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Llywodraeth Cymru
Welsh Government

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Social research

Number: 51/2012

www.cymru.gov.uk

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

Final Interim Report

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FINAL INTERIM REPORT

Nia Bryer, Old Bell 3 Ltd

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

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Welsh Government Social Research, 2013
ISBN 978-0-7504-8635-4

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GLOSSARY OF ACRONYMS

WEFO	Welsh European Funding Office
SGEI	Service of General Economic Interest
TSIB	The Social Investment Business
KPI	Key Performance Indicator
FSA	Financial Services Authority
DWP	Department for Work and Pensions
ERDF	European Regional Development Fund
LASA	Loans and Savings Abertawe
OPB	Operational Project Board
ABCUL	Association of British Credit Unions Limited
ACE	Access to Credit Unions for Everyone
CMU	Cardiff Metropolitan University
UWIC	University of Wales Institute Cardiff
CQFW	Credit and Qualifications Framework for Wales
PEARLS	Protection, Effective Financial Structure, Rates of Return, Liquidity, and Signs of Growth
CUCA	Credit Union Current Account
SLA	Service Level Agreement

EXECUTIVE SUMMARY

Introduction

The Access to Financial Services through Credit Unions Project (referred to as the Credit Unions Project) was first introduced in April 2009 and during its initial phase one pilot, £1.9 million funding (both capital and revenue) was made available via Welsh Government and EU Convergence region funding to support the expansion and sustainability of Welsh credit unions. The Wales Co-operative Centre was procured by the Welsh Government to administer the credit union funds and to provide support to the sector.

Our First Year Report found that the EU-funded project either met or exceeded four of its Welsh European Funding Office (WEFO) targets, but failed to meet the fifth and final target of supporting 2,847 individuals to access financial services. The main challenges identified during our evaluation of phase one related to the disconnection between the targets of the Credit Union Action Plan, the WEFO Business Plan and credit union contractual targets, as well as the lack of consistency in terms of defining WEFO-funded targets.

The project is currently midway through its second phase of delivery (October 2010 until December 2013) and is being funded with just under £3.5 million (£1.88 million of this being EU funding). Its aim is 'to support the development of a strong, sound and effective credit union movement in Wales which provides an accessible, affordable and comparable, high quality financial service, able to meet the needs of all Welsh citizens, and especially those in greatest need.'[1]

17 credit unions are currently being supported by the project via Service of General Economic Interest (SGEI) Funding Agreements, and the Welsh Government continues to contract the administration of the second phase

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

funding agreements as well as the support provision to the credit unions sector in Wales to The Social Investment Business (TSIB).

Methodology

This interim report is based on a work programme undertaken between May and November 2012 which involved:

- attending a planning meeting with the Evaluation Steering Group to agree the interim phase work programme;
- updating the literature review of UK and Welsh policy and legislation;
- reviewing phase two project delivery documents and monitoring data;
- reviewing Welsh credit unions financial and performance data;
- developing research instruments and undertaking stakeholder consultations;
- undertaking in-depth visits to eight credit unions and facilitating a focus group with members of the All Wales Credit Union Liaison Group; and
- undertaking interviews with three ‘control’ Credit Unions not involved in the project.

Findings

Our research found that the Welsh policy context for credit unions remains supportive, albeit that recent Welsh Government actions and decisions have intensified the debate about whether expectations for the sector are focused upon the provision of financial services to excluded individuals as opposed to developing a self-sustainable credit union sector – and whether these two goals are in conflict. The difficulties associated in pursuing both objectives have become even more profound for credit unions as they enter the last year of their SGEI funding agreements – with several now facing critical decisions around which avenue to take given that funding post-2013 looks unlikely.

We are of the view that the Welsh Government needs to clarify its policy in this area and suggest that if the long-term policy goal is to provide financial services to financially excluded individuals, then there is a strong argument for on-going compensatory funding to provide such services. If (either instead of or, as well as, the goal of providing services to the financially excluded) the

Welsh Government remains committed to building financially sustainable credit unions as a goal of public policy, then we believe it will need to adopt a different and separate approach to providing core funding to credit unions in the future.

