members. Any profits that are generated are given back to the members, after the costs of running the credit union have been covered, thus retaining wealth locally and helping support local economies, rather than private shareholders.

They offer a wide range of safe, affordable and straightforward financial services aimed at helping people take control of their money by encouraging people to save what they can, and borrow only what they can afford to repay. Members amalgamate their savings together; these savings then provide a pool of funds from which loans can be made. It rewards savers by offering them a return on their savings, known as an annual dividend (n.b. legislative changes will enable credit unions to provide interest on savings, as well as an annual dividend from early 2010).

Since 2002, credit unions have been regulated by the Financial Services Authority (FSA), regularly monitoring their prudent operations and checking those involved in running the organisation are ‘fit and proper’. It also means that they are covered by the Financial Services Compensation Scheme, so that all deposits are 100% protected should anything happen to the organisation, as well as the Financial Ombudsman Services, providing a formal body for dissatisfied customers of financial institutions to make a compliant.

Credit Unions are extremely successful worldwide, particularly in the Americas (43% of the population belong to a credit union), Canada (22%of the population) and Australia (26% of the population). Globally, 177 million members of 49,000 credit unions spread across 96 countries collectively own assets of over £1.8 trillion.

In the UK, credit unions are growing ever more popular. At 30th March 2009, credit unions in England, Scotland and Wales were providing services to over three quarters million people (652,000 adults with an additional 95,000 juvenile depositors), more than doubling since 2000 when there were just a total of 325,000 credit union members. Yet, this level of membership represents an overall penetration of less than 1% of the population. There are 477 registered credit unions, with saving assets at over £478 million and nearly £455 million out on loan[13].

The ongoing credit crunch and economic climate has exacerbated the retreat of mainstream financial institutions from delivering financial services to those individuals and communities deemed as being higher risk and unprofitable. This has resulted in an increasing number being priced out of the mainstream financial markets and denied access to affordable financial services, making it even more imperative for alternative solutions to be provided in their place.

Credit unions are increasingly acknowledged for the important and beneficial role they play in the provision of affordable financial services to all sections of society, particularly those marginalised from mainstream banking services. They offer huge potential for addressing the growing issues of rising financial exclusion, increasing household debt and poor personal financial management, as well as

[13] FSA Quarterly Credit Union Statistics - September 2008

helping retain wealth and prosperity within a local area and assisting with economic development and recession recovery.

3.2 Why a credit union solution rather than other models?

In considering the most appropriate delivery mechanism for delivering access to affordable financial services, there are two potential options. In addition to the credit union model, there is also Community Development Finance Initiatives (CDFI), sometimes referred to as Community Reinvestment Trusts.

Community Development Finance Initiative (CDFI)

A Community Development Partnership Initiative (CDFI) is a relatively recent mechanism that aims to lend and invest in areas that otherwise would be unable to access mainstream finance.

They supply finance and support to individuals and/or businesses in disadvantaged communities or under served markets. Often providing loans of last resort to small and medium seized enterprises that have a proposal, which is considered viable but where they have been unable to obtain a bank loan.

CDFIs seek financial as well as social returns on their investments and have a business model based on the recycling of funds. As loans are repaid, the funds are continually reinvestment with the interest generated being used to fund their operation.

CDFIs are not regulated by the Financial Services Authority and therefore operate in a less onerous regulatory environment than credit unions. They are not authorised deposit takers and therefore cannot accept savings from customers and are unable to use savings deposited to provide loans.

Potential advantages
• Provides a focused solution which has been tried and tested in other areas (mainly urban locations). • The regulatory framework is less onerous than that of a credit union (although the new legislative changes will address a number of these). • Establishes direct links to basic bank accounts – all loan repayments made through direct debit. • Targets individuals who specifically need small-scale instant access loans. • Often provides in-house debt advice. • Delivers financial services such as loans to businesses and social enterprises.

Potential disadvantages
• The CDFI model for personal lending is relatively new with most organisations at an early stage in their development trajectory. • Currently limited scale of the CDFI sector. The latest data available from the Community Development Finance Association (CDFA) shows loans to individuals from CDFIs amounted to about £3.6 million and around 8000 loans in total[14]. This is less than 1% of the social lending market for individuals (and much of this is from one or two CDFIs). In comparison, the lending activities of Southwark Credit Union alone, over the previous 12 months is greater than the total personal lending by the CDFI sector. • As CDFIs are reliant on loan capital investments from external providers, long-term sustainability may be an issue, as there is a need for public sector underwriting and continued re-capitalisation of loan funds. • Like credit unions, require development funds for start-up and for the initial operational years, but also need significant investment to provide sufficient loan capital. • As a result of this need to raise additional funding investment, they are open to economic constraints, such as those witnessed during the credit crunch. • Interest rates charged on loans can be considerably higher than alternative mechanisms such as credit unions but this is still significantly lower than alternative sub-prime borrowing options (such as doorstep lenders). For example, Scotcash, a CDFI in Glasgow, charges nearly 48% APR for their loans[15]. • There is no other banking services provided such as saving accounts, current accounts, insurance products, money transfer, mortgages etc. • To achieve the additional banking functionality, CDFIs often have to form 'Community Banking Partnerships' with other banks and credit unions • There is no existing CDFI operating in the areas or neighbouring areas to enable quick development.

The two main advantages of a CDFI in comparison to more 'traditional' credit unions have previously been promoted as their;

- ability to provide instant access loans to excluded individuals at the point of need, and
- the provision of loan services to businesses and social enterprises.

However, developments within the credit union movement and the proposed changes to the legislation affecting credit unions have enabled credit unions to overcome these issues and offer both of these functions.

The majority of established 'new model' credit unions have long since removed the need for members to save before they can access borrowing and instead provide capacity-based lending for members based on their ability to afford the repayments. This has enable credit unions to meet the needs of the most excluded people by offering instant access loan for new and existing members.

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[14] Inside Out 2008: The State of Community Development Finance. Community Development Finance Association.

[15] Scotcash website - http://www.scotcash.net/AffordableLoans/

The new legislative changes being implemented in early 2010 will see the FSA vary permissions for all credit unions and allow them to serve businesses and organisations (such as local authorities and other public agencies, registered social landlords and voluntary/community groups). This will enable credit unions to provide business banking services (not just business loans) as well as just personal banking services.

Feasibility Study Recommendation – ***The provision of affordable financial services within Kensington and Chelsea should be delivered by the establishment of a credit union service.***

This solution has the advantages of;
- delivering a complete affordable financial solution,
- providing the greatest opportunity for organisational sustainability and none reliance on grant funding,
- promoting a culture of financial management,
- providing accessibility to a range of products, including current accounts, saving accounts, insurance and potentially mortgages
- providing the option of building on the existing capacity of a credit union operating locally,
- offering a range of funding sources available for credit unions, and
- presenting the opportunity for financial services to businesses and organisations in the borough.

3.3 Ingredients for a successful credit union

In order to assist credit unions to develop into financial institutions that are sustainable, able to serve a large membership and offer a wider range of services, a number of key 'ingredients for success' have been identified. Research conducted by both Liverpool John Moore's University entitled 'Towards Sustainable Credit Union Development'[16] and Joseph Rowntree Foundation's 'Building better credit unions'[17] have identified a number of factors that any successful credit union must have all, or nearly all, of the following elements in place:

- **A geographical common bond** that is large and diverse, to deliver the required economies of scale and attractive savers as well as borrowers that will make it truly inclusive and ultimately sustainable. The current trend towards widening of common bonds should be actively encouraged, especially where this facilitates a diversification of membership mix by credit unions. Development based on a cross section of the population, including affluent sections of society, offers a more viable long-term model.

  It is highlighted that widening of common bonds should be accompanied by greater use of credit scoring for loan purposes, given that direct knowledge of members will be diluted and bad debt might otherwise increase without credit scoring.

- **A comprehensive business plan** which targets growth, professional service to members and sustainability within five years. It is important that the business plan projections regarding

[16] Towards sustainable credit union development: A research report, by Paul A Jones, (1998) Liverpool John Moores University.
[17] Building better credit unions by Peter Goth, Donal McKillop and Charles Ferguson, (2006) Joseph Rowntree Foundation.

sustainability are realistic and materialise. It should also look to offer a good return on members' funds to attract sufficient number of members, provide appropriate products and services, operate efficiently and demonstrate financial discipline.

- **Effective leadership and governance** by a competent and committed volunteer management board and sub-committees, which has a strong sense of strategic purpose, and having the skills, experience and vision to develop the credit union and help it grow. The training of directors can go a significant way to improving the performance of the board and ultimately the credit union. The research also stresses the importance of the employment from the outset of a professional management team to effectively run the credit union.

  Credit unions with appropriately skilled and motivated manager/management teams, and appropriately skilled and motivated boards of directors, significantly outperformed other credit unions.

- **Support and sponsorship** from local partners to promote the credit union and give it credibility within the community. There is a need for ownership and high-level input from the local authorities, primary care trust, social landlords and other relevant public agencies.

- **An effective marketing and promotion programme** capable of attracting sufficient interest and ultimately members during its initial years of operation.

- **Sufficient funding or in-kind support** from the outset to provide the credit union with:
  - Development start-up funds for project management, training, marketing literature, applying to the Financial Services Authority, etc,
  - Premises, conveniently and centrally located to main customer profiles and refurbishment costs to deliver a high quality branch within the community,
  - Trained professional staff team and volunteers to operate the credit union.
  - Operational funding to underpin operating costs for up to five years until the credit union becomes economically self-financing.

These 'sustainable model' or 'fast growth' credit unions have increasingly been replicated over recent years and are shown to be succeeding in delivering significant social and economic impact.

3.4 Benefits of a credit union in Kensington and Chelsea

The development of a strong, well-resourced and sustainable credit union would bring the following benefits to local individuals and the wider community:

Benefits to individuals:

- **Better access to affordable financial services** for those increasingly excluded from mainstream financial services. Credit unions provide services to all the community, no matter what an individual's circumstances or income levels, providing competitive rates of interest on savings and loans to all households.

  Financially excluded households pay between £800 and £1,000 extra each **year** through higher cost of borrowing, higher bills, additional charges, lack of access to cheaper deals etc.

- **Develops an ethos of saving amongst members.** Saving money with a credit union is simple with members saving as much or as little as they like and as and when they can. They also help low-income families develop a savings 'safety net' so are less likely to be dependant on the state when circumstances change or an emergency occurs..

  For example; H&F Credit Union members have achieved average saving levels of £329 per member in its first year.

- **Access to responsibly-lent affordable loans.** Credit unions offer instant access to small to medium sized loans at competitive interest rates. They are flexible, can be paid back early without penalties and incur no arrangement fees or penalties. Currently, it is extremely difficult to find a mainstream bank providing loan facilities below a couple of thousand pounds. Millions of individuals, especially those on low income or who are unemployed, often only need a small loans up to £500 to meet a pressing need.

	Interest and fee costs of borrowing £500, repaid over 52 weeks.
Provident door-step loan (272.2%APR)[18]	£410
Credit union loan (maximum 26.7% APR)	£67
Total saving to individual	**£343**

- **Reducing the usage of high cost sub-prime credit**. For those unable to access credit from banks and building societies, there is no choice but to borrow from lenders who charge much higher interest rates. Licensed companies such as home credit companies (for example the Provident and Castles), high street money shops (such as the Money Shop and Oakam), payday loan providers, pawn-brokers and higher purchase shops, **who charge anything between 164% APR and 1,200% APR.** For an increasing number, the lenders of last resort are the illegal 'loan sharks' who charge unthinkable levels of interest and employ unscrupulous repayment tactics.
- **Self-help solution that empowers through improved financial literacy and money management skills** via direct interaction with the credit union - opportunity to save and borrow at affordable rates.
- **Introducing financial understanding at an early age.** Most credit unions have saving schemes for children and young people, providing experience of budgeting, saving and handling cash. This will not only help **prevent money problems later in life but will hopefully break the intergenerational exclusion from financial services**.

[18] Calculated using the Provident's Loan Calculator for a new customer taking a £500 cash loan over 52 weeks (13/10/09).

Benefits to the borough and its economy:

- **Stimulating the economic prosperity of Kensington and Chelsea and help mitigate the impact of the recession.** At a time of market restrictions on the availability of personal and business credit, **a new credit union would see over £5.3 million flow into the economy** through the provision of loans over the first five years.
- **Retention of economic wealth within the local economy.** Currently, millions of pounds each year leaks out of the borough's economy through excessive interest rates. Providing affordable borrowing solutions for local residents and businesses will retain funds that would otherwise be lost.

  For every £100,000 lent by a credit union at the maximum 26.7% APR, instead of the average interest rate charged by a home credit company of 177%APR, approximately £51,500 would be retained within Kensington and Chelsea. On the financial projections within the Feasibility Study, this would see around two thirds of all loans or approximately £3.5million expected to be loaned to financial excluded individuals over the first five years, **keeping an estimated £1.8 million within the community**.

  In addition, the credit union will return profits back to the pockets of its members in the form of an annual dividend. Almost **£110,000 will be given back to local people** in the first five years, a high proportion of which will be spent with local businesses.
- **Improving the financial health of the borough** through reductions of personal debt and improvements to household financial management and financial capability.
- **Removes barriers to work that will help reduce worklessness in borough.** Providing accounts for those who find can not access mainstream banking, allowing direct benefit payments but importantly salaries to be accepted, a common obstacle preventing employment.
- **Helps combat the growing problem of exclusion from mainstream banking services**, particularly amongst the most disadvantaged families and communities in the borough. It will give equality of access to financial services to all residents.
- **Supporting other existing and proposed financial inclusion, economic development and regeneration strategies** to ensure maximum synergy, added value and a longer-term impact on deprived neighbourhoods.
- **Reduction in health issues associated with poverty and financial stress**.
- **Helping reverse the trend of post office closures in deprived areas.**

Benefits to local stakeholders in Kensington and Chelsea:

Royal Borough of Kensington and Chelsea:

As well as the huge potential benefits for both local residents, the wider community and the economy, the proposed credit union can also deliver numerous benefits for the local authority itself:

The credit union can be a pivotal element of the Council's efforts to move the borough out of recession. It would compliment existing work and offer a solution to an important issue that is currently not being addressed by the programme.

A local facility that encourages residents to save for their future. It will help reduce the potential strain on local services and resources and also enable the borough to take advantage of the new Savings Gateway programme being implemented in 2010.

Help improve key goals of improving social mobility, community engagement and enhance customer satisfaction thus contributing toward future audit assessments.

Offers an ethical and innovative method to bring the diverse communities together using the great affluence within Kensington and Chelsea to support those who are less well off.

Offers Council employees access to affordable and ethical loans and safe savings and can be promoted as a staff benefit. Local authorities employ a large and diverse workforce with huge disparities of pay. The credit union would make it easier for all employees to save and repay loans directly from salary bringing widespread benefits for both employees and the Council as an employer.

At a time of reducing Council revenue streams and incomes, a new credit union can help increase Council Tax payments. Many people on low incomes find their situation entrenched as they pay more for basic services because, for example, they don't have bank account and can not pay by direct debit. The credit union can offer current accounts enabling members to pay council tax and rent electronically.

Provides an effective method for administering the Local Housing Allowance. Residents living in private rented accommodation now receive their housing benefit directly rather than their landlord creating a catalogue of potential issues particularly for those with poor financial management and for unbanked residents.

Case studies:
Across the country there is a huge array of local authorities leading the development of credit unions and providing funding and support:

- **Kent County Council** has granted more than £350,000 of revenue funding to establish a county-wide credit union, as part of the council's strategy of 'backing Kent People' during the economic downturn.

- **Camden Council** enabled the establishment of Camden Plus Credit Union with funding of over £410,000 through its Commissioning Programme to increase the availability of affordable financial services for its most disadvantaged residents.

- **Islington Council** has recently provided an interest free loan of over £250,000 and associated revenue costs to Islington & City Credit Union. This will be used for loan capital as part of the council's 'Recession Busting' initiatives.

- As part of its overwhelming support for the development of the new credit union, **Hackney Council** provided over £200,000 funding and a range of in-kind support including high street premises in central Mare Street and enabling staff to volunteer within the organisation.

Kensington and Chelsea's social housing sector:

Social housing tenants are among the most financially excluded, with as many as 84 per cent of those marginalized thought to be living in either housing association or local authority accommodation[19]. As a result, all registered social landlords, be they housing association or local ALMOs can realise substantial benefits through investment in credit unions:

Organisational benefits: Because of the established link between financial exclusion and social housing tenants, an ever increasing emphasis is being placed on social landlords to demonstrate financial inclusion efforts.