Despite these conflicting policy issues, we are of the view that the project is making a reasonable contribution in developing a strong and effective credit union movement in Wales. There has been a healthy growth in both credit union membership and asset base in Wales as a direct result of project funding, and the project is making good progress in achieving its WEFO-funded targets for the Convergence area. It is to be congratulated on its success in exceeding its most ambitious WEFO target of recruiting 7,500 financially excluded members – indeed 9,016 financially excluded adult members and a further 3,449 junior members have been recruited to date.

However, the performance of individual credit unions in meeting their SGEI-funded obligations varies significantly. Improvements to credit union governance and business operations have taken place, but it remains the case that there is widespread variation across credit union performance in this respect. Generally credit unions are still weak in terms of their financial structures (net loans to total assets), still maintain very high operating costs and continue to hold more cash reserves than desired: the position with regard to bad debt provision has varied, however, with provision increasing in some credit unions and falling in others.

Our fieldwork revealed that some SGEI-funded credit unions have been able to make progress towards becoming self-sustaining organisations. But there is widespread recognition that, with Welsh Government funding expected to end in 2013, those credit unions which survive are likely to contract (in some cases quite considerably) while a small number of credit unions are likely to close.

We are of the view that the Welsh Government’s contracted provider TSIB is largely delivering against its KPIs and has effective processes in place to administer the SGEI funding agreements. However, the evidence suggests that the support and training made available via TSIB is only having a marginal impact upon the majority of credit unions.

Recommendations

The evaluation makes seven recommendations, namely that:

Recommendation 1: The Welsh Government clarifies its priorities for credit unions and the provision of financial services to excluded individuals so as to reduce the current conflicting demands placed upon the sector.

Recommendation 2: In light of this (and subject to budgetary pressures) the Welsh Government commits to future on-going funding for the provision of financial services to excluded people and undertakes a scoping study to investigate whether in practice other relevant (i.e. FSA licensed) institutions might be prepared to tender to provide such services.

Recommendation 3: Should the Welsh Government commit to the development of a financially sustainable network of credit unions post-2013, then we are of the view that it ought to take a more ruthless approach to ensure better value for money is obtained from the investment. In particular, it should (i) review the performance to date of SGEI-funded credit unions; (ii) consider providing additional core funding (revenue and capital) to the targeted credit unions for a further three years but on a tapering down basis against credible business plans which show how sustainability can be achieved by 2016; (iii) remove requirements on these credit unions to target recruitment and growth efforts specifically at financially excluded individuals and agree targets for membership growth, asset growth and the percentage of turnover accounted for by earned income; and (iv) review support annually and withdraw funds from any credit unions which fail to deliver accordingly.

Recommendation 4: The project, through its contracted provider TSIB, continues to provide governance and compliance support to credit unions for the remaining period of the project, and that a greater focus be placed on supporting the recruitment of new credit union Board members and facilitating succession planning within those credit unions who require such support and can see the value in receiving it.

Recommendation 5: Those credit unions which have achieved their contractual SGEI-funded targets, be given greater flexibility by the Welsh Government to attract a wider membership base and increase their loan portfolio so as to increase their propensity to achieve long-term sustainability. These credit unions should also be encouraged to focus upon the retention of their current membership.

Recommendation 6: The project reconsiders its marketing provision so as to focus upon raising people's understanding of credit unions and broaden its marketing to attract a wider membership base to the credit union movement in Wales. We also recommend that consideration be given to strengthening the common credit union brand for Wales.

Recommendation 7: The project provides support to the credit union sector to address its current key financial performance weaknesses, particularly around bad debt and reducing operating costs. There is scope to further explore the sharing of resources and operating costs across supported credit unions.

1. INTRODUCTION

1.1 Background

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

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

1.2 Aim of the Review

The aim of this evaluation is 'to assess the impact and effectiveness of the access to financial services through credit unions project and the extent to which its aims and objectives have been met.'[2]

The evaluation involves three distinct stages: a formative evaluation (first stage); an interim evaluation (second stage) and a summative evaluation (third stage). The formative evaluation was carried out during 2011 and led to the publication of a First Year Report.[3]

The objectives of the second stage of work were to review:

- the extent to which recommendations from stage one have been implemented;
- the extent to which the aims, objectives and targets for phase two are being met;

[2] Invitation to Tender Specification, Page 4.
[3] The report can be accessed at: http://wales.gov.uk/about/aboutresearch/social/latestresearch/creditunions/?lang=en.