Financial inclusion activities such as partnering with credit unions are expected to become an ever more important element of future audit inspections as the 'key line of enquiry' on housing management continues to be concerned not only with rent and service charge recovery but also the quality of service and the access, customer care and service user focus it offers. The Audit Commission is promoting the need for housing providers to rethink strategy and practices when dealing with rent arrears that not only emphasises enforcement but also preventative measures to avoid residents getting into financial problems in the first place.

Social benefits: A compelling reason to address financial inclusion through increasing access to credit unions is a social one. As demonstrated above, credit unions can make a significant contribution to the wellbeing of residents and the communities in which they live. Tackling financial exclusion in its local communities should be viewed as a natural extension of an RSLs community development work, helping fulfil its ultimate objective of helping build and sustain healthy neighbourhoods that people want to live and stay in.

Business benefits: A further reason is that by improving their tenant's finances, social landlords can realise a number of business benefits through the reduction and prevention of rent arrears. Research shows that financially included residents are more likely to be stable and are more likely to pay their rents. The Audit Commission report "Housing Association Rent Income", published in May 2003, identified that those landlords who provide financial inclusion measures were able to demonstrate significant success in preventing and controlling arrears[20].

At any one time, around 500,000 (25 per cent) of social housing residents are behind with their rent[21], resulting in loss of income, reduced cash flow, the write-off of former tenant arrears and the extra costs of eviction, court costs and additional staffing from dealing with arrears and repossession actions, repairing and securing voids, and re-letting properties.

Case studies:
There are a host of examples of housing associations benefiting from strategic partnerships with their local credit unions, here are two examples:

[19] Newcombe R, Cox A, Neuburger J and Whitehead C, (2002) - Partnerships for financial inclusion: housing associations and financial institutions, Cambridge University.

[20] Audit Commission (2003) - Housing Association Rent Income: Rent Collection and Arrears Management by Housing Associations in England.

[21] Community Finance Solutions (2006) – Community Access to Money: Social Housing Landlords Reaping the Benefit.

Bristol Community Housing Association (BCH), in partnership with Purdown Credit Union funded a popular budgeting advice, home insurance and loan service for its tenants. Proactive and innovative marketing has led to 30% of Purdown Credit Union members being BCH tenants and the association winning the Guardian Public Service Award in 2006.

Notting Hill Housing has continued to invest in a range of financial inclusion measures, including high level support of H&F Credit Union. Their legal actions against tenants declined dramatically and have found that more financially stable tenants required fewer management interventions and cost less to administer.

Businesses and employers in Kensington and Chelsea:
By being involved and supporting the proposed credit union local organisations can:

Tackle financial exclusion and creating new markets and consumers. The estimated 24,000 financially excluded residents in the borough are potential consumers currently unable to access mainstream products and services.

Encourage local innovation and best practice. A Kensington and Chelsea Credit Union can benefit from a company's advice on how to provide efficient and effective methods of operation.

Improve business performance. Legal and General research shows that companies with an active Corporate Social Responsibility Programme (CSR) outperformed the FTSE 350 on total shareholder return by between 3.3% and 7.7% between 2002 and 2007. The more a company measures its environmental and social impacts, the less volatile its stock price.

Offer new staff benefits. The credit union would help good employers ensure that their employees can access responsible and affordable credit, savings and insurance products. Financially stable employees are more likely to retain their jobs, improve their skills through training and experience less stress-related ill health. This is one of the main ways local companies across the UK support their local credit union.

Case studies:

- **Notting Hill Housing** administers a payroll savings scheme through H&F Credit Union for its staff. Regular savings are deducted at source and deposited with the credit union. In its first year over 325 of its 700 staff across the organisation joined and began saving with HFCU, creating greater financial well-being and stability among its workforce and supporting the newly established credit union.

- **Legal & General** has supported Sussex Credit Unions to create an innovative marketing campaign which promotes saving amongst local residents. Graham Precey, CSR Manager at Legal and General says "As a responsible business, Legal & General is committed to making a positive difference, especially in the communities where we have offices and where our employees live and work."

4. Options for developing a credit union service in Kensington and Chelsea

Currently, each credit union has its own 'common bond' that determines who can join it. The common bond may be for people living or working in the same area, people working for the same employer or people who belong to the same association, such as a church or trade union.

From April 2010, credit unions will no longer need to prove that all potential members have something in common (the common bond). This means that a credit union will be able to provide services to different groups of people within the same credit union. There will be a cap set on the size of their potential membership at 2 million people.

This will enable credit unions to expand their operations and cover neighbouring geographical areas, which do not have a natural connection with their existing geographical area of operations, a process that would not have been previously possible.

These legislative changes provide two options for developing access to credit union services in Kensington and Chelsea:

- **Option 1 -** Develop a brand new credit union that specifically services Kensington and Chelsea.
- **Option 2 -** Extend the geographical operations of an established neighbouring credit union to cover Kensington and Chelsea.

Option 1 - Develop a brand new credit union that specifically services Kensington and Chelsea

There would be a number of advantages and disadvantages of establishing an entirely new credit union for the borough:

Advantages	Disadvantages
A longer development period could create greater local awareness and involvement in the short term (particularly through the need to undertake a 'pledge drive').	The development phase would be significantly longer – with a lead time of anything between two and three years.
Potentially greater ownership of the new credit union.	The start-up development costs would be significantly higher, as it would take much longer to establish and cost savings.
	Smaller geographical areas, present greater challenges to becoming sustainable through reduced economies of scale.
	The FSA application process for authorisation and registration of new credit unions are

	extremely complex and not guaranteed.
	The FSA would take between four and six months to assess and provide a decision.
	Increased risk associated with developing a brand-new credit union, reducing short and long-term financial viability
	The new credit union would need to develop its organisational structure, five year business plan and policy and procedures manual – to meet FSA requirements.
	Required to undertake a resource intensive pledge drive – as part of development phase.
	Many more local volunteers would have to be recruited and comprehensively trained to form the 'shadow board' that would manage and govern the new organisation.

Option 2 - Extend the geographical operations of an established neighbouring credit union to cover Kensington and Chelsea

There would be a number of advantages and disadvantages of extending the operations of a neighbouring credit union to enable credit union coverage in Kensington and Chelsea:

Advantages	Disadvantages
Significantly shorter set-up period enabling services to be delivered in Kensington and Chelsea much quicker.	A suitable and committed neighbouring credit union would need to be identified, be willing to expand and have the necessary capacity.
More cost-effective method of development, with huge costs savings being invested within the credit union.	It would need to be a relatively healthy credit union and have similar aspirations for a professional credit union.
Less risk of either not successfully achieving development phase milestones or not receiving FSA go-ahead.	Potential for the identified credit union to pull out at any stage – leaving Kensington and Chelsea back at the beginning.
Larger common bond provides greater economies of scale for larger pool of membership and therefore financial viability.	A larger credit union could potentially loose the 'localness' offered by a smaller credit union – making it more difficult to recruit volunteers, maintain partners and sign-up members.
Prevents duplication of ongoing operational costs – auditing, website, IT software, marketing, etc.	

Provides existing resources from the expanding credit union – membership levels, existing income, savings assets, loan portfolio and 'back-off' premises.	
Already established Board of Directors with knowledge and experience of operations – less new Director recruitment and training required.	
Established credit union brings widespread skills and experience of delivering credit union services and products.	
Existing internal policies and procedures can be reviewed and adopted.	
Mirrors current trends in the credit union movement towards larger inclusive common bonds, and is the model recommended in various other research reports	

Feasibility Study Recommendation – As outlined above developing a brand-new credit union from scratch presents a huge number of limitations and difficulties. ***Any decision to develop a credit union in Kensington and Chelsea should concentrate on exploring and implementing Option 2 – 'Extending the geographical operations of an established neighbouring credit union to cover Kensington and Chelsea'***, as this offers a substantially quicker, cheaper, and less risky route to credit union development.

This approach has been strongly supported during the consultation exercise by a significant number of stakeholders. It also reflects current best practice within the credit union sector.

As a result, the feasibility study focuses solely on this chosen option, including which credit union would be interested and most suited to extending their operation into Kensington and Chelsea.

What would the process be for expanding the geographical operations of an established neighbouring credit union?

As part of the Feasibility Study, discussions have taken place with Abbie Shelton (Policy and Communications Manager) at ABCUL and Roger Marshall (Head of Credit Unions Team) at the FSA to identify the proposed process and requirements of the new legislation.

It appears the timetable for the new legislation will be as follows (please note – the dates are not currently fixed):

October 2009	Financial Services Authority consultation expected
April 2010	New legislation and regulation comes into force

To take advantage of the changes, credit unions will need to change their rules, which can only be achieved through the agreement of its membership at either an Annual General Meeting (AGM) or Special General Meeting (SGM). From the information provided it looks like credit unions will only be able to change their rules after the new laws and FSA rules have come into force in April 2010. The FSA will not accept applications for rule changes before this date.

Therefore, unless the guidance changes, any application to the FSA will need to take place following a Special General Meeting and this can only take place once the new legislation has come into force.

The actual application for the extension will need to demonstrate and satisfy two specific elements:

- **The ability for all potential members to fully participate in the running of credit union and access all services.** A successful application will need to demonstrate that everyone will have the opportunity and be able to vote in, hold office in and access services in the expanded credit union.

- **That the extension to service delivery is financial viable.** A comprehensive business case for the extended services will need to be presented in a business plan to the FSA. It should demonstrate the key business assumptions, financial projections and where any shortfall in development and operational funding is to be obtained from.

Which credit union would be interested and most suited to extending their operation into Kensington and Chelsea?

Although, the new legislation would enable any credit union to extend service into Kensington and Chelsea, the initial investigation has concentrated on the extension of neighbouring credit unions because of the need to demonstrate potential member involvement and access.

Kensington and Chelsea has four neighbouring boroughs but at present, there are no borough-wide credit unions in Westminster, Brent or Wandsworth. As a result, the following credit unions have been considered;

Lambeth Savings & Credit Union has indicated that they are concentrating on growing its services within Lambeth and are not considering expansion at the present time.

Camden Plus Credit Union has been established for three years and covers Camden and the Kilburn area of Brent. It has grown steadily and is looking to focus its efforts on growth within Camden and ongoing discussions about expansion into the whole of Brent.

Southwark Credit Union is extremely well established and offers financial stability. However, it has already outlined its expansions plans into its neighbouring boroughs (including Westminster) and wholesale coverage of tenants from a number of large housing associations. This would take it to within the upper limit of common bond size and presents issues of capacity for development

H&F Credit Union is a relatively new credit union, having only been operational for 12 months but despite its age, is already a well respected credit union and held as a development model of 'good practice'. It has been considering expansion into Kensington and Chelsea.

H&F Credit Union – Key Headlines
Despite H&F Credit Union only been open for under a year, it has already achieved a successful track record of delivering affordable financial services, establishing itself as a model of good practice within the sector for the development of new credit unions. As a result it has important experience and capacity for expanding its infrastructure and services.
It has made a huge impact within the local community attracting over 950 new members in its first 11 months of operations (over 85 new members each month).
Attracted over £315,000 of savings (an average of over £325 per member) and offered a 1.5% dividend.
Has a current loan book worth over £80,000 having loaned over £140,000 during the past 12 months, successfully managing nearly £60,000 of capital and interest repayments.
It has established successful credit control process that have seen it maintain an extremely low level of bad debt at just 1.3% for loans in 13 weeks arrears.
Its delivery model operates a fully functional, professional and modern high street branch in Fulham (that is visited by other credit unions and representatives) and a network of information point across the borough. It also provides a website that offers fully transactional online banking services.
Comprehensive financial products including a diverse range of saving accounts, loan products (including instant access) and a number of insurance products.
Established and implemented comprehensive policies, procedures, systems and controls.
Appointed an experienced staff team and a highly skilled and committed management structure with wealth of experienced Directors.
Secured payroll deductions facilities with several leading companies in the borough, including Hammersmith & Fulham Council, Notting Hill Housing, H&F Homes and Coca Cola.
Established and implemented comprehensive policies, procedures, systems and controls.
Created partnerships with the CAB and Illegal Money lending team to support members with financial difficulties.
Achieved significant positive media coverage at national, regional and local level.
Great track record of local partnership building and securing resources from stakeholders, including recent grant funding from North Fulham NDC for £105,000 and Hammersmith & Fulham Council for £30,000.

Feasibility Study Recommendation – After considering the various credit unions and examining the strengths and weaknesses of the main options, it is considered that; ***H&F Credit Union represents the most appropriate and effective option for expansion of its services into Kensington and Chelsea and should be pursued for development.***

In addition to its organisational strengths and financial stability as outlined above, it represents the most suitable option because it also has:

- the operational capacity and scope it brings to successfully and quickly expand its services into the borough and develop effective local partnerships,
- a delivery model that costs more during the formative years (primarily through extra costs associated with renting high street premises in Kensington and Chelsea and extra staff) but would provide a more comprehensive and locally facing service for local residents and workers.

- a model that would result in significantly larger and faster organisational growth allowing substantially more local residents to benefit from the service and greater immediate impact on the local economy both important factors to help Kensington and Chelsea mitigate the effects of the current economic downturn.
- a long geographical boundary with Kensington and Chelsea that provides huge operational advantages for residents, particularly in the South of the borough to access existing services at their Fulham branch.

As part of the feasibility study, subsequent positive meetings have taken place with Cheryl Gale (CU Manager) and key members of the HFCU Board of Directors to discuss the credit union's current position and the possibilities for service extension into Kensington and Chelsea.

Potential size of common bond for combined credit union (Kensington and Chelsea and Hammersmith and Fulham)

Area	Total resident population[22] (Mid 2008 estimate)	Total no of employees[23]	Total no of employees (living outside area)[24]	Total size of common bond
Kensington and Chelsea	**180,300**	101,744	**75,863**	**256,163**
Hammersmith and Fulham	**172,200**	100,118	**73,434**	**245,634**
TOTAL	**352,500**	201,862	**149,297**	**501,797**

If combined with H&F Credit Union's existing common bond this would produce a potential membership of just over half a million, which is well within the FSA's proposed new upper limit of 2 million.

[22] Office for National Statistics – Mid Year Population Estimates 2008
[23] Commuting in London (2007) Greater London Authority
[24] Commuting in London (2007) Greater London Authority

5. Local consultation and evidence of support

Overall, the feasibility study has unearthed a high level of support from a wide range of organisations for the creation of a credit union service that covers Kensington and Chelsea.

Interviews with 20 key stakeholders in the borough have evidenced significant support and potential involvement for the credit union's development. It has also helped commence the essential process of identifying and securing the required resources for its start-up (development phase), initial operations (operational phase) and also building its membership through various marketing opportunities once launched. The key challenge is to turn this initial interest into a practical programme of support and sponsorship.

The results of the consultation exercise are summarised in the main tables below.

Summary of consultation with local stakeholders

Stakeholder	Key points	Potential involvement	Suggested elements of any new credit union
1. Royal Borough of Kensington and Chelsea Council (Economic Development) **- Roxy Hotten** Employment Initiatives Co-ordinator	• Council are supportive of the concept of access to affordable financial services and see development of a credit union as a good idea for long-term need of K&C. • Development of CU was recently brought up at LSP meeting – Council keen to explore potential so Roxy charged with finding out more (FS very timely) • Fits with Council recession work - to help Kensington and Chelsea overcome impacts of economic recession • Key areas and large estates (Edward Woods estate and Henry Dickens estate) would benefit significantly. • Provided details of Community Strategy and 'A Picture of Our Community'	• Would look to be a strategic partner and be involved. • Keen to have representation on any steering group during development stage. • Potential for funding but resources would be via LSP – fits criteria very well. Performance Reward Grant funding would be key option (contact Rachel Smith). • Commercial property could potentially be identified. • Community promotion and marketing opportunity (newsletter article, libraries, community centre, officer training etc) but would need to be considered and agreed. • Would consider becoming an 'Employer Sponsors' – payroll deduction and promotion to staff.	• Supportive of approach to expand services of existing credit union. • Branch location – under Westway or Ladbroke Grove (suggested contacting WDT – as home for Portobello Business Centre and CAB). • Important that it is a partnership approach involving all stakeholders
2. Royal Borough of Kensington and Chelsea Council (Housing Department) **- Jane Trethewey** Housing Manager	• RBKC has over 9,000 council properties (of which approximately 6,000 are rented). • Housing Dept has little direct service delivery or tenant links (K&C TMO contracted to deliver services). • Council has already undertaken research on credit unions – Ian Cann (now at KHT). Demonstrated need and support. • Credit union would be an important part of response to recession and tackling problems in most deprived areas - St Charles, Golborne, Colville – north Kensington - Worlds End, Cremorne, Earl's Court – south Kensington • Important to have clear understanding of the business model, how RBKC can be involved, risks assessment and what the key benefits would be.	• Housing department is very supportive. • Support to access other RSLs within the borough and encourage support. • K&C TMO should be supportive and involved	• Should not be set-up from scratch and would prefer to see extension of existing CU. • Requires 'buy-in' from Councillors – suggested member briefing.

Stakeholder	Key points	Potential involvement	Suggested elements of any new credit union
3. Royal Borough of Kensington and Chelsea (Voluntary Sector) **- Deborah Wallworth** Voluntary Sector Manager	• Voluntary Sector Team provide grants (advice agencies £1million per year) but reduced funds for 2010 but not for advice. • Support to voluntary community organisations via funding of KCSC for capacity building. • Developing a credit union in K&C has been discussed for a number of years but limited progress. • In K&C 'affluence masks poverty'. • Evidence of need from CAB - increasing debt levels. • Very support of development and great need for access to affordable financial services, particularly opportunity to borrow at rates people can afford – targeted at the most need (north of borough greatest need but also Earl's Court/Worlds End. • New Mayors charity – 'K&C Focus' around increasing corporate social responsibility (Jeremy Raphaely).	• Limited funding from Voluntary Sector Team. • LSP could provide resources towards development and operations (Rachel Smith) • Key link to advice agencies – can facilitate this. • Promote across Voluntary Sector at annual conference each November. • Opportunity for K&C staff to volunteer and join.	• Very supportive of expanding an existing credit union makes the most sense. • H&F would be a good option as joint-working between the two boroughs and service users regularly cross the long boundary. • Must have good links with advice agencies (including older people support) and community centres. • Train front-line Council staff • Important to spread the word. • Branch needs to be accessible – Golborne Rd.
4. Kensington and Chelsea Partnership **Rachel Smith** - Support Manager	• KCP brings together the key stakeholders in Kensington and Chelsea with the key strategic framework being the 'Communities Strategy' – eight key themes. Of particular relevance for the credit union are: - Community, Equality and Inclusivity - Achieving Potential - Work and Business • Credit unions came up as a potential project at LSP meeting raised by voluntary sector and have commenced researching if appropriate. • Identified as potential project for Performance Reward Grant – hoping to come on line between Jan/April 2010. • KCP see CU as supporting current financial climate – practical solution, particularly as public sector investment is shrinking so want to fund sustainable projects that provide financial improvements to residents, business potential and local community benefit.	• KCP extremely supportive and potential of being strategic partner following results of the Feasibility Study. • Potential to contribute to a number of key KCP priorities. • Representation on Steering Group • Keen to have presentation at KCP meeting to outline the findings of feasibility study on 27/10/09. • Potential large scale funding from PRG for operational funding – could be time limited to first few years. • Development funding is possible from Council – but longer application process.	• Link to other key programmes in Kensington and Chelsea.

Stakeholder	Key points	Potential involvement	Suggested elements of any new credit union
5. Westway Development Trust **- Sarah Mitchell** Community Projects Manager	• WDT is a social business which owns the land under the Westway. • Commercially rent premises and runs leisure facilities – the profits are invested within the local community. • Delivers community projects such as sports outreach, arts, education team (school and adult learning) and capacity building for community groups. • Delivers a small community grant (between £1-2K). • Delivers small level of financial literacy through adult education programme. • Credit union is needed – grants to individuals have identified issues with payment into bank accounts.	• WDT is extremely supportive of the development of the credit union. • Sarah keen to participate on any Steering Group. • Could potentially identify its premises as branch for rental. • Would promote service in local area (flyers/posters/community groups etc). • Potential outreach service in area. • Access to small grants programme may be possible. • WDT has 100 staff and would be keen to be an 'Employer Sponsor'. • Great local knowledge and keen to help development.	• Target at parents – real need amongst this client group. • Should only focus on expanding existing services – not developing a new credit union. • Crucial to have local facing service that has local branch (Westway could provide premises – Ladbroke Grove/Portobello Road/Golborne Road). • Easy to understand literature. • Branding will be important – should look to test branding on local focus groups
6. Kensington and Chelsea Social Council **- Mary Gardiner** Chief Executive	• KCSC funded to build capacity of community sector. • Both KCSC and CAB highlighted credit union as priority for LSP at 'recession dash board' after being impressed by HFCU – put it on the agenda. • Extremely supportive of credit union – huge need and demand in borough. • Ideal time for development of a credit union – support from LSP and funds via Performance Reward Grant (£2.3M over next 2 years). • As well as credit union helping with access to banking service and reduce debt - could also address key issues of Child Poverty / lack of community engagement / developing local philanthropy/social capital.	• Willing to sit on Steering Group. • Promote widely to local voluntary sector through newsletter, email, staff advocacy and forums. • Local contacts and knowledge in local community. • Support funding approaches to LSP as it is a vital service.	• Key to ensure support for CU development from Council (Graham Hart – Head of Econ Dev/ Tony Redpath – Head of Strategy and Policy and Derek Myers – Chief Executive) • PCT potentially an important partner and meets their health inequalities and poverty reduction goals (Melanie Smith – Directors of Public Heath). • Link with advice agencies. • Follow example of HFCU – very impressed by their model. • Potential support from Campden Charities (Chris Stannard – Clerk to Trustees). • Would be important to tailor services to BME communities.. • Branch location should be Golborne Road or Westway Development Trust.

Stakeholder	Key points	Potential involvement	Suggested elements of any new credit union
7. Campden Charities **- Jan Gates** Pension Officer **- Mandy Ala** Grants Officer	• Campden Charities is a grant giving trust providing support to individuals and families in north Kensington to become financially independent. • Provides individual grant to the following: - Education Grants for Young People or People of working age (on benefit or low-income) - 830 grants in 2008 - Retired people Grants (for those experiencing hardship) 300 grants in 2008. • Main point of access is self-referral but do offer rewards for community organisations who direct applicants (e.g. Nucleus). • Major financial problems faced by clients – huge issue of debt and problems of high cost sub-prime loans (many clients have Provident loans). Also lack of budgeting skills. • While a credit union is seen as a good idea – would be difficult to support an organisation providing loans due to goals (could be convinced once operational).	• Would not provide direct grant funding – as mainly for individuals. • Large potential due to CU clients to identify potential applicants and make referrals - £1K per successful referral. • If demonstrate success could become a partner organisation and develop a longer-term funding partnership. • Would like to be kept informed of progress.	
8. Kensington and Chelsea Tenant Management Organisation **- Wendy Stevenson** Income Manager	• KCTMO manages the Council properties – 6,500 tenanted and 3,000 leasehold. • Recent restructure of organisation (Income Team responsible for rent arrears) • Large deprivation levels and need in parts of K&C – Kensal New Town Estate, Silchester Estate, Lancaster West Estate (51% receive Housing Benefits) and Worlds End (60% receive HB). • Debt – especially rent arrears is an issue – currently 3% rent arrears across organisation • Anecdotal evidence of increasing HB claimants and tenants being made redundant. • Supportive of financial support for tenant – already funding Staying Put for an debt advice worker post for tenant rent arrears/income max advice referrals prior to court eviction process. (n.b other debt passed to Capitalise). • Want to develop a Financial Inclusion Strategy (Business Improvement Team)	• KCTMO very interest in development of a credit union • Would have representation on Steering Group. • Widespread promotion to tenants using various channels. • No commercial premises opportunities. • Would be approachable to become 'Employer Sponsor' – 160 staff • Has two office that could be used to promote and potential for outreach sessions	• Accessible for all residents across the borough.

Stakeholder	Key points	Potential involvement	Suggested elements of any new credit union
9. Kensington Housing Trust **- Ian Cann** Community Investment Manager	• KHT part of Catalyst Housing and has 2,600 properties (90% in K&C but few in H&F and Westminster). • Main concentrations in Golborne Road (580) and north Kensington. • Two thirds tenants on Housing Benefit • New Community Investment Team provides community development, resident involvement and youth work – aim to improve quality of life and increase opportunity. • Financial exclusion a key corporate priority – as tenants are struggling to get by and rent arrears increasing (business and social benefit for KHT). Hope to develop a financial inclusion strategy. • Very supportive of a development of a credit union - poor access to banking services is a key issue	• Wants to be a key partner as very supportive. • Representative on steering group. • Community Fund available for development and operational funding. • Staff volunteering opportunity. • Possibility of Employer sponsorship for KHT and Catalyst Housing (including staff saving scheme). • New redevelopment project – commercial property in Golborne Road. • Training for Housing Officers. • Volunteer placements for KHT tenants. • Widespread promotion.	• Very impressed by H&F Credit Union – went to visit when worked for Council (extremely professional and good branding/image) • Local access very important. • Should concentrate on core operations – become viable business. • Needs a professional image/brand. • Incorporate financial literacy and training (if possible). • High Muslim population – so specific financial products (15% of KHT homes are Arabic). • Caribbean and Irish population large – so ready made audience. • Location of branch would be good in Golborne Rd but un certain if economically viable. Maybe Portobello Rd. • Needs to be a multi-agency approach.
10. Stadium Housing Association **- Damon Venning** Head of Income Management **- Caroline Sugrue** Performance and Financial Inclusion Coordinator	• SHA has approx 6250 properties across London but Kensington and Chelsea not a key borough with only 150 properties. • Financial Inclusion is a key priority, looking to implement a strategy over the next year with credit union development key. • Huge need to access to affordable financial services for its tenants • Key is tackling increasing rent arrears (13% tenants with more than 8 weeks rent arrears). • Already established a debt advice service to manage tenant's money.	• Very supportive of development of a credit union for Kensington and Chelsea. • Currently limited access for their tenants (key boroughs all have no CU) – so very interested in new changes to legislation for tenants and staff. • Keen to be involved and support development in possible way – representation on any Steering Group. • Funding is limited but open to approach for small scale development and operational funding. • Widespread promotion to its tenants.	• Thought that expanding a neighbouring credit union was the most sensible solution. • Ensure all tenants can access the service and benefit.

Stakeholder	Key points	Potential involvement	Suggested elements of any new credit union
11. Dalgarno Neighbourhood Trust **- Vicki Laville-Davies** Director	• Charitable trust aimed at improving the quality of life in the Dalgarno neighbourhood in north Kensington. Exit vehicle for SRB programme. • Delivers a range of community activities including; community capacity building, youth programme, adult learning, art and health projects. • Does not deliver financial advice but is a location for roaming advice service. • Dalgarno is ex deprived (top 20%) and 96% social housing – NHH, William Sutton, Peabody, Kensington HT, Octavia Housing. • Key issues: - Lack of employment (high benefit dependency) - Poor educational achievement - Polarised community (poor cohesion) -Financial issues (access and debt) • Real need for access to loans for low income families and high levels of debt (living beyond means) and lack of financial understanding. • Need for CU is potentially very high and fits with organisation priorities	• Very supportive of the development and would be on steering group. • DNT is a trusted community partner and could host an outreach service. • Would help promote service locally. • Recruitment of volunteers from local community. • 3 active TRAs – good network opportunity. • Neighbourhood Alliance on Dalgarno estate would support (Emma Taylor – Manager)	• Difficult to know where to locate main branch – no real shop parades in local area. Would suggest Portobello Road as good location. • PayPoint access very import for the area – as no other access. • Online internet banking would be popular. • Saving accounts for Xmas. Back to school and education. • Very important to partner with voluntary / community sector.
12. Family Mosaic **- Mirca Morera** Community Investment Manager	• Family Mosaic has over 15,000 properties across London and the South-East. It has just over 450 properties in Kensington and Chelsea. • It has developed a Financial Inclusion Strategy in 2009 and includes; in-house welfare advice and debt advice (Money Advice Plus). Credit union development is key part. Huge need/demand from their tenants for financial access to account and low-cost loans. Access to sub-prime lenders anecdotal evidence (don't discuss) • Already working with Southwark Credit Union and want to develop more partnerships.	• Extremely supportive of CU development in Kensington and Chelsea. • Would publicise across its local tenants in Kensington and Chelsea. • Open to approach for investment through its Community Foundation but not key concentration of tenants (so would need to be proportional to benefit).	• Essential partnership work with local community groups and TRAs • Very important to have local authority support and ownership. • Link credit union to housing benefit department. • Link with advice providers so that multi-referrals occur – 'create a one-stop-shop for advice in the borough.' • Basic bank account becoming essential.

Stakeholder	Key points	Potential involvement	Suggested elements of any new credit union
13. Octavia Housing **- Graham Hindes** Chief Executive	• Octavia Housing has over 4000 properties mainly in North West London with Kensington and Chelsea one of its primary concentration of tenants; Westminster (1,375), Kensington and Chelsea (948), Hammersmith and Fulham (278) and Brent (235). • It delivers mainly general needs housing but also supported housing and continues to build new development (600 planned) and shared ownership. • Of it tenants, over 1/3 are working but on low incomes, 63% live in the most deprived wards, 64% have an income of less that £200 per week. • Financial Inclusion is a primary focus, delivering a range of activities through Octavia Foundation (see consultation notes). • Has identified access to affordable financial services as a key problem and is keen to support development of credit unions in both Kensington and Chelsea and Westminster – provided funding for the Feasibility Study. • Need and demand from social housing tenants in Kensington and Chelsea is huge – key to tackling lack of access to accounts and saving as well as low-cost loans. • Extremely high levels of social and economic deprivation in North Kensington area	• Already provided £8,000 (through Octavia Foundation) to undertake Feasibility Study – demonstrating commitment to development of credit union services and hopefully encouraging other partners to be involved. • Willing to become lead partner to manage and host development phase – if acceptable to other partners to push forward development. • Subject to Feasibility findings, additional funding could be provided to ensure CU is developed and successful. • Proactive promotion through all communication channels available. • Potential for offering 'Employer Sponsorship' to its 275 staff and exploring staff saving schemes. • Open to identifying commercial property – but currently limited number.	• Critical to engage Kensington and Chelsea Council and gain their support and involvement. • Most cost-effective method is to look to expand an existing CU as takes too long and more straightforward.
14. Peabody **- Michelle Thurlston** Support and Social Inclusion Manager	• Peabody is one of the largest HAs in London and has over 20,000 properties with limited concentration of properties in Kensington and Chelsea with just over 450. • Recently established a Financial Inclusion Team – as identified as a key problem for tenants and the business case for FI. Developing a range of activities and appointed new Financial Inclusion Manager – Leigh Andrews. • Formally established need amongst tenants for access to Credit Union services and supporting credit unions is key element of FIS – already supporting HFCU and Southwark. Want to establish formal partnership with CU in key locations.	• Wish to be involved with development phase – representation from Michelle. • Limited opportunity for grant funding but could be approached. More potential for in-kind support. • Promotion and advertisement to tenants through range of channels. • Link with welfare benefit team. • Training for frontline staff so have a better understanding and can refer. • Links with volunteering department for staff and tenants. • Use of satellite offices for outreach and also has commercial premises.	• Basic bank account is essential to provide banking services. • Central branch office but important to have outreach services within the community. • Tailor marketing to highlight cost of borrowing through sub-prime lenders.

Stakeholder	Key points	Potential involvement	Suggested elements of any new credit union
15. CHAS Central London **- Stuart Freeman** Director of Advice Services	• CHAS delivers law centre advice service – housing, debt and welfare benefits as well as training/policy work and tenant involvement. • Employing 13 staff and works in all London boroughs and 9 surrounding counties. • 7,500 clients per year (approx 1/5 from Kensington and Chelsea). Delivers 10 surgeries per week (some in Kensington and Chelsea), telephone service and specific contracts with RSLs, LAs and ALMOs providing case by case advice. • Financial issues is now a key problems amongst HA tenants – rent arrears and general debt. • Real need for banking facilities for low income and people in financial difficulties. Main issue is still difficulties in opening accounts, particularly DROs and Bankruptcies. • Continuous evidence of door step lending (seen 900%APR) and increasing property owners resorting to sub-prime lending. • Other issues; burden of debts (financial stress), misplaced financial priorities and lack of understanding. • Credit unions in Kensington and Chelsea a key solution – need for provision and 'enormous opportunity'.	• CHAS supportive of development of a credit union. • Link with debt advice provisioning and sign-posting/referrals for clients. • Potential promotion to clients (need to be careful in providing advice). • Training for staff to understand role and benefit of credit unions.	• Need involvement from Kensington and Chelsea Council to ensure success. • Link with RSLs to promote to their client – key customer base. • Accessibility. • Link with debt advice providers. • Follow professional model of CU like Hammersmith and Fulham. • Realistic business projections to ensure achieve number of client etc.