- the impact of the project on new and existing credit union members, the local community and the economy;
- the extent to which change in the WEFO target variables for phase two can be attributed to the project;
- the extent to which the project is contributing to the targets in the Credit Union Action Plan;
- actual outturn of the project to date against expectations;
- any risks that have materialised and to assess the impact that they have had on performance; and
- the extent to which the project has developed or adapted in line with legislation and policy.

1.3 Method

This interim report is based on a work programme undertaken between May and November 2012 which involved:

- attending a planning meeting with the Evaluation Steering Group to agree the interim phase work programme;
- updating the literature review of UK and Welsh policy and legislation in respect of the credit union sector;
- reviewing phase two documents relating to the delivery of the Credit Unions project;
- reviewing phase two project monitoring and output data with a view to assessing the extent to which phase two targets are being met;
- reviewing financial and performance data relating to credit unions in Wales;
- developing semi-structured topic guides and undertaking consultations with a total of 14 stakeholders, including TSIB and Welsh Government officials;
- developing semi-structured topic guides and undertaking in-depth interviews with 16 Credit Union Board Members, 16 staff (including Managers), 13 volunteers and 25 members across eight credit unions as well as facilitating a focus group with four credit union

Managers/Representatives[4] at the All Wales Credit Union Liaison Meeting held in October 2012; and

- developing a semi-structured topic guide and undertaking interviews with managers of three ‘control’ or comparator credit unions not involved in the project.[5]

1.4 Structure of this Report

In the remainder of this report, we firstly update the policy context for the credit union sector at a UK and Welsh level **(Section 2)** before providing an overview of the phase one and phase two programme **(Section 3).** We then present the findings of our fieldwork undertaken during both the first and second year **(Section 4),** which also takes into account our analysis of project performance data, credit union financial performance and comparator credit unions. Finally we present our mid-term conclusions and recommendations **(Section 5)**.

[4] One of which had also been included in the case study visits.
[5] One Welsh CU was selected (Bargoed, Aberbargoed and Gilfach (BAG) Credit Union) and two English credit unions were selected (Bristol Credit Union and Just (Shropshire, Telford and Wrekin) Credit Union).

2. POLICY REVIEW

2.1 First Year Report Policy Review Summary

Our First Year Report reviewed a number of key Welsh policy and strategy documents of relevance to the Credit Unions project, including the Financial Inclusion Strategy for Wales,[6] the Credit Union Action Plan for Wales[7] and the current Programme for Government.[8] The report also considered the UK context in relation to legislative reforms affecting credit unions across Great Britain and an evaluation of the Department for Work and Pensions' Growth Fund.

Our First Year Report concluded that the credit union movement in Wales was less well developed than in some other countries, but that the Welsh policy context was highly supportive of credit unions as key mechanisms in tackling financial exclusion. We found that support for the development of credit unions in Wales was very evident and the project was well rooted in and aligned with key Welsh Government policies during its inception, not least the Financial Inclusion Strategy and the Credit Union Action Plan which between them set out a very detailed direction of travel for the movement in Wales.

We also came to the view that the expectations placed upon credit unions were very high and arguably unrealistic. We concluded that there appeared to be a disconnection between the capacity of the credit union movement in Wales and the aspirations for it to deliver the expected high level policy objectives spanning social justice, economic development and even education. We suggested that there was a need to develop the capacity, viability and governance arrangements of credit unions in Wales so as to enable and empower them to be able to fulfil their potential as community-based financial institutions. We argued that legislative changes instigated by

[6] Welsh Assembly Government (July 2009) *Taking Everyone into Account. The Financial Inclusion Strategy for Wales*.
[7] Welsh Assembly Government (November 2010) *Raising the Profile: Meeting the Challenges An Action Plan for the Credit Union Movement in Wales.*
[8] Welsh Government (September 2011) *Programme for Government (2011-2016)*.

the UK Government should help simplify the environment in which credit unions operate and enable a more flexible and commercial outlook which was likely to lead to greater competition between credit unions and commercial lenders. However, there was also a recognition that de-regulation would need to be complemented by on-going support, for example to improve the skills and capacity of directors, staff and volunteers involved in running credit unions.