Stakeholder	Key points	Potential involvement	Suggested elements of any new credit union
16. Octavia Foundation **- Reena Mukherji** Director	• Founded 3 years ago, Octavia Foundation works in central and west London to improve the quality of life of individuals and local communities and delivers a range of programmes including; older people, young people and children, employment and training, financial inclusion and community involvement. • Financial inclusion is a key priority due to scale of tenants suffering financial difficulties - activities include: - Welfare Benefits Advice and Advocacy - Debt Advice and rent arrears work - Verification of Housing Benefit - Grants for tenants in need and training/education - Loans for furniture in unfurnished tenancies - Communal heating and electricity buy-back schemes - Employability schemes • Debt advice project has doubled in size since 2007. • Key tenants issue is lack of access to mainstream financial products such as bank accounts and low cost loans creating real costs on households and communities. Usage of sub-prime lenders, particularly home credit has been identified on estates. • Keen to enable Credit Union access for Octavia tenants – as key solution to these problems. Massive need and potential demand for the services in K&C.	• Octavia Foundation has provided initial grant funding of £8,000 to produce the Feasibility Study for Kensington and Chelsea (and Westminster) in order to facilitate development of a credit union and demonstrate its commitment. It wishes the document and any subsequent development to be a partnership approach and not 'Octavia owned'. • Subject to outcomes and recommendations of the Feasibility Study, would provide additional funding for development and operational costs – as part of a partnership. • Willing to be lead partner (subject to other partner agreement) and offer in kind support during development phase for management and hosting (e.g. office space etc). • Involvement of Foundation staff for support with implementing fundraising strategy. • Use of Foundation shops for promotion. • Range of additional support offered by Octavia Housing (promotion, 'Employer Sponsorship' etc – see Octavia Housing consultation)	• Essential not to 'reinvent the wheel' and therefore extension of an existing credit union is key method of development. • Octavia Foundation has visited H&F Credit Union and was very impressed by professional and comprehensive services and products that were delivered and would want a Kensington and Chelsea services to follow similar principles. • Branding and delivery would need to be local to encourage take-up – branding should reflect autonomy. • Involvement of the range of partners to ensure success – particularly Kensington and Chelsea Council and key RSLs in borough. • Needs to be sufficiently resourced to enable quick growth and impact.

Stakeholder	Key points	Potential involvement	Suggested elements of any new credit union
17. K&C Voluntary Advice Agencies Forum **- Jane Gray** Manager – Worlds End Neighbourhood Advice Centre **- Charles Barber** Chief Executive – K&C CAB **- Baljit Badesha** Manager – Nucleus Legal Advice Centre **- Harry Tedstone** Co-ordinator – Advice Now	• Developing a credit unions for K&C has been raised by advice agencies in early 2009 but discussions have become more serious recently – raised at K&C Partnership. • Huge need for credit union – because: - Difficulties of advice clients gaining access to affordable financial services - Anecdotal evidence of home credit (e.g. Provident) usage/activities. - Credit Crunch has driven even more people to sub-prime lending. • Advice agencies seen number accessing debt advice and the level of debt dramatically increase. • Access to bank accounts always an issue but particularly for asylum seekers/migrants and those made bankrupt. • North of the borough suffers much greater deprivation and pockets in South. • Housing Advice Department – commissions advice provision (via Staying Put and Nucleus) for its clients (key link for new CU)	• Very supportive as very much needed. • Advisors training to understand benefits to clients and how to refer – potential for staff to open accounts (but cant provide financial advice). • Key partnership – establish quality signposting for those needing debt advice. • Representation on Steering Group by Shirley. • Promotion to clients (e.g. flyer through housing benefit department – Robert Armstrong)	• Westway is main location for a visible branch. • Available/accessible to all – support to open accounts for those with poor ID. • Accessible methods for deposits and withdrawals. • Supportive of extension of existing service but branding must be local to Kensington and Chelsea (must be accessible to local people and brand should reflect).

5.1 The importance of local partnership and support

Research by Liverpool John Moores University[25] has shown the importance of 'sustainable model' credit unions having a wide range of local sponsors if it is to be vibrant, locally supported and sustainable. Local stakeholders from the public, private and voluntary sectors should play a wide range of roles in supporting the creation and management of the credit union.

5.2 Local community ownership and support

A key challenge for the new credit union service in Kensington and Chelsea would be to ensure that all elements of the community are represented during its development and then further representation from the borough is embedded within the management structures (Board of Directors, Credit Committee and Supervisory Committee) and that its services are relevant to everyone's needs.

A key element of the development phase would be to ensure appropriate representatives (including those with key skills and experience) are identified.

5.3 Local employers

'Employer Sponsorship' – establishing payroll deduction schemes
In order to have a viable business plan, the new credit union service needs to attract sufficient members during its formative years. The simplest way to achieve this is to set-up payroll deduction savings schemes with a number of local employers.

During the feasibility study, a range of potential employer sponsors have been identified. All have indicated their interest to explore becoming an 'Employer Sponsor'.

Employer	Estimated staff levels
Royal Borough of Kensington and Chelsea	4,000
Octavia Housing	275
Westway Development Trust	100
Kensington Housing Trust	50
K&C Tenant Management Organisation	160
Total	**4,585**

There are a huge range of additional local employers located in Kensington and Chelsea, particularly within the private sector that would be approached during the development phase to encourage payroll deduction support.

[25] Towards sustainable credit union development: A research report , by Paul A Jones, (1998) Liverpool John Moores University

5.4 Linking up with the housing sector

A key driver behind the concept of creating a credit union in the borough has been the social housing sector. There are over 25 social housing providers with over 20,000 properties in Kensington and Chelsea.

Social housing provider	Approx units in Kensington and Chelsea
Kensington and Chelsea TMO	**9,760**
Notting Hill Housing Trust	**3,387**
Kensington Housing Trust	**2,057**
Octavia Housing	**948**
WSHA Limited	832
Peabody Trust	**459**
Family Mosaic Housing	**464**
Women's Pioneer Housing Limited	437
The Guinness Trust	381
Servite Houses	338
Southern Housing Group Limited	299
L&Q Threshold Homes Limited	270
Stadium Housing Association Limited	**148**
Thames Valley Charitable Housing Association Ltd	136
Shepherds Bush Housing Association Limited	79
Sanctuary Housing Association	44
Metropolitan Housing Trust Limited	38
Housing 21	36
English Churches Housing Group	24
Orbit Housing Association	21
Paddington Churches Housing Association Limited	20
Places for People Homes Limited	15
Circle Thirty Three Housing Trust Limited	11
A2Dominion London Limited	5
Livability Housing	5
Total	**20,214**

Source: Housing Corporation website

Recent research, "Community Access to Money: Social Housing Landlords Reaping the Benefit" recommends that partnership support for the development and importantly ongoing operations of credit unions, including the commitment of funding and other resources is a cost effective way for housing associations to ensure access for its residents to affordable savings and loans without the need to formally establish its own financial services[26].

Several of the main social housing providers in Kensington and Chelsea (highlighted in bold) have been contacted as part of the feasibility study. These have already expressed their keen interest and support for developing a credit union as well as indicating that they would explore the commitment of resources towards both the development phase and operational phase.

All these social housing providers have indicated that they would be willing to:

- have representation any steering group during the development phase,
- consider becoming a strategic partner and provide funding for the development phase and initial operational years to cover running cost, and
- proactively promote the credit union to its residents in order to maximise uptake.

5.5 Potential stakeholder involvement and support

The benefits that a credit union service will bring for Kensington and Chelsea are outlined in Section 3 and include a range of potential benefits for local stakeholder. In order to maximise these benefits, there are a number of opportunities for local stakeholder involvement and support:

- Endorsement of final Feasibility Study and commitment to supporting the development of credit union for Kensington and Chelsea.
- Formally becoming a partner during the development phase by having representation on the steering group that oversee the development work.
- Provision of grant funding towards the start-up costs required to deliver the development phase that ensures the credit union is launched.
- Provision of grant funding towards the operational costs required to resource the delivery of the credit union during the initial years before it becomes self-sufficient.
- Identification of potential commercial premises for location for branch office.
- Usage of community facilities/premises for the delivery of outreach service points,
- Provision of experienced staff to support the development and growth of the credit union, including those with;
  - financial, accounting and auditing skills,
  - property and property development skills,
  - project management and fundraising skills,
  - legal skills,

[26] Community Access to Money: Housing associations leading on financial inclusion, Randall, B, Paterson, B, Dayson, K (2005)

  - communication and marketing skills, and
  - customer service skills
- Proactive marketing of the credit union services to maximise take-up amongst clients such as:
  - Regular articles on the credit union service in newsletters and magazines,
  - news articles and links on your website (and intranet),
  - inclusion of literature within direct mail outs to clients (such as rent/council tax statements, arrears letters, tenancy packs, letters etc),
  - email distribution to local partners, groups and individuals,
  - Distribution of posters and leaflets across your various work locations (such as offices, reception areas, estate notice boards etc), and
  - Credit union attendance at your community events and conferences,
- Provision of training for front line staff on credit unions and their potential benefits to clients.
- Become an 'Employer Sponsor' allowing the promotion of the credit union to staff and the provision of financial service for staff through payroll deduction (as a staff benefit).
- From April 2010, organisations such as local authorities, public agencies and RSLs will be able to deposit surplus cash with the credit union, enabling greater loan capital funds for the benefit of the local area but organisations will also receive financial return on deposits.

In return, the credit union will be able to provide regular delivery of detailed monitoring information on numbers and characteristics (such as household income, ethnicity, receipt of state benefits etc) clients benefiting from the credit union service (this includes details on residents of specific RSLs).

6. Governance and corporate structure

6.1 Development phase management structure

To ensure the effective management of the development phase, it is recommended that a focused steering group is created as the key driver of the development work. Its membership will need to be quickly established by recruiting representation from the following:

- H&F Credit Union – CU Manager and key Board Directors.
- Key stakeholders already identified during the Feasibility Study (see section 5):
- Other potential stakeholder selected from within Kensington and Chelsea.

Terms of reference will need to be established for the steering group. The group will oversee the development phase ensuring work is undertaken and delivered to timescale.

Octavia Foundation has offered to be the lead organisation providing management support to the steering group and hosting meetings.

6.2 Project Development Manager/Consultant

In order to successfully implement the development phase action plan that will enable FSA approval and the subsequent launch of a credit union service in Kensington and Chelsea, a dedicated worker will need to be employed.

This could be provided through either the formal employment of a development manager or the commissioning of a development consultant. Looking at the experience of other credit union developments, the majority opt for external consultants and is the recommended route for the steering group to following.

This has the advantage of;

- Selecting a consultant who has a wealth of experience of specifically establishing credit unions removes the need for on the 'job learning',
- Offering an immediate commencement to the development work,
- Being able to select a consultant from a pool of suitable consultants,
- Only paying for work that is actually undertaken (i.e. no annual leave or sickness entitlement),
- Removing the legal issues of employment for the lead organisation,
- Offering a more flexible method for a short-term appointment.

Octavia Foundation has already offered to both line manage and host the project development consultant. Work to identify a suitable consultant should begin immediately. This will enable a swift commencement to the development work once the revenue funds for the development phase have been secured.

A detailed Service Level Agreement will need to be established with the chosen consultant.

Appendix 1 – Draft work description for Project Development Consultant

6.3 New organisational structure and its implementation

One of the major benefits of extending rather than creating a brand-new credit union is that the main organisational structure is already in place and is already extremely experienced. This removes the need to recruit, train and approve up to twenty new volunteer Directors.

Instead, once the FSA approves the expansion, a number of representatives from Kensington and Chelsea will join the new Board to ensure the needs and interests of the borough are met. It also provides the opportunity for HFCU to undertake a skills analysis of its current Directors so that any skill gaps can be identified and addressed from the new representatives.

Each new Kensington and Chelsea representative will need to undertake the following:

Director training

Credit unions rely on volunteer Directors for its governance, therefore, training is required to ensure that the credit union complies with FSA requirements to ensure those individuals have the necessary skills and knowledge.

All Directors should be made aware of the accountability of their office and that the quality of the Board seriously affects the health and viability of the credit union. Ultimately, if a credit union does not have effective leadership, it will not survive.

Delivery of training will acknowledge the scale of responsibilities and the need for people to grow into tasks and responsibilities. It is likely that the FSA will consider/require all new Directors to undertake (or demonstrate that they plan to undertake) ABCUL's 'The Director's Introduction to Credit Unions' and 'Setting and Implementing Anti Money Laundering Policy' training as part of the 'Approved Persons' regulation (see below).

A personalised programme of additional training should then be devised for each new Director depending on their current knowledge and the role they will be undertaking.

FSA Approved Persons

All staff and volunteers who undertake a 'controlled function' (as determined by the FSA) will be required to make an application (FSA Form A) to become an 'Approved Person' before they can become actively involved in the management of the credit union.

Approved Person status will be achieved before a person is allowed to take up any of the following positions:

- Member of the Board of Directors
- Member of Credit Committee
- Member of Supervisory Committee
- Money Laundering Reporting Officer
- Senior CU Manager

Therefore, each new Director will be required to submit their FSA Form A immediately upon taking post and will not be able to commence active work until approval is provided.

6.4 Management Structure

The present management structures of H&F Credit Union will continue to manage its operations until it receives the go-ahead from the FSA to expand its operations. At this point, the new corporate structure can be implemented and the proposed new Directors co-opted onto the new management structure.

The new credit union's proposed governance structures will comprise of:

- Board of Directors (maximum 15 persons),
- Credit Committee (minimum of 1 person),
- Supervisory Committee (minimum 3 persons),
- Local borough subgroups (for both Kensington and Chelsea and Hammersmith and Fulham),
- Staff team

The only change to HFCU's existing management structure is the establishment of local borough subgroups. It is recommended that this new tier is created to ensure:

- Local partnership development and maintenance with key stakeholders,
- ensure local delivery is effective and successfully meets the specific needs of the local area,
- specific marketing and promotional opportunities in the local area are highlighted and maximised, and
- feedback opportunities and ideas for local and overall development are available.

It is recommended that these steering groups have clear terms of reference, formally meet on a quarterly basis and that a minimum of two Board Directors have representation so that communications are maintained. During the formative months, it is recommended that the Kensington and Chelsea subgroup meet more frequently to ensure the expansion within the borough is successful.

6.5 New staffing structure in Kensington and Chelsea

The staffing structure in Kensington and Chelsea has been developed based upon the expected level of available resources and to meet the expected development and growth of the credit union service. Discussions have been held with HFCU to determine any specific staffing expectations for the new service delivery.

It is recommended that the credit union start operations with four additional members of staff for delivery in Kensington and Chelsea, a Branch Manager, a Branch Cashier, a Loan Administrators and a Marketing & Outreach Co-ordinator.

The Branch Manager position would be advertised at £23,000 per annum and would be responsible for the overall operations of the credit union service in Kensington and Chelsea with their key tasks as follows:

- Day to day supervision of the Branch Cashiers,
- Overall management responsibilities for the Kensington and Chelsea branch,
- Ensuring Kensington and Chelsea operations are effectively delivered,
- Ensuring systems and controls are in place and operating correctly, and

- Delegated authority as a local 'Loans Officer'.

The Branch Cashiers would be advertised at £16,000 per annum and would be responsible for the day-to-day delivery of credit union services from the new branch office:
- Dealing with enquiries from members of the public,
- Dealing with members transactions and ensuring records are updated, and
- Undertaking bank reconciliation and daily financial accounting.

The Loan Administrator position would also be advertised at £16,000 per annum and would be responsible for implementing the loan process and credit control function within Kensington and Chelsea including;
- Promotion of loan products,
- Delegated authority as a local 'Loans Officer',
- Administration, processing and distribution of loan applications in line with current loan policy and procedures, and
- Undertaking the credit control function and implementing debt recover activities.

The Marketing & Outreach Co-ordinator will be advertised at £23,000 per annum and will ensure that take-up amongst local residents and workers is maximised and membership targets are met, including Kensington and Chelsea at the main office and would included:
- Implementation on Marketing Strategy to promote the credit union externally though various channels,
- Establishing local partnership arrangements,
- Co-ordinating the delivery of network of service points, and
- Ensuring internal promotion to members.

Detailed Job Description and Person Specification will be developed by the Steering Group during the development phase.

All posts should be advertised at suitable times that coincide or be slightly in advance of the FSA's approval so that inductions and training can begin in preparation for the launch of full operations. They should be recruited and employed directly by H&F Credit Union using their existing human resource policies and procedures.

7. Financial products and services

The feasibility study has explored the potential services and products that would be delivered by the new credit union service. The expansion of H&F Credit Union would provide a comprehensive range of financial products and services, reflecting the diverse needs of the local area.

7.1 Products and services offer

The new credit union service will provide a holistic service for anyone living or working in Kensington and Chelsea and would specifically deliver the following services from launch:

Saving accounts:

The credit union will offer a range of savings facilities, which will help it meet member's needs.

Main Saving Account - This account is the equivalent of the standard credit union 'share' account that all individuals receive upon becoming a member of the credit union. It enables members to

- save as little or as much they can afford;
- automatically receive free life insurance on their savings;
- incur no hidden charges or fees on any transactions, and
- receive a return on their savings through an annual dividend (HFCU offered a 1.5% dividend in its first year).

Christmas Saving Account and Holiday Saving Account - these accounts will enable members to save towards specific events such as Christmas or Holidays.

Young Saver Account - this specifically designed savings facility will be available to children and young people aged under 16 years old who either live or go to school in the area.

Child Trust Fund Account – members will be able to open a CTF account with the credit union and regularly deposit further savings.

Loans:

The new credit union service will deliver loan products from the start of the operations within Kensington and Chelsea. All loans are responsibly lent, using 'capacity based' processes that assess an applicant's income and expenditure to ensure they can afford the loan they are proposing. In addition, loans are only available for provident or productive purposes.

With all the credit union loan products there are no arrangement fees or penalties for early repayment and are automatically covered by Loan Protection insurance, paid for by the credit union.

Saver Loans (Share based lending) - One of the primary aims credit unions are to encourage members to develop the habit of saving. This loan product enables those members who have savings with the credit union to use these as collateral against the money they wish to borrow.

For example, a member might save £300 so that they can borrow £900. Whilst the member is repaying the £900 loan, their £300 savings cannot be accessed.

Loan Type	Loan Amount	APR(%)
Saver Loan	£50 - £1,000	18.9%
Saver Loan	£1,001 - £3,000	16.9%
Saver Loan	£3,001 - £5,000	14.9%

Instant Loans
H&F Credit Union offers an Instant Loan facility for members who do not have sufficient savings to access a Saver Loan, enabling those who need a loan access to affordable methods of borrowing.

Loan Type	Loan Amount	APR(%)
Instant Loan	£50 - £1,000	26.8%
Instant Loan	£1,001 - £1,500	24%

Insurance:

Free life Insurance on savings and loans - credit unions affiliated to ABCUL are required to pay an insurance premium on behalf of our members to cover their savings and loans, providing a free and much valued benefit to all members.

Life Savings (LS) protection covers members aged 16 to 74. Insurance is paid out on against 100% of savings to age 64 and 25% of savings from 65 to 79. Loan Protection (LP) insurance covers members aged 18 to 80 and insures 100% of the balance to the age of 80.

7.2 Future development within the credit union movement

In order to be competitive and grow, the credit union movement must continue to expand the services it offers and continually take advantage of new services, technologies and legislative changes.

The forthcoming changes to the legislation governing credit unions will remove current barriers, enabling them to compete even more effectively in the modern society and to continue to fulfill their valuable social role. The amendments present huge opportunities for the credit union in Kensington and Chelsea.

Summary of key changes:

- **Credit unions will no longer need to prove that all potential members have something in common.** There will still be a restricted membership for all credit unions - this will be its 'common bond'. But there will be no need for everyone in the common bond to have something in common, so different groups will be able to come together in one credit union. There will be a cap of two million set on the size of potential membership.

- **Credit unions will be able to choose to offer membership to businesses, community groups and social enterprises.** The number of corporate members will be limited to ten per cent of the total membership and the amount of shares (apart from deferred shares) held by corporate members cannot exceed 25% of the total shares and the proportion of loans can not exceed 10% of the total loans.

- **Credit unions will be able to offer interest on savings instead of a dividend on savings.** The FSA will determine this on a case by case basis and the credit union will need to demonstrate that it holds reserves of at least £50,000 or 5% of total assets (whichever is the greater) and that it's systems of control are adequate to manage paying interest on shares.

- **Credit unions will be able to choose their own rate to charge for ancillary services** (such as budgeting accounts, cheque cashing) – at the moment a charge can only be made to cover the cost of providing that service.

- **There will no longer be a limit of 8% on the dividend** allowing a credit union to determine its own maximum return to members.

8. Service delivery in Kensington and Chelsea – branch outlet and access solutions

Operating a credit union with a large geographical common bond can be complex and challenging, requiring careful consideration of the nature of service delivery. As outlined earlier, the FSA must be satisfied that the entire common bond can be serviced viably and that all potential members can access services and be involved in the running of the credit union.

There are a number of service delivery solutions, which when combined should provide the new credit union service with sufficient mechanisms to service the whole of Kensington and Chelsea. When determining the most appropriate methods, potential resources and operational considerations have also been taken into account.

Branch outlet

The new Kensington and Chelsea credit union service will require a main branch outlet to deliver a full customer facing service (including cash deposits) and enable access for local residents.

It is recognised that the new credit union will not be able to have a large number of premises across the common bond from the outset because of the high cost implication.

Any leased premises taken on by the credit union would need to be either in-kind from a partner organisation or at reasonable rent. A number of partner organisations have highlighted a potential role in offering access to commercial premises as part of their support. Nevertheless, an annual rental and subsidiary cost of £34,000 per year has been budgeted for premises rental. This has been briefly referenced with current commercial rental costs. It is also essential to ensure that the credit union has sufficient resources, including staff and operating costs to adequately service any new premises.

The first Kensington and Chelsea outlet would need to be strategically situated in a suitable location that provides; good transport links, relatively high number of pedestrians, locality to other local service providers and where sufficient numbers of potential customers could be attracted from.

With these considerations, potential locations have been identified during the feasibility study as being in North Kensington around Westbourne Park Road, Portobello Road or Golborne Road. Identification of suitable locations and premises will need to be undertaken during the Development Phase in consultation with key local stakeholders.

It should be noted that H&F Credit Union’s current branch in North End Road offers close proximity and ideal access for Kensington and Chelsea residents in Earls Court, Redcliffe and Cremorne wards.

Branch refurbishment:

Once secured, the new premises will be refurbished to a high quality specification with modern fittings and fixtures. Any credit union branch will often be the first interaction with the organisation. The objective will be to create an attractive high street premise, in an accessible location, that will immediate stimulate community interest, build member loyalty and reassurance and fit within the new brand identity. The premises will ideally need to contain at least the following:

- reception area,
- main office and counters – with counter space for two cashier points
- small private interview room,
- disabled access (including one of the cashier counters),
- security facilities (including, intruder alarm, CCTV, safe, panic alarms linked to local police)
- staff toilet
- staff kitchen

External expertise will need to be brought in to help design and project manage the refurbishment process. Advice will also be sought from CUNA Mutual (through Steve Finnegan) to ensure that the proposed security measures within the new premises meet their requirements for the Fidelity Bond Insurance.

Satellite service points

Because of the proposed size of the common bond, any branch outlets will not necessarily be accessible to residents in all parts of the common bond and therefore, additional service delivery points will also be needed within the community.

Service points will look to be incrementally established at key locations across the common bond over the initial years. These will primarily be used to act as a regular point of contact for local members, raise awareness of the credit union to potential members, answer questions and importantly sign-up new members. It is intended that they would offer the following services:

- information about credit union services,
- applications for membership (including membership fee payment membership identification requirements, photograph and signature),
- withdrawal requests,
- loan application and interview,
- applications/information for other services, and
- NOT cash payments or withdrawals.

Again, service points would only be established where partnership arrangements enable such facilities to be offered in-kind and be fully resourced. Further discussion need to be undertaken with RBKC around the use of its community outlets but a number of additional points have been identified through the consultation process. The final locations would need to be further investigated and confirmed during the development phase.

Internet banking through a fully functional website

H&F Credit Union already has a fully functional website with a range of online banking services, essential for ensuring access and maximising membership take-up. It is intended that the website would be updated and rebranded to provide a seamless service in Kensington and Chelsea.

Members will be able to register for online banking service enabling them to securely access their own credit union accounts to check their balances, transfer funds between accounts, apply for loans and request withdrawals.

Additional functionality would be developed for the website that would enable potential members to complete a membership application online and have their identification verified remotely (which meets current Anti-Money Laundering regulations). This would facilitate much greater accessibility and increase potential membership uptake, as any new customer could join from the comfort of their own desk.

PayPoint services
PayPoint facilities enable credit union members to make cash deposits (savings and loan repayments) at any PayPoint outlet (such as newsagents, supermarkets, petrol stations etc), using individual cards, which would be issued following membership. The service is operated by the Co-operative Bank and is well recognised, typically amongst the worst-off, who use PayPoint to pay a variety of charges, such as rent, TV licenses and utilities.

Some perceive PayPoint to be an expensive option because of the ongoing monthly software costs and transaction costs of £0.38 each time the card is used. The annual cost of operating PayPoint has been forecast as part of the financial projections.

This solution provides facilities for deposit-making across the entire geographical area.

Standing orders and direct debits
Members will be able to make regular payment into their credit union account from their existing bank account.

Payroll deduction
The establishment of service level agreements with large employers to facilitate payroll deductions would provide a further method of making deposits into the credit union. As highlighted in Section 5, there are already a number of local employers who are interested in offering such as service to their staff.

Electronic withdrawals via BACS transfer
Increasingly credit unions are taking advantage of making withdrawals into a member’s nominated bank account using electronic BACS transfers.. Rigorous internal procedures make this withdrawal method secure and would be established as part of the membership sign-up.

These methods replace the need to send out cheques in the post or for a member to withdraw cash from a branch. There are cost savings to be made as BACS transfers currently cost £0.20 per transaction, in comparison to both the time cost of gaining two cheque signatories and the postage costs of sending the cheque.

Together, this comprehensive range of delivery mechanisms will ensure that the credit union maximises accessibility and enables everyone to be fully participate. This should provide sufficient methods for all potential members to join, deposit savings, withdraw funds and access all the products and services offered by the credit union, no matter what their circumstances or where in the borough they live or work.

9. Marketing requirements

9.1 Development phase

During the development phase, a detailed marketing plan would need to be drawn up highlighting the broad range of marketing and promotional activities that would be undertaken both during the development phase and once launched.

It is advisable to develop a small marketing subgroup and bring in external expertise from partner organisations to provide valuable marketing skills and experience.

Brand identity

The proposed new credit union service for Kensington and Chelsea will require the creation of a completely new brand identity for its eventual launch.

In order to market the new credit union as a local, professional, effective organisation, the steering group will need to ensure significant attention is paid to developing a corporate brand for the credit union service in Kensington and Chelsea that fits with the overall corporate brand identity of H&F Credit Union, including:

- **Credit union name** – the new name for the credit union service is key to ensuring its successful promotion and take-up. As H&F Credit Union will be operating over more than one borough, it needs to carefully consider its overall corporate brand and how existing and additional service areas links together.
- **Logo -** should be able to stand alone and provide a strong message that can be used on a variety of communication formats
- **Strap line –** this can be used to emphasis key selling points of the credit union (for example, 'Your money in a good place' emphasises its secure and ethical nature) or add more information
- **Colour scheme –** it is important to choose a bold colour that is modern and dynamic – as this will be used throughout the marketing materials.
- **Brand style guide –** a simple guide setting out how the corporate identity should be used.

A budget to commission an external design company has been included to help develop the branding process to produce the logo, colour scheme, strap line and brand guidelines. However, much of the idea creation will need to come from the marketing subgroup.

Awareness raising – proposal for a new credit union in Kensington and Chelsea

As the new credit union will be developed by expanding an existing credit union, a 'pledge drive' will not need to be undertaken for the FSA. While this will save significant investment of time and resources, it does mean that the steering group will have to raise awareness and interest in a variety of other ways.

Initial awareness raising activities could include:
- Press releases to local media around key milestones (for example, feasibility results, FSA application submission),
- Articles in Council and housing associations newsletters to local residents, and
- Presentations to key forums and partnership networks.

As part of this process, any contact details (name, address, telephone and email address) of interested individuals could be gathered so that they can be invited to join once the service is launched.

Funding has also been allocated as part of the start-up costs for the initial design and print of a variety of new marketing literature and the redesign and reprint of some existing materials, such as:

- Membership application form and folders,
- General promotional literature – leaflets and posters, and
- Review and additional work to existing website,

9.2 Operational phase - marketing plan

Key priorities for the marketing plan:

- to ensure coverage across Kensington and Chelsea,
- to ensure the management structures, mechanisms and channels are in place to maximise marketing and promotional activities,
- to target specific products both geographically and at target customers groups,
- to ensure that communication materials are accessible and legible,
- to maintain a core budget for marketing and promotional activities,
- to maximise the support of partners in marketing and promotion (for example, local public sector agencies, housing associations, community organisations), and
- to undertake ongoing market analysis to assess new markets, competitors, new products and new customer bases.

A limited revenue budget for annual marketing and promotional activities has been included in the financial projections.

Key elements of the operational phase marketing plan

Operational Phase - External marketing and promotion	
Conversion of interested individuals into members	The first task of the initial membership campaign will be to capitalise on any expressions of interest received. Once launched, membership leaflets and an application form should be circulated to such individuals.
Membership recruitment drive (membership form, application form and other leaflets)	The credit union will look to design and produce its own literature (in line with the overall corporate brand) to promote the credit union and attract new members. The key materials will be general leaflets that highlights the benefits of becoming a member. It will also include the membership application form. Finally, it will be important to have a welcome pack that is issued to all new members with further information about the credit union.
Posters	Development of general posters to be displayed on community centres or staff notice boards, housing association facilities, Council outlets, doctor and dentists surgeries, shops, post offices and schools etc.

Press / news releases	In local newspapers, magazines, newsletters, websites about progress and development of credit union services. Several likely media news stories/milestones have been identified within the first year of operation that will include: • Submission of application to the FSA, • FSA give green light, • Coverage of launch event, • VIP Members – including Mayor / Chief Executive / MPs, • Membership milestone – 500/1000 members in Kensington and Chelsea, • Saving milestones, • First loan, • First Year Anniversary.
Launch event	Once launched, it is essential to plan a launch event to celebrate the opening of the new credit union service. It will use the opportunity to invite both those individuals/stakeholder already involved as well as those who would be ideal to be engaged. Putting this special event would create a photo/reporting opportunities and invite press coverage.
Attendance at local events	The credit union will look to maximise its presence at the various community fairs and events that take place across the borough. It will look to devise an annual timetable of events to help co-ordinate attendance. Such marketing and outreach will enable the credit union to generally promote its services to potential members. However, many of the events are targeted at specific groups and will provide the opportunity to directly reach our different target markets, particularly events targeting families (for example, fetes, carnivals, school events).
Presentations	A series of PowerPoint presentations could be developed and delivered to a range of partner organisations, employer and employee groups, sponsors, housing associations, voluntary forums and groups, church groups etc
Exhibitions and displays	Good quality professional looking exhibition stands in shopping malls, libraries, employer locations will be essential.
Promotion via Employer Sponsors	The credit union will also concentrate on promoting to the employees of local employer sponsors from the public, private and voluntary sectors who have agreed to promote our service to staff. This will provide a captive market that the credit union can actively target. Employer sponsor organisations can display the membership posters in key locations within their premises, circulate membership leaflets to all of their staff with their pay slips or in their staff newsletter, messages sent via email or intranet, inclusion within induction materials etc.
Website	Redeveloped and launched prior to opening, the website will give members access to information and updates about the credit union from home. It is also key to enable members to sign-up fully online and verify identities remotely, which is not currently available. It will also be an essential marketing tool.
Email marketing campaign	Utilise its email networks to promote the credit union electronically with a link to the website and the online application process.
Links and pop-ups from other websites	Encourage partner organisations to establish links and pop-ups on their websites to direct internet users to the credit union website.