We concluded that tackling financial exclusion was a major challenge and credit unions could not be expected to achieve this working in isolation. Both the Financial Inclusion Strategy and the Credit Union Action Plan stressed the importance of local authorities, housing associations, Communities First partnerships and other local stakeholders working in collaboration with and supporting credit unions to achieve this goal.

2.2 Current Welsh Policy Context

In our view the Welsh policy context remains supportive, albeit ambitious, and in its annual report on the Programme for Government[9], the Welsh Government reiterates the role that credit unions have in tackling poverty and financial exclusion in Wales, clearly stating that:

> 'developing Credit Unions in Wales is a manifesto commitment. We are committed to ensuring as many people as possible use Credit Unions, where this is appropriate. We are supporting Credit Unions through a programme of work (which will run until 2013) to help them become more sustainable'.[10]

The annual report also states that the Welsh Government is investing £4.056 million in the sector over a three year period to enable Welsh credit unions to offer alternative and affordable lending options to financially excluded individuals – an offer which has become increasingly important

[9] Welsh Government (May 2012) *Programme for Government Annual Report.*
[10] Ibid, Page 38.

within the current economic climate and the resulting pressures put on household incomes.

The twin focus upon tackling poverty and developing the long-term sustainability of credit unions in the Programme for Government clearly encapsulates the arguably conflicting policy goals set by the Welsh Government for the sector.

The Annual Report points to some of the successes of the Credit Unions project and states that more than 7,996 adult and young savers were accessing financial products through credit unions in December 2011 and annual membership growth of 11% was being achieved.[11] Only two credit unions were operating at a small deficit as at September 2011[12] and public awareness in Wales of credit unions was found to be significantly higher than elsewhere in the UK.

It goes on to state that the Welsh Government will 'continue to support and expand Credit Unions' and that the focus in the coming years will be working with local authorities to expand the provision of payroll deduction facilities. The document states that the Minister for Local Government and Communities wrote to leaders of local authorities in August 2011 to 'encourage exploration of payroll subscriptions to credit unions, and Welsh Government officials met with local council representatives in March 2012 to discuss marketing materials'.[13]

2.3 Current UK Government policy and legislative context

There have been significant developments at the UK policy and legislative level since the Credit Unions project was launched. We discuss some of the key developments below which have bearing upon the work of Welsh credit unions.

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[11] Page 38.
[12] Page 38.
[13] Ibid, Chapter 9 Programme for Government Commitments (Commitment 9/012).

2.3.1 Legislative Reform Order 2010

The Legislative Reform Order, which came into force in November 2011, has allowed credit unions to make fundamental changes to their operations across the UK. The introduction of the new legislation has allowed credit unions to reach out to new groups by serving more than one tightly defined group of people,[14] to provide services to community groups, businesses and social enterprises as well as to individuals, and to offer interest on savings, instead of a dividend. The introduction of the Legislative Reform Order has significant implications for one of the objectives contained in the Welsh Credit Union Action Plan - as credit unions are no longer confined to working within a specific geographical area achieving the objective of an all-Wales coverage will technically be much easier. Many Welsh credit unions have embraced the new legislation by expanding their ‘common bond’ geographical areas and offering a guaranteed rate of interest on members’ savings. The take-up of the power to offer services to other groups such as businesses and social enterprises has so far been more limited.

2.3.2 UK Government’s Welfare Reform programme

The UK Coalition Government published a White Paper ‘Universal Credit: welfare that works’ in November 2010 which set out its proposals for reforming the welfare system so as to simplify the benefits system and tackle administrative complexity. The subsequent Bill presented by the Department of Work and Pensions received Royal Assent on 8 March to become an Act of Parliament (the Welfare Reform Act 2012).[15]. The Act introduces a wide range of reforms which are intended to make the benefits and tax credits system fairer and simpler. It is perceived as being ‘the biggest change to the welfare system for over 60 years’[16] and will be introduced from April 2013 onwards.

One of the key changes to be introduced as part of the welfare reform programme, will be the introduction of Universal Credit which aims to simplify the benefits system by bringing together a range of working-age benefits into

[14] Previously, each credit union had to prove that everyone eligible to join it had something in common (usually either related to place of residence or workplace).

[15] UK Parliament (March 2012) *Welfare Reform Act*.

[16] UK Parliament (March 2012) *Welfare Reform Act* available at http://www.dwp.gov.uk/policy/welfare-reform/legislation-and-key-documents/welfare-reform-bill-2011/ .

a single monthly streamlined payment. This change will offer credit unions both opportunities (in terms of managing so-called jam-jar accounts for those in receipt of benefits to ensure that they retain the funds to make rent payments to landlords) as well as difficulties (such as the potential loss of arrangements whereby specific benefits are paid into credit union savings accounts). Finally, the Welfare Reform Act will result in the abolition of some elements of the existing Social Fund scheme, currently administered by the Department of Work and Pensions, to be replaced by new locally based provision.

2.3.3 Department of Work and Pensions' Social Fund

As part of the Welfare Reform changes, from April 2013 a new Welsh Social Fund will be introduced and managed by the Welsh Government to replace the existing Department of Work and Pensions' discretionary Social Fund scheme. The existing UK scheme offers payments through Community Care Grants and Crisis Loans to help people with needs which are difficult to meet from regular income and is made up of two distinct parts – a regulated and a discretionary part. Responsibility for the discretionary element of the scheme will be devolved to the Welsh Government and will be used to address the needs of vulnerable and financially excluded groups.

It was originally suggested that credit unions might have a role to play in the administration of the new Welsh Social Fund but the Welsh Government announced in November 2012[17] that Northgate Public Services, in partnership with Family Fund Trading and Wrexham County Borough Council, had secured the contract to deliver the Welsh Social Fund. The role that credit unions may have to play in supporting the work of these contractors is still somewhat unclear.

[17] http://wales.gov.uk/newsroom/housingandcommunity/2012/6764429/?lang=en.

2.3.4 Department of Work and Pensions' Modernisation and Expansion Fund

In May 2012, the DWP published a feasibility study[18] to look at the possibilities of expanding, modernising and developing sustainable credit unions across the UK by making available DWP funds for credit unions to administer for consumers on lower incomes. The DWP's intention in commissioning this feasibility study, was to explore options following the withdrawal of the DWP Growth Fund which had previously provided affordable credit to financially excluded households via the third sector, including credit unions.

The feasibility study found that there was 'a market amongst lower income households for locally provided banking, savings deposit and loan services from trusted providers such as credit unions'[19] as well as a desire amongst credit unions consulted, to widen the range of financial services that they could offer. Having considered other alternative models of catering for low income consumers, the study concluded that credit unions offered the only realistic option, despite the fact that 'some of their processes and their systems are not currently fit for purpose, and a major programme of cultural and behavioural change would be required to achieve the modernisation and expansion needed'.[20]

The study recommended that the major risks involved in delivering a modernisation strategy should be mitigated by adopting a phased approach, whereby the UK Government would work with 'small groups' of credit unions at any one time, to 'allow effective testing, and dissemination of lessons learnt'.[21] It also recommended that the UK Government move away from paying for services in advance towards paying for agreed results, in a move to manage the risks associated with credit unions not delivering – a change which would create significant cash flow issues for many of the smaller Welsh credit unions. It also recommended that only suitable credit unions be selected to participate and that strict criteria be applied to only allow those

[18] Department for Work and Pensions (May 2012) *DWP Credit Union Expansion Project Steering Committee Feasibility Study Report* available at http://www.dwp.gov.uk/docs/credit-union-feasibility-study-report.pdf.
[19] Page 4.
[20] Page 4.
[21] Page 5.

who had demonstrated sufficient progress to be involved. The study suggested that credit unions would have to demonstrate that they met eight criteria in order to join the programme, a number of which would rule out most Welsh credit unions at present, including automated IT platforms providing web and digital access, automated loan decision-making systems and plans to serve a larger and more diverse geographical community.