Promotion to social housing tenants	This is a key target group because social housing tenants often have low incomes and are more likely to be financially excluded. Partnerships should be developed with all the key Registered Social Landlords (RSL) and those who are not currently involved should be encouraged to participate. Each RSL partner should be encouraged to proactively promote to tenants including distributing membership leaflets to all of their tenants via rent slips or newsletters and to display posters in housing offices, community centres, estate notice boards. Also, it will ask them to regularly highlight the benefits of credit union membership in an article in their newsletters. Finally, the credit union will offer to undertake a presentation to staff to raise awareness of credit unions and knowledge of their benefits so that they can provide the relevant information to tenants or refer them to the credit union.
Alliances with other community organisations	There are opportunities to build additional partnerships with a range of community and voluntary organisations. A letter and literature could be distribute to all voluntary, community and church/faith organisations in the borough requesting: • display of literature, • promotion to customers/clients, • promotion to staff/volunteers, • presence at future community events, and • articles in newsletters.
Promotion to 'Ethical Savers'	This target group has been included in the initial recruitment drive because it would be expect to have a high level of take up and a higher level of saving that will quickly build up the total shares. The promotional material for this target group should highlight the ethical aspect of the credit union as a financial co-operative with a local focus which will help regenerate the area and improve the local economy. It should also stress the financial return of being a credit union member, as well as the social return. The ethical savers target group are located in specific geographic areas, but it will be harder to find appropriate locations to display promotional material. A specific promotional campaign could be devised and innovatively distributed and also focus on directing individuals to the website. In addition, there may need to be more pro-active recruitment methods such as leafleting, stalls and participation in local events.
Involvement of local politicians and other stakeholders	A letter and the promotional material could also be sent to all councillors and local MPs to inform them of the new credit union and encourage their involvement and direct support.
Door to Door leafleting	Leafleting within close proximity to any new premises or service point would be extremely important to raise awareness locally.
Word of mouth	Members, if served well by the credit union, can be its best ambassadors and be the best source of new members. The power of word of mouth has already been proved at other credit unions, particularly in Hammersmith and Fulham. Therefore, every effort will be made to involve members and enlist their support. All members will be regularly informed of progress. It should be stressed that the credit union is their organisation and that the more they are actively involved, the greater success (and financial return through dividends) will be achieved. All new members will be encouraged to recruit new members and introduce their friends, family and colleagues to the credit union.

Operational Phase – Internal marketing and promotion	
Regular newsletter	As the membership will be spread across an even larger geographical area, it will be essential to continue and improve the current HFCU internal newsletter to keep all members informed. The existing format will need to be revised to reflect any alterations to the brand and ensure it becomes relevant to Kensington and Chelsea residents. Specific focus should be taken to ensure the maximum number of new members agree to receiving the newsletter electronically.
Member Account Statements	Each credit union member will receive regular statements of his or her account throughout the year. This should be used as a marketing tool to encourage saving and greater usage of other financial services. Again, electronic delivery will be important.
Inactive Account Letters	Members accounts are reviewed to ensure that they are they continue to be active and regularly save. If it appears that a member has ceased regular saving and/or is not utilising their membership of the credit union, polite communications will be sent to remind them of the benefits of using the credit union services.
AGM Invitation	As part of the invitation to the Annual General Meeting, members will receive and annual report, accounts, a notice of the AGM, nominating form for elections, etc

10. Financial projections and fundraising strategy

The levels of funding investment required to establish and operate a credit union vary considerably. Some small credit unions have been developed with very limited resources, relying heavily on in-kind support of volunteers. The small amounts of secured funding are used to provide training and purchase basic initial equipment.

At the other end of the scale, a number of the 'sustainable model' credit unions are being resourced with considerable levels of investment at both the development stage and initial operational phase. For example, Camden Plus Credit Union Ltd has successfully secured well over £650,000 for start-up and operational costs over its first four years, with approximately 65% of these funds being provided by the local authority.

Without such capitalisation at the development phase or sufficient funds to implement a reasonable level of operational delivery, the new credit union services would fail to reach a size where it has a tangible impact. It would also struggle to reach long-term stability both in terms of its operations or financial sustainability.

Therefore, for a credit union service to be viable, a reasonable level of external funding will need to be secured for the start-up costs and the initial operational shortfall until the credit union's operations grow enough to meet its expenditure through its own income generation.

Yet, by utlising the option of extending the existing services of a healthy and established credit union into Kensington and Chelsea, there are significant time and resource savings to be made. This results in a considerable reduction to the grant funding requirements, particularly associated with the start-up costs with savings made to the project development costs, marketing costs and the IT costs (as the expensive credit union accounting software does not have to be purchased).

10.1 Financial projections

As part of the feasibility study, detailed financial forecasts have been produced for both the development phase and the initial seven years of operations.

Appendix 2 - Financial Model for Kensington and Chelsea

The aim of the financial projections is to forecast what the required levels of expenditure are to achieve a realistic level of operation and growth, and to match these against forecasts of the credit union's own income generation capacities and identified sources of additional grant funding required to make up the shortfall, until it can become financially self-sufficient.

The most up-to-date ABCUL financial modelling toolkit has been used and has also been informed by working closely with H&F Credit Union to help identify previous performance and the likely resource needs. This research has also considered the previous experience of other similar credit unions including membership levels, savings, withdrawals, loans and service delivery. These findings have helped inform these assumptions and targets.

The financial projections demonstrate that the newly expanded credit union services for Kensington and Chelsea should be financially sustainable after four years focused growth. Until this point, the level of funding that is required to meet the earning shortfall between the proposed expenditure and income generation is approximately £387,752. There would also be additional start-up costs of approximately £132,050.

10.2 Development phase projections

With appropriate capitalisation of the new credit union it should create the 'ingredients for success'. The start-up costs of approximately £132,050 associated with the development phase breakdown as follows:

Estimated Start-up costs

Item	Cost
Revenue costs:	
Project development management	£31,200
Development phase management and hosting	In-kind
Branding work	£2,500
Marketing and promotion	£5,500
Accounting software	£0
FSA authorisation fee	n/a
Data protection notification fee	£100
New staff/directors' training	£750
Subtotal	£40,050
Capital costs:	
Branch refurbishment costs	£65,000
Security – CCTV/alarm/safe	£15,000
Office furniture & equipment	£1,500
ICT hardware	£8,000
PayPoint Start-up Costs	£2,000
Subtotal	£92,000
TOTAL COSTS	**£132,050**

Although the existing credit union will have some resources and equipment already in place, additional capitalisation will be still be required to undertake the required development work for FSA approval as well as resourcing and establishing the new services within Kensington and Chelsea.

The key expenditure includes:

Project development management – this has assumed approximately 78 days consultancy work (@£400 per day) spread over the next 6 months in order to undertake the development phase that would; implement a fundraising strategy to secure the required resources, develop the partnerships with key stakeholders and secure the 'Employer Sponsorship' arrangements, establish the new management structures, produce the business plan, review and agree the policy and procedures and submit the FSA application to extend the operations.

Development phase management and hosting – a 'host organisation' would be required to undertake the financial administration and host development work. This would include; meeting facilities, desk space, line management and office costs (such as postage, telephone, printing costs).

Octavia Foundation has already indicated that it would be happy to undertake this function, as an in kind contribution.

Branding work – external design consultants will need to be brought in to create the new corporate identity, including new name, logo, strap line, brand guidelines and templates.

Marketing and promotion – new literature and marketing materials will need to be designed and printed to help promote the new credit union services. Additional changes will also need to be made to the H&F Credit Union website.

Accounting software (Progress) – H&F Credit Union operates Progress Systems, which provides a comprehensive member and nominal ledger accounting system for credit unions. A new software packages does not need to be purchased with this option for credit union development (costing upwards of £I2,000) and there are no extra costs required for additional 'users' to operate the system 'live' at the new branch.

New staff/directors' training – an initial training programme will need to be implemented for the new Directors (representing Kensington and Chelsea) to equip them with the necessary skills and knowledge to manage the credit union. This has been costed using the range of training programmes delivered by ABCUL.

Branch refurbishment and security costs – a budget of £65,000 for refurbishment, £1,500 for office furniture/equipment and £15,000 for security (alarm system, CCTV and the purchase of two safes) has been included within the development costs. At this stage, without the identification of the premises and detailed costings, it is difficult to gauge an exact calculation. However, examples at other credit unions have been reviewed to establish a realistic estimate of the potential costs.

Computer hardware – to support the expansion and enable the Progress system to be operated across more than one location, a suitable IT server would need to be purchased together with additional laptops/desktops.

PayPoint start-up costs – this includes the associated costs with implementing the system and purchasing and activating the PayPoint cards.

10.3 Operational phase projections

Staffing expenditure

The staffing structure has been outlined and explained in Section 7 – Governance and Corporate Structure. It is recommended that an additional four members of staff are employed from the beginning of the new credit union's operations.

A Branch Manager position should be advertised at a starting salary of approximately £23,000 per annum. One Branch Cashiers will be recruited to run the operations at the new Kensington and Chelsea branch office and an additional Loans Administrator will be employed to manage the promotion and administration the loan process as well as credit control. A Marketing & Outreach Co-ordinator will be employed to implement the marketing strategy and co-ordinate the delivery of the information sessions.

In addition, 13% has been allowed for employers NI and it is expected that the credit union would not be offering a contributory pension at the outset. The model allows for cost of living increases at the rate of 2%.

Operating expenditure

Clearly, intelligent cost control will be critical for the new organisation, and this is true in all periods but especially when income is restricted and the organisation is dependent upon external grant funding.

Expenses related to number of members - The model calculates the growth in some operating expenses based on the growth in the number of members that the credit union has recruited (for example, Loan Protection and Life Savings insurances, ABCUL dues, telephone, computer system and postage costs).

Bad debt - The provision for bad debt is also calculated based on the number of members and the regulatory requirements for bad debt provision. The existing levels of bad debt provision at HFCU and their ongoing experience in this field has also been accounted for.

Volunteer expenses - Volunteer expenses are estimated to be fairly low because the credit union will not be reliant on large volume of volunteers to help operate the main office. Instead, a smaller budget has been included primarily to provide travel expenses for the additional volunteer Director from Kensington and Chelsea.

Marketing - The annual marketing budget appears relatively low but much of the design and production of the key marketing materials would be incorporated within the start-up costs. The budget will be for re-producing existing materials and developing additional materials and small scale advertising campaigns.

Audit, insurance, computer maintenance - Audit costs, other insurances and computer software maintenance have been guided by existing costs incurred by H&F Credit Union.

Depreciation - Depreciation costs are formula driven within the model and are shown as expenditure on the accounts but will be offset by grant funding income.

Rent and occupancy – The cost of leasing premises in Kensington and Chelsea are extremely high. Ideally, the commercial premises of a partner organisation will be sought in order to maintain low operating costs. However, an annual rent and occupancy budget of £34,000 has been established for office rental and costs such as heating and lighting.

Business rates – again specific costs are unable to be calculated without the specific location of the premises. However, as is the case in most other credit unions, it is anticipated that Royal Borough of Kensington and Chelsea will look favourably on an application for full business rate relief because of the not-for-profit and beneficial nature of the work the credit union will deliver in the borough.

Bank charges/PayPoint - The PayPoint costs are based on the fixed costs and ongoing charges highlighted from H&F Credit Union. The forecasts for the ongoing charges are based upon assumptions of usage by 20% of the membership who make two transactions per month at the current transaction cost of £0.38 per transaction.

All these figures will need to be reviewed as the credit union's Business Plan is developed in more detail.

10.4 Business growth forecasts

Membership figures

The number of people who will actually become members of the credit union is extremely important, as the assumptions used will have a major influence upon the financial projections.

In formulating the membership targets, the credit union has considered the growth of membership rates at other similar 'start-up' credit unions, taking into account their delivery structure. It was agreed that the targets must be pragmatic and achievable given the current adopted service delivery structure, staff team and level of secured resources.

The membership target in year 1 has been set at **1,400** members that are based upon the following:

- Converting at least 2% of the 4,585 staff employed by the employer sponsors, or a minimum of 95, into members,
- Converting at least 4% of the 20,214 HA tenants or a minimum of 810, into members, and
- Attracting at least 495 new members through the general marketing/publicity campaign.

In the following years, it is assumed that the annual membership growth will be much lower, with a perceived increase of 800 new members in the second operational year (or approximately 65 each month) and then 650 each year (or approximately 50 each month). This takes into account an expected slow down in new members, as seen with other credit unions, following the initial recruitment of the easiest to reach individuals who are most likely to become members.

Retained Share Growth per member (average shares per member)

It is estimated that the member's average weekly saving (Retained Share Growth Rate) will start at £4.35 and will remain constant in the following years. It is believed this represents an extremely realistic savings figure and is achievable given the relatively high proportion of anticipated standing orders, payroll deduction and ethical investor members. H&F Credit Union currently has a level of over £5.00.

Loan/share ratio

The feasibility study has assumed that with available assets from H&F Credit Union, the delivery of loans can commence immediately within Kensington and Chelsea.

It also assumes that the loan to share ratio (the amount of saving assets being utilised and out on loan) will be 65 per cent during the first year and will steadily grow to 85 per cent by year 5. It is essential that the new service maximises the growth of its loan portfolio and reflects the need for a Loans Administrator to concentrate on loan delivery. This also follows ABCUL guidance for the loan/share ratios for a successful credit union and reflects the levels being attained by existing, mature credit unions. It is assumed that this is extremely realistically achievable under the proposed loan products.

Dividend rate – return on savings

The Feasibility Study has set the dividend rate target at one and a half per cent for the initial years of operation in the business plan. This will rise when sustainability is reached to two per cent in the fifth year.

If possible the level of return on savings should be greater to ensure that it both attracts and retains savers.

10.5 Income projections

The nature of the credit union's business means that it is primarily reliant upon the income generated from its loans for its earned income. Additional income generation activities are limited to a number of other initially small-scale activities.

The financial projections indicate that after the fourth year, the income generated by the credit union will cover its costs and enable it to become self-sufficient.

Interest generated on loans - The primary income of the credit union would be interest generated on loans made to members. Credit unions are unable to increase this maximum interest rate two per cent interest per month on the declining balance of the loan (26.8% APR).

Average monthly interest rates have been calculated using the experience of H&F Credit Union. It is estimated that with approximately two thirds of loans being made to financially excluded individuals and being charged at the higher interest rate, the average monthly interest rate for the credit union will remain at 1.85%.

Earnings on cash (not out on loan) - The credit union should ensure that any funds that are not out on loan are in a high interest deposited account. It is calculated that the average interest earned will remain extremely low over the forthcoming years and therefore be at least 0.5%. H&F Credit Union already has a higher interest bearing account with an electronic 'sweep' mechanism from it current account, in order to maximise the interest gained on surplus monies.

New member joining fee - All new members can be required to pay a joining fee. A figure of £3.00 has been used but no annual subscription fees included. This mirrors H&F Credit Union and would be used to cover the initial costs of becoming a member.

Fee income per member - There is a revenue stream in the model described as “fee income per member”. This is not an annual charge but other fees and commissions that can be generated from activities such as the commission from insurance products and other income generating activities. Again, utlising the figures from HFCU, an income of £1.00 per year per member have been included.

External grant funding - Like all brand-new credit unions, large-scale external funding is essential to support the initial operational costs during these formative years, thus enabling the proposed level of service delivery that we have outlined.

The financial projections show that over the first four years following launch, there will be a decreasing deficit between the levels of expenditure and generated income, totalling £387,752. This expected operational shortfall needs to be accounted for by fundraising from grant funders.

10.6 Sources of funding – developing a fundraising strategy

The start-up and operational shortfalls are shown clearly in the financial projections, with total of £519,802 required for the start-up costs during the development phase of £132,050 and the first four years of operational costs of £387,752 with £134,922 in year 1, £145,226 in year 2, £ 90,050 in year 3 and £ 17,555 in year 4.

In order to focus efforts on the most effective and most likely funding streams, the steering group will need to develop a fundraising strategy highlighting the various types of funding available to the credit union and understand which of these is more likely to bring the most rewards using the least investment of time and resources. It would also need to breakdown the funding requirements and give achievable fundraising targets to each identified funder.

The key benefits of the credit union should be clearly presented to all funders – see Section 3 – Background of Credit Unions.

The majority of funding for credit unions has been seen to have been secured through four key areas:

- **National funders** – primarily through specific charitable trust funds who support financial inclusion initiatives.
- **Localised regeneration and Charitable Trust funding** – targeted at the most deprived localities in Kensington and Chelsea, such as the Kensington and Chelsea Partnership.
- **Localised public sector funding** – provided through Royal Borough of Kensington and Chelsea and other public bodies such as the Primary Care Trust.
- **Funding provided by local housing associations** - operating within the credit union’s common bond.

National funders

There are several national funders who have supported the development of credit unions, including:

- **Barclays Financial Inclusion Fund –** has funded several credit unions during the initial operational phase, and tend to be interested in helping with marketing, to enable them to increase membership and take up of services. Its current funding round ended on 06 November 2009 and provides grants between £30,000 and £50,000. Positive discussions have been held with TRANSACT who are administering the fund and an application of £24,450 has been submitted towards development costs.
- **Esmee Fairburn Foundation –** has funded credit unions over the last few years. Their key criteria are that it must at least 1000 members, and that the funding is targeted at assisting the growth of its membership to help it reach sustainability.
- **Tudor Trust –** has also funded credit unions under both its community and financial security funding priorities.
- **Department of Work and Pensions (Growth Fund) –** only currently provides funding for established credit unions, providing funding for loan capital.
- **Banks and Building Societies** – most financial institutions have charitable foundations that provide funding to community projects, of which a large number have financial inclusion priorities.

As shown above, the majority of the large national funders seem to limit funding to those credit unions that are already established and focus resources primarily to help them strive for sustainability by supporting marketing efforts. Therefore, it would be suitable for the proposed expansion work into Kensington and Chelsea.

Unfortunately, there is significant competition for such national pots of funding, and particularly in the case of charitable funding, the pot is ever decreasing as funding for the voluntary sector continues to shrink. The time and resources it takes to complete large national funding applications can also be substantial. Therefore, a key element of the funding strategy would be securing additional funding from the following three local funding sources.

Localised regeneration and Charitable Trust funding

Kensington and Chelsea has a number of suitable options for potentially securing funding towards the development and operations of the new credit union service:

- **Kensington and Chelsea Partnership** (Local Strategic Partnerships) – the LSP in Kensington and Chelsea has representation from the main agencies within the borough and target resources at projects and programmes that deliver against its identified strategic priorities. Discussions with representatives from Kensington and Chelsea Partnership were extremely supportive of the development of a credit union and had already begun to explore the potential of funding a credit union in the borough. It has already identified the potential of funding the credit union through its Performance Reward Grant that should be available from early 2010.

- **Campden Charities** – provides individual grants residents and families in north Kensington to help them become financially independent. As highlighted in the consultation, it is unlikely that funding will be forthcoming at this stage for core funding but could be convinced once the credit union is operational. However sizable resources could be generated by making referrals for members who meet the criteria for individual grants. The credit union would received £1,000 for each successful client referred.

Localised public sector funding

- **Royal Borough of Kensington and Chelsea –** the local authority has indicated its outline support of the new credit union and has indicated that further discussions should be held following the publication of the Feasibility Study to explore the possible provision of resources.

- **Kensington and Chelsea Primary Care Trust** – discussions during the feasibility stage have highlighted the possibility of support from the local PCT to meet a number of health inequality priorities.

Funding provided by local housing associations

Housing associations have gradually become a key stakeholder with growing levels of social housing stock and financial resources. Increasingly, they have seen that by investing in these local areas, they can make positive social and economic improvements to the lives of their own residents.

The main housing associations operating in the borough have already been involved during the feasibility study and have indicated their support for the development of a credit union. Fundraising efforts should be aimed at developing partnership work with further discussions being undertaken with all housing associations to assess potential resources that could be secured towards the start-up costs and operational costs.

Implementing the fundraising strategy

It should be the key responsibility of the project development consultant to produce (with approval from the steering group) and implement a fundraising strategy to secure the majority of the outstanding funding from all the identified sources.

It is important to make the partnership links and use local contacts. Further discussions would be essential to gauge potential levels of support and to ascertain if they are likely to be interested in funding specific amounts or over a number of years.

Initial fundraising efforts will concentrate on securing financial support from the funders that are already supportive. Once these have indicated funding commitments, those funders not already aware or as involved with the credit union will then be approached. This will enable momentum to build and will hopefully make new approaches easier.

11. Risk assessment

Risk Identification	Risk Chance	Risk Impact	Impact	Contingency	Responsible	Type of Risk
Failure to secure required start-up and operational funding	High	High	• FSA would not allow new CU as not financially viable. • Significant delay in development. • Potential failure of launch.	• Clear financial projections for start-up and operational phase. • Early implementation of a fundraising strategy. • Involvement of key partners and take up initial offers of support. • Identification of alternative financial forecasts.	Steering Group & Octavia Foundation	Financial
Failure to deliver tasks and actions to timetable	Medium	High	• Delay in extension of service and launch. • Loss of momentum. • Loss of confidence by partner organisations.	• Commitment, experience and expertise of all steering group partners and development staff. • Additional key role of Council and RSLs. • Ensure clear project management and timetable for development phase. • Monthly review and monitoring of progress – action taken to overcome difficulties.	Steering Group & Octavia Foundation	Operational
Credit union members vote against expansion at SGM	Medium	High	• Prevents application to FSA and launch of CU in Kensington and Chelsea. • Second vote required.	• Early awareness raising to credit union members in Winter/Spring newsletter. • Demonstrate key benefits and allay any potential fears.	HFCU	Operational
Over-run of development phase	Medium	Medium	• Potential additional costs of start-up work. • As above.	• As above.	Steering Group & Octavia Foundation	Operational
Loss of neighbouring CU involvement	Medium	Medium	• Prevents progress of option 2 – extension of services into Kensington and Chelsea.	• Ensure open communication with identified CUs. • Ensure aspirations and requirements are met. • Formation of joint Steering Group (with representatives from credit union both Board and management).	Steering Group	Operational

Inability to secure/retain development staff	Low	High	• Difficulties in delivery in short timescale. • Delay in project delivery. • Reduced funding available due to cost of recruiting and cost of alternatives.	• The option of using alternative consultants/secondment exists if difficulties in staff retainment.	Steering Group & Octavia Foundation	Logistic
Absence of management and financial control	Low	High	• Delay in project delivery. • If continued project would have to cease.	• Joint assessment and agreement of costs. • Octavia Foundation and partners project management track record. • Regular project updates and financial management accounting report.	Steering Group & Octavia Foundation	Financial
Steering group does not work effectively	Low	High	• Demoralisation. • Lack of prioritisation of project elements. • Delay in development phase.	• Skill and experience analyse. • Commitment of all project partners. • Ongoing proactive and productive CU.	Steering Group & Octavia Foundation	Operational
FSA unwilling to agree extended common bond	Low	High	• Potential failure of CU launch.	• Ensure financial viability can be demonstrated. • Clearly outline the comprehensive coverage of entire areas. • Evidence the ability for all potential members to participate and access. • Early and ongoing contact with FSA.	HFCU, Steering Group & Octavia Foundation	Operational
Lack of interest from some partners	Low	Medium	• Reduction in confidence in new structure. • Reduced strategic support. • Lack of funding required to launch new CU.	• Partner opportunities have already been identified and partners interested within Feasibility Study. • Council and RSLs as key agencies and driver for local community involvement.	Steering Group & Octavia Foundation	Operational

12. Development phase – action plan

In order to establish the new credit union service in Kensington and Chelsea, a short development phase would need to be implemented. This would put in place the necessary foundations for the new credit union service and enable a strong case to be made to the Financial Services Authority that the expansion and servicing of all the potential members is viable and can be fully resourced.

There are a number of key elements that need to be prioritised and achieved during the development phase before the submission of an application to the FSA:

- Establish a steering group with representation from key stakeholder and also the Board and management of the credit union.
- Secure initial funding to commence the development phase.
- Recruitment of project development manager/consultant to undertake the development work.
- Development and implementation of a comprehensive fundraising strategy that will secure the outstanding start-up costs and the core operational costs of the credit union.
- Production of a 5 year Business Plan for the new credit union with refined financial projections and clear business targets. It must also stress the accessibility of the expanded service so that all potential members can play an active role in the credit union
- Developing a new corporate brand and produce a marketing plan that will be implemented once launched to attract the required level of members.
- Agree the policy and procedures together with the products and services that will be delivered.

Once development work is completed, it is anticipated that the steering group will be able to produce the FSA application for the extension of the credit union services into Kensington and Chelsea.

If the development phase is focused and the required partnership involvement and support is forthcoming at an early stage, it is hoped that everything could be in place and the application ready for submission before April 2010, enabling the new credit union to be operational in late summer 2010. A submission could not be made before April 2010 due the proposed changes to the legislation that is required. Please note, this is the current estimation for the implementation of the new legislation and could potentially be delayed.

The table below provides an action plan for the development phase.

Development phase action plan

Month	Development activity	Responsibility
Month 1	Finalise the feasibility study and distribute widely to key agencies, organisations, partners and potential funders.	Feasibility consultant and Octavia Foundation
	Local media promotion of plans to create a credit union service in Kensington and Chelsea	Octavia Foundation
	Submission of funding application to TRANSACT for contribution towards development phase funding.	Feasibility consultant and Octavia Foundation
	Establish initial meeting of the key stakeholders and interested parties to review Feasibility Study, agree way forward and establish a steering group to oversee any development work.	Feasibility consultant and Octavia Foundation.
	Agree work description and process for recruitment of project development manager/consultant.	Steering Group and Octavia Foundation
	Commence recruitment	Octavia Foundation
Month 2	Work with interested parties to refine delivery model and financial projections	Project Development M/ger
	Develop a comprehensive fundraising strategy and commence negotiations/proposals to funders – against the financial projections	Project Development M/ger and Octavia Foundation (funding)
	Concentrate on fundraising activities and submission of key funding applications and proposals	Project Development M/ger and Octavia Foundation (funding)
Month 3	Establish marketing subgroup and commence ideas on branding and commission branding work for new credit union	Marketing subgroup
	Continue fundraising work.	Project Development M/ger and Octavia Foundation (funding)
	Identification and confirmation of employer sponsors.	Steering Group and Project Development M/ger
	Research on suitable premises for main branch and	Steering Group and Project Development M/ger
	Awareness raising of proposed expansion amongst HFCU membership through Winter/Spring Newsletter	HFCU
Month 4	Continue fundraising work, premises search and employer sponsor identification.	Project Development M/ger and Octavia Foundation (funding)
	Commence production of Business Plan – including marketing plan and evidence of accessibility	Steering Group and Project Development M/ger
	Agree final corporate branding	Steering Group and Project Development M/ger
Month 5	Review progress of fundraising strategy – and agree changes to delivery model or alterations to funding strategy	Steering Group, Project Development M/ger and HFCU
	Agree final version of business plan and produce application to FSA for extension of credit union services.	Steering Group and Project Development M/ger

	Identification of potential Directors to represent Kensington and Chelsea on main credit union management structure.	Steering Group and Project Development M/ger
	Commence training of proposed Directors	Steering Group
	Secure premises and required applications and develop refurbishment plans and tender documents	Steering Group and Project Development M/ger
Month 6	Undertake Special General Meeting to gain agreement from membership	HFCU
	Submit FSA application	Project Development M/ger and HFCU
	Promotion of the submission and the plans for credit union development	Project Development M/ger
	Commence preparation work for launch (detailed plan to be established) – including design of marketing materials and work, service and product development and recruitment of staff.	Steering Group and Project Development M/ger
Month 7	Receive positive FSA decision	Project Development M/ger
	Promotion of the positive decision	Project Development M/ger
	Commence refurbishment work	Steering Group and Project Development M/ger
	Implementation of services, products and marketing in preparation for launch.	Steering Group and Project Development M/ger
Month 8	Continue refurbishment work	Steering Group and Project Development M/ger
	Continue implementation of services, products and marketing in preparation for launch.	Steering Group and Project Development M/ger
Month 9	Launch new credit union service in Kensington and Chelsea.	Steering Group and Project Development M/ger

Appendix

Appendix 1 – Draft work description for Project Development Consultant

Work Description: Project Development Manager

Post: Project Development Manager
Responsible to: Director Octavia Foundation and Steering Group (Manager will be employed by Octavia Foundation)

The development manager will undertake those areas of work described below and any related duties and responsibilities that may arise. The development manager will also be required to undertake some evening and weekend work.

Main purpose
- To ensure the establishment and development of a credit union service in Kensington and Chelsea by the expansion of the neighbouring H&F Credit Union.
- To develop relationships and work in partnership with key stakeholders in Kensington and Chelsea.
- Establish and implement a comprehensive Fundraising Strategy to secure the development and operational funding.
- To develop a long term viable business plan.
- To ensure the long-term viability and sustainability of the credit union based on provision of a range of quality financial services and service delivery methods across the borough.
- To deliver a new corporate brand and marketing strategy in conjunction with key partners to promote awareness and membership of the credit union.
- To complete the expansion of the common bond including application and agreement by FSA of the new common bond.

Project deliverables
- Development of funding strategy for future sustainability.
- Preparation and implementation of a five year Business Plan.
- Development and implementation of project plans and monitoring reports.
- Establish SLA with partner organisations for 'Employer Sponsorship'.
- Development of service delivery infrastructure (including refurbishment of branch) and a range of financial services that will benefit members.
- Completion of FSA application with H&F Credit Union

Partnerships
- To identify key local employers and community based groups to encourage their involvement in the CU
- To liaise closely with key stakeholders including Kensington and Chelsea Council, Kensington and Chelsea City Partnership, local RSL's and other key partners in setting up the new organisation.
- To establish clear monitoring criteria and ensure monitoring information is collected and reported.

Project governance

- Oversight of the development phase will be provided by Octavia Foundation and the Steering Group.
- The development manager will report to the steering group and be line managed by the Director of Octavia Foundation, with priorities jointly agreed.
- The application for an expanded common bond must be agreed with current members of H&F Credit Union and the FSA.

Other information

- The post-holder will comply with the Equal Opportunities Policies of Octavia Foundation.
- The post-holder will undertake additional related duties and responsibilities that may arise from time to time, commensurate with the position.
- The post-holder will be required to work on occasion in evenings and at weekends.

Appendix 2 - Financial Model for Kensington and Chelsea

Staffing Matrix

ABCUL Credit Union Financial Model

Year		Branch Manager		Marketing Co-ordinator		Loans Administrator		Admin/Cashier Staff		Total Staff	Average Members	Members to FTE Ratio
		FTE	Cost/FTE	FTE	Cost/FTE	FTE	Cost/FTE	FTE	Cost/FTE			
Year 1	2010	1	£25,990	1	£25,990	1.0	£19,721	1.0	£19,721	4.0	700	140
Year 2	2011	1	£27,030	1	£26,510	1.0	£20,116	1.0	£20,116	4.0	1,800	360
Year 3	2012	1	£28,111	1	£27,040	1.0	£20,518	1.0	£20,518	4.0	2,525	505
Year 4	2013	1	£29,235	1	£27,581	1.0	£20,928	1.0	£20,928	4.0	3,225	645
Year 5	2014	1	£30,405	1	£28,132	1.0	£21,347	1.5	£21,347	4.5	3,925	785
Year 6	2015	1	£31,621	1	£28,695	1.0	£21,774	1.5	£21,774	4.5	4,575	763
Year 7	2016	1	£32,886	1	£29,269	1.0	£22,209	1.5	£22,209	4.5	5,225	871

Notes:

1. "FTE" is short for "Full Time Equivalent Employee." For example, a 0.5 FTE is an employee hired half-time for the full year or full-time for half the year.
2. Cost/FTE consists of salary, benefits, National Insurance, etc. and grows each year by the rate of inflation entered on the Summary page, plus the following percentage:

   2.0%

3. Model assumes that fractional FTEs are part-time and/or begin during the year.
4. The Average Members figures are calculated from the Year End figures on the Income Summary tab.
5. The Members to FTE ratio shows the average amount of members per FTE Staff in the year.