The study recommended that it would be possible to achieve the desired growth and modernisation of credit unions as a result of a £51 million financial subsidy to selected credit unions over a four year period and that ‘something close to sustainability’ could be achieved within a 7-10 year period but that ‘this does not guarantee they would ever become fully sustainable’.[22] One of the key factors which was thought to restrict credit unions from becoming sustainable, was the legislative cap on the interest rates which they can charge - the current 2% per calendar month on the outstanding balance of loans was not considered to be high enough to allow even the most cost-effective credit unions to break even on smaller loans. The study called for UK Ministers ‘to consider whether now is an appropriate time to make the case for increasing the rate’ to 3% per calendar month on the receding balance. Finally, the study recommended that credit unions should be required to make a financial contribution to the cost of systems infrastructure change, so as to demonstrate their commitment to modernisation.

[22] Page 5

3. PROJECT BACKGROUND

3.1 Introduction

The credit unions project was first introduced in April 2009 and during its initial phase one pilot, £1.9 million was made available via Welsh Government and EU Convergence region funding (both capital and revenue) to support the expansion and sustainability of 22 credit unions. The Wales Co-operative Centre was procured by the Welsh Government to administer the credit union funds and to provide support to the sector. Our First Year Report found that the EU-funded project either met or exceeded four of its WEFO targets, but failed to meet the fifth and final target of supporting 2,847 individuals to access financial services. The main challenges identified during our First Year evaluation of phase one related to the disconnection between the targets of the Credit Union Action Plan, the WEFO Business Plan[23] and credit union contractual targets, as well as the lack of consistency in terms of defining WEFO-funded targets.

The second phase of the project commenced in October 2010 and will continue until December 2013. The total funding made available for phase two is just under £3.5 million with £1.62 million of this being made available by the Welsh Government and £1.88 million via Convergence European Regional Development Fund (ERDF) funds.

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

> ‘to support the development of a strong, sound and effective credit union movement in Wales which provides an accessible, affordable and comparable, high quality financial service, able to meet the needs of all Welsh citizens, and especially those in greatest need.’[24]

[23] The key targets set out in the Credit Union Action Plan (such as increasing credit union market penetration, increasing credit union asset base, increasing public awareness and increasing credit volunteer numbers) were not reflected in the WEFO Business Plan or individual credit union contractual targets.

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

Whilst the business plan was prepared in advance of the publication of the Credit Union Action Plan, the aim was nonetheless consistent with the eventual aims of the Action Plan. The objectives however, were somewhat less specific than those of the Action Plan:[25]

'To

- strengthen the governance and compliance standards of credit unions in Wales;
- support the long-term sustainability of the credit union movement;
- raise the profile of the credit union movement;
- encourage membership growth – achievement of a significant growth of credit union membership in Wales, linked to a steady increase in savings, loans made (current assets) and repaid and the building of sufficient capital assets; and
- support credit unions in delivering financial inclusion initiatives'.[26]

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

Figure 1: Credit Unions Project Phase Two WEFO Targets

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

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

[25] See First Year Report Section 2.2 for Credit Union Action Plan's objectives.
[26] Ibid., p.3.

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

In preparation for phase two of the project, the Welsh Government invited credit unions to apply for further funding and issued a second tranche of one year Service of General Economic Interest (SGEI) Agreements to 19 credit unions covering the September 2010-August 2011 period. Revenue-only funding of just over £750,000 was made available with individual funding amounts varying from £21,260 (Brecon Credit Union) to £50,000 (Clwyd Coast, Gateway, Credcer, Romcul and Smart Money), as presented in Figure 2 overleaf. No Welsh Government funding was available to offer capital funds to credit unions during this period. In addition, funding for two specific projects was made available to be delivered across the four credit unions of Smart Money, Gateway, Newport and Merthyr Tydfil Credit Unions - namely to fund the Debt Recovery Officer based at Smart Money Credit Union (£27,464) and the Financial Harmonisation project and Document Scanning project (based at Gateway Credit Union and amounting to £22,937).

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

During August 2011, the Welsh Government issued a third set of credit union SGEI funding agreements covering a two year period from October 2011 to September 2013. The revenue-only amounts confirmed are presented in Figure 2 below. It is worth noting that funding is currently made available to 17 credit unions following the inclusion of Llynfi Valley and Islwyn Credit Unions for the first time during 2012 and the merger of five North Wales-based credit unions (Caledfryn, Clwyd Coast, Llandudno and District, Wrexham and Y Llechen) in early 2011. As would be expected, the funding made available to the newly merged credit union is much greater than for other, smaller ones.