Operating Expense Budget

ABCUL Credit Union Financial Model

	Year 1 2010	Year 2 2011	Year 3 2012	Year 4 2013	Year 5 2014	Year 6 2015	Year 7 2016
Life Savings (LS) Insurance	1,330	4,750	9,548	15,676	23,133	31,826	41,754
Insurances for credit union	700	700	800	800	900	900	1,000
Misc. Staff Expenses	400	400	400	400	450	450	450
Volunteer Expenses	850	867	884	902	920	938	957
Rent and Occupancy	34,000	34,000	34,000	34,000	34,000	34,000	34,000
Office Supplies/Printing /copying	3,250	3,315	3,381	3,449	3,518	3,588	3,660
Telephone	1,250	1,964	2,545	3,214	3,795	4,375	4,955
Marketing Materials	6,500	6,630	6,763	6,898	7,036	7,177	7,320
Computer Software Maintenance	650	1,021	1,323	1,671	1,973	2,275	2,577
Postage	1,260	3,240	4,545	5,805	7,065	8,235	9,405
Audit	500	510	520	531	541	552	563
Legal/Consultants	0	0	0	0	0	0	0
Staff/Board Training	800	800	800	800	850	850	850
FSA / FSCS/ FOS Fees	200	200	200	200	200	200	200
ABCUL Dues	805	2,070	2,904	3,709	4,514	5,261	6,009
Depreciation	4,083	6,806	4,537	3,025	2,016	1,344	896
Bad debt provisioning	3,757	11,300	17,225	24,030	26,790	31,227	35,664
Bad debt written off	0	21,206	45,466	79,311	117,044	161,026	211,257
Start up Expenses (see Sheet)	132,050						
Bank charges/PayPoint Costs	1,637	3,643	4,966	6,242	7,519	8,705	9,890
Security Maintenance	811	827	844	861	878	895	913
Total Expenses	**286,798**	**199,740**	**241,567**	**296,917**	**365,135**	**432,654**	**508,690**
Average Number of Members	700	1,800	2,525	3,225	3,925	4,575	5,225
Number of Staff	4.0	4.0	4.0	4.0	4.5	4.5	4.5
Non earning assets purchased	24,500	0	0	0	0	0	0

Assumptions:

1. Salaries and benefits are from the preceding Staffing Matrix page.
2. Rent/occupancy costs each year must be entered above.
3. Annual cost of insurance is at the following amounts per £1000 coverage per month on average total shares: LP £0.44; LS £0.70
4. Insurances for the credit union include Fidelity Bond, General and Computer Insurances, Directors and Officers Insurance
5. Misc. staff expense equals the number of Full Time Equivalents (FTEs) multiplied by the following amount: £100
6. Office supplies, Volunteer Expenses, Marketing, Audit and Legal/Consultants start at the amounts entered above and grow with inflation
7. Telephone and Computer Systems start at the values entered above and grow at the same rate as the growth in membership.
8. Postage assumes the number of mailings shown to all members, at the postal rate indicated. Number of mailings p.a. 6; Postal rate £0.30
9. Staff/Board Training assumes the amount shown for each staff member, and for this number of volunteers: Amount/person £100; Number of volunteers 4
10. ABCUL dues rates per member per year are the following: £1.15
11. Depreciation is calculated on a three year period for all non earning assets. Credit unions are asked to input the new non- earning assets purchased in the year. The total non earning assets is contained in the Projected Spreads sheet.
12. Sundry/Contingency is a constant amount each year, as entered above.
13. The figures for additional provision for bad debt and bad debt write offs are calculated on the Provision for bad debt sheet. They use FSA requirements in CRED 10.5 on Provisioning.

Shares per member

ABCUL Credit Union Financial Model

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Projections	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Shares at start of year /£	0	316,680	814,320	1,458,990	2,273,310	3,234,660	4,343,040
Members at start of year	0	1,400	2,200	2,850	3,600	4,250	4,900
Shares per member at year start /£	0	226	370	512	631	761	886
Retained Share Growth per member per week	4.35	4.35	4.35	4.35	4.35	4.35	4.35
Retained Share Growth per member per month	18.85	18.85	18.85	18.85	18.85	18.85	18.85
Retained Share Growth per member per year	226.20	226.20	226.20	226.20	226.20	226.20	226.20
Shares at end of year /£	316,680	814,320	1,458,990	2,273,310	3,234,660	4,343,040	5,598,450
Members at end of year	1,400	2,200	2,850	3,600	4,250	4,900	5,550
Shares per member at end of year /£	226	370	512	631	761	886	1,009
Average Shares per member /£	**113**	**298**	**441**	**572**	**696**	**824**	**948**

Assumptions:

1. This variable is one of the most important in the whole model. Successful credit unions attract the maximum amount of savings from their members. This is called Savings Mobilization.
2. This sheet shows how to project average shares per member using an average for the year for the life of the model.
3. The task is to calculate the net retained growth in shares per member per week or month once any loan payments have been made.

This is likely to be in the range of £1 to £10 per week.

4. This is not easy to predict with a model as it varies with numbers of new members, number of members taking a loan and the length of those loans.
5. The only reliable way to predict this is to monitor actual historic experience and use that.
6. Each week or month you need to calculate the growth in shares per member once loan repayments have been made.

This is achieved by dividing the increase in shares each week/month by the total members at the end of the week/month.

$$\text{Retained Share Growth per member per week} = \frac{\text{New shares in the week less any share withdrawals}}{\text{Total members at the end of the week}}$$

7. If there is a big difference between the Shares/Member that you are projecting and your historic experience you need to be able to justify how you will attract this higher level of savings.

Income Summary Page

ABCUL Credit Union Financial Model

Primary Assumptions:

	Year 1 2010	Year 2 2011	Year 3 2012	Year 4 2013	Year 5 2014	Year 6 2015	Year 7 2016
End of year total members	1,400	2,200	2,850	3,600	4,250	4,900	5,550
Average shares/member	**£113**	**£298**	**£441**	**£572**	**£696**	**£824**	**£948**
Loan/share ratio	65%	75%	80%	85%	85%	85%	85%
Average loans/member	**£74**	**£224**	**£353**	**£486**	**£592**	**£700**	**£805**
Additional funds borrowed	£0	£0	£0	£0	£0	£0	£0
% of borrowed funds lent out	0%	0%	0%	0%	0%	0%	0%
Subordinated Loans	£0	£0	£0	£0	£0	£0	£0
% of subordinated loans lent out	0%	0%	0%	0%	0%	0%	0%
Monthly loan interest rate	1.85%	1.85%	1.80%	1.80%	1.75%	1.75%	1.70%
Targeted annual dividend rate	1.5%	1.5%	1.5%	1.5%	2.0%	2.0%	4.0%
Minimum year end reserve ratio	2.0%	5.0%	5.0%	5.0%	5.0%	8.0%	8.0%

Fee income/member/year	£1.00
Insurance marketing allowances per member/year	£0.00
New member joining fee	£3.00

Inflation rate	2.0%
Earnings rate on cash/investments	0.5%
Interest rate on borrowed funds	0.0%
Interest rate on subordinated loans	0.0%

Key Results:

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Earnings short-fall	**266,972**	**145,226**	**90,050**	**17,555**	**0**	**0**	**0**
End of year total assets	323,143	857,179	1,535,779	2,392,958	3,434,513	4,721,442	6,144,366
Actual year end reserve ratio	2.00%	5.00%	5.00%	5.00%	5.82%	8.01%	8.88%
Expense/income ratio	1000.54%	200.96%	119.29%	84.78%	72.97%	62.98%	58.13%

Total Earnings shortfall over 7 years **£519,802**

Provisioning

ABCUL Credit Union Financial Model

Projections	**Year 1 2010**	**Year 2 2011**	**Year 3 2012**	**Year 4 2013**	**Year 5 2014**	**Year 6 2015**	**Year 7 2016**
Average Total Loans Outstanding	102,921	424,125	909,324	1,586,228	2,340,887	3,220,523	4,225,133
% of Total loans that are net liability	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Average Total Net Loans	102,921	424,125	909,324	1,586,228	2,340,887	3,220,523	4,225,133
% of Net Loans >3m & <12m in arrears	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Value of Net Loans >3m & <12m in arrears	81,466	5,146	21,206	45,466	79,311	117,044	161,026
Provision required at 35%	1,801	7,422	15,913	27,759	40,966	56,359	73,940
% of Net Loans > 12m in arrears	0.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Value of Net Loans >12m in arrears	0	21,206	45,466	79,311	117,044	161,026	211,257
Provision required at 100%	0	21,206	45,466	79,311	117,044	161,026	211,257
% of Net Loans Needing 2% provision	95.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%
Value of Net Loans needing 2% provision	97,775	381,713	818,392	1,427,605	2,106,799	2,898,470	3,802,620
Provision required at 2%	1,955	7,634	16,368	28,552	42,136	57,969	76,052
Total Provision for Bad Debts required	3,757	36,263	77,747	135,622	200,146	275,355	361,249
Of which; amount to be written off	0	21,206	45,466	79,311	117,044	161,026	211,257
Amount to be carried forward	3,757	15,056	32,281	56,311	83,101	114,329	149,992
Amount brought forward	0	3,757	15,056	32,281	56,311	83,101	114,329
Addition to be made this year	3,757	11,300	17,225	24,030	26,790	31,227	35,664

Projected Spread Analysis

ABCUL Credit Union Financial Model

	Year 1 2010	Year 2 2011	Year 3 2012	Year 4 2013	Year 5 2014	Year 6 2015	Year 7 2016
Year End Membership	1,400	2,200	2,850	3,600	4,250	4,900	5,550
Average Total Assets	158,340	571,963	1,179,514	1,942,939	2,873,633	3,988,703	5,349,147
Non earning Assets at start of year	0	20,417	13,611	9,074	6,049	4,033	2,689
Non earning Assets at end of year	24,500	20,417	13,611	9,074	6,049	4,033	2,689
Average Total Non-earning Assets	12,250	20,417	13,611	9,074	6,049	4,033	2,689
Average Total Loans to Members	102,921	424,125	909,324	1,586,228	2,340,887	3,220,523	4,225,133
Gross Earnings on Loans	**22,848**	**94,156**	**196,414**	**342,625**	**491,586**	**676,310**	**861,927**
Average Cash/Investments	43,169	127,421	256,579	347,637	526,696	764,148	1,121,325
Gross Earnings on Cash/Investments	216	637	1,283	1,738	2,633	3,821	5,607
Corporation Tax	0	0	0	0	0	0	0
Net Earnings on Investments	**216**	**637**	**1,283**	**1,738**	**2,633**	**3,821**	**5,607**
Fee & Commission Income from Members	**1,400**	**2,200**	**2,850**	**3,600**	**4,250**	**4,900**	**5,550**
New Member Joining Fees	**4,200**	**2,400**	**1,950**	**2,250**	**1,950**	**1,950**	**1,950**
Cost of Borrowed Funds	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total Income	**28,664**	**99,393**	**202,497**	**350,213**	**500,420**	**686,980**	**875,034**
Less Operating Expense	286,798	199,740	241,567	296,917	365,135	432,654	508,690
Earnings Short-fall	**266,972**	**145,226**	**90,050**	**17,555**	**0**	**0**	**0**
Net Profit	**8,838**	**44,878**	**50,980**	**70,851**	**135,285**	**254,326**	**366,343**
Less Reserve Transfers	**6,463**	**36,396**	**33,930**	**42,859**	**80,205**	**178,549**	**167,514**
% Reserve Transfer of Net Profit	73%	81%	67%	60%	59%	70%	46%
Total Amount of Dividends	**2,375**	**8,483**	**17,050**	**27,992**	**55,080**	**75,777**	**198,830**
Average Total Shares	158,340	565,500	1,136,655	1,866,150	2,753,985	3,788,850	4,970,745
Dividend Rate	**2.0%**	**1.5%**	**1.5%**	**1.5%**	**1.5%**	**2.0%**	**2.0%**
Total Year End Shares	316,680	814,320	1,458,990	2,273,310	3,234,660	4,343,040	5,598,450
Borrowed funds	0	0	0	0	0	0	0
Subordinated Loans	0	0	0	0	0	0	0
Reserves and Retained Earnings	6,463	42,859	76,789	119,648	199,853	378,402	545,916
Total Year End Assets	**323,143**	**857,179**	**1,535,779**	**2,392,958**	**3,434,513**	**4,721,442**	**6,144,366**
Actual Year End Capital Ratio	**2.00%**	**5.00%**	**5.00%**	**5.00%**	**5.82%**	**8.01%**	**8.88%**
Targeted Minimum Capital Ratio	2.00%	5.00%	5.00%	5.00%	5.00%	8.00%	8.00%

Projected Forecast: Balance Sheet

ABCUL Credit Union Financial Model

			Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
		Year ending	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Assets									
	Loans	Gross	217,104	681,025	1,297,807	2,082,339	2,983,188	4,050,027	5,381,601
		Reduce by write off	0	21,206	45,466	79,311	117,044	161,026	211,257
		Net of write off	217,104	659,819	1,252,341	2,003,028	2,866,143	3,889,001	5,170,344
		Provision for bad debt	3,757	15,056	32,281	56,311	83,101	114,329	149,992
		Net of provision	213,348	644,762	1,220,060	1,946,717	2,783,042	3,774,673	5,020,352
	Cash and investments		85,295	192,000	302,108	437,167	645,422	942,736	1,121,325
	Non Earning Assets		24,500	20,417	13,611	9,074	6,049	4,033	2,689
	Other Assets		0	0	0	0	0	0	0
		Total Assets	**323,143**	**857,179**	**1,535,779**	**2,392,958**	**3,434,513**	**4,721,442**	**6,144,366**
Liabilities									
	Borrowings		0	0	0	0	0	0	0
	Other liabilities		0	0	0	0	0	0	0
		Total Liabilities	**0**	**0**	**0**	**0**	**0**	**0**	**0**
	Net Assets (Assets - Liabilities)		**323,143**	**857,179**	**1,535,779**	**2,392,958**	**3,434,513**	**4,721,442**	**6,144,366**
Capital									
	Reserves		6,463	42,859	76,789	119,648	199,853	378,402	545,916
	Subordinated Loans		0	0	0	0	0	0	0
		Total Capital	**6,463**	**42,859**	**76,789**	**119,648**	**199,853**	**378,402**	**545,916**
	Members' share balances		316,680	814,320	1,458,990	2,273,310	3,234,660	4,343,040	5,598,450
	Total Capital & Share Balances		**323,143**	**857,179**	**1,535,779**	**2,392,958**	**3,434,513**	**4,721,442**	**6,144,366**
Number of Members (excluding juniors)			1,400	2,200	2,850	3,600	4,250	4,900	5,550
Shares / Member			226	370	512	631	761	886	1,009
Capital / Assets ratio			2.00%	5.00%	5.00%	5.00%	5.82%	8.01%	8.88%

Projected Forecast: Revenue Account

ABCUL Credit Union Financial Model

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Year ending	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Income							
Entrance fees	4,200	2,400	1,950	2,250	1,950	1,950	1,950
Interest from members loans	22,848	94,156	196,414	342,625	491,586	676,310	861,927
Bank interest and other investment income	216	637	1,283	1,738	2,633	3,821	5,607
Grants and donations	266,972	145,226	90,050	17,555	0	0	0
Fee and Commission income from members	1,400	2,200	2,850	3,600	4,250	4,900	5,550
Total Income	**295,636**	**244,618**	**292,547**	**367,768**	**500,420**	**686,980**	**875,034**
Expenditure							
Admin expenses	186,291	62,247	63,703	65,965	68,650	71,444	74,467
Auditors remuneration	500	510	520	531	541	552	563
Fidelity bond and general insurance	700	700	800	800	900	900	1,000
Management expenses	92,672	94,518	96,400	98,320	111,002	113,213	115,468
Bad debt provisioning	3,757	11,300	17,225	24,030	26,790	31,227	35,664
Bad debt written off	0	21,206	45,466	79,311	117,044	161,026	211,257
Interest charged on borrowings	0	0	0	0	0	0	0
LP/LS insurance	1,873	6,990	14,349	24,051	35,493	48,831	64,063
FSA / FSCS / FOS fees	200	200	200	200	200	200	200
ABCUL dues	805	2,070	2,904	3,709	4,514	5,261	6,009
Total Expenditure	**286,798**	**199,740**	**241,567**	**296,917**	**365,135**	**432,654**	**508,690**
Net Profit/(Loss) before taxation	**8,838**	**44,878**	**50,980**	**70,851**	**135,285**	**254,326**	**366,343**
Taxation	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Net Profit/(Loss) after taxation	**8,838**	**44,878**	**50,980**	**70,851**	**135,285**	**254,326**	**366,343**
Distributions:							
Reserve Transfers	**6,463**	**36,396**	**33,930**	**42,859**	**80,205**	**178,549**	**167,514**
Dividends	**2,375**	**8,483**	**17,050**	**27,992**	**55,080**	**75,777**	**198,830**
Total Distributions	**8,838**	**44,878**	**50,980**	**70,851**	**135,285**	**254,326**	**366,343**