Figure 2: Phase Two SGEI Funding Agreements for Credit Unions[27]

Credit Union	Phase Two First Year Funding (1 October 2010–30 September 2011) (£)	Phase Two Second and Third Year Funding (1 October 2011-30 September 2013) (£)	Total Phase Two Funding (£)
Brecon and District	21,260	42,520	63,780
Bridgend Lifesavers	34,453	89,906	124,359
Caledfryn	35,537	-	35,537
Cardiff and Vale	22,374	44,748	67,122
Clwyd Coast	50,000	-	50,000
Credcer Credit Union	50,000	90,000[28]	140,000
Dragonsavers	46,000	92,000	138,000
Gateway	50,000	132,276	182,276
Haven	30,000	70,000[29]	100,000
Islwyn Community	-	47,000	47,000
LASA	24,406	48,812	73,218
Llandudno and District	34,676	-	34,676
Llynfi Valley	-	20,000	20,000
North Wales	n/a	396,178	396,178
Merthyr Tydfil Borough	39,431	81,377[30]	120,808
Neath Port Talbot	45,558	91,116	136,674
Newport CU	35,000	72,500	107,500
Robert Owen Montgomery (Romcul)	50,000	0	0
Save Easy	30,453	60,906	91,359
Smart Money	50,000	102,500	152,500
Wrexham	46,876	-	46,876
Y Llechen	31,000	-	31,000
Total	£727,024	£1,481,839	£2,158,863

The Welsh Government has confirmed that further funding 'beyond September 2013 is not assured and plans should be developed if financial support is not extended'.[31]

[27] Revenue Funds only.
[28] Includes a debt recovery supplement of £10,000.
[29] Includes a debt recovery supplement of £10,000.
[30] Includes a debt recovery supplement of £2,500.
[31] All Wales Credit Union Liaison Group Minutes, 31 October 2012.

4. FINDINGS

4.1 Introduction

In this section, we report on the findings from our desk review and our fieldwork. We first consider views on the initial and continuing rationale for the project (Section 4.2), before turning to review project and individual credit union targets and achievements (Section 4.3). We then explore project delivery arrangements (Section 4.4) and the nature of the support provided (primarily via TSIB but also directly via the Welsh Government and Cardiff Metropolitan University) to date (Section 4.5 and 4.6). Section 4.7 looks at the key developments that have taken place across the sector and the contribution made by the project to these developments. Finally, we present the views of individual members interviewed during the fieldwork about the difference made by credit unions (Section 4.8), discuss the extent to which recommendations made in our first year report have been taken forward (Section 4.9) and the extent to which the project is on track to meet the targets set in the Credit Union Action Plan for Wales (Section 4.10).

4.2 Views on Project Rationale

4.2.1 Welsh Policy

Our fieldwork suggested that while there continues to be strong support for the credit union sector in terms of Welsh Government policy statements and commitments, there remains a significant conflict in Welsh policy expectations of credit unions. The fundamental problem stems from the tensions between using credit unions as a tool in the Welsh Government's anti-poverty agenda on the one hand, and the Welsh Government's desire to develop a sustainable credit union sector on the other. This tension is clear in the Annual Report on the Programme for Government cited above, which simultaneously refers to the credit union project as having the goal of making credit unions more sustainable and of enabling them to offer alternative and affordable lending options to financially excluded individuals.

Credit unions themselves were eager to stress that they were receiving mixed messages from the Welsh Government – on the one hand, they were being urged to act in a more commercial way and become more financially sustainable, whilst at the same time they were being told to focus on market segments where it was impossible to make engagement pay. Feedback from credit unions suggested that the current funding structure and a focus on delivering services to financially excluded groups, will not necessarily lead to the formation of financially sustainable organisations. Indeed, several credit unions suggested that 'battening down the hatches' and seeking to serve a core market of more reliable savers, was significantly more likely to lead to financial sustainability than the current Welsh Government-led strategy of seeking to expand services to financially excluded groups: the 'market failure' of mainstream providers (banks and building societies) to serve these groups was, it was argued, a rational reflection of the high costs and uncertain returns of providing services to them, while the enormous charges and unscrupulous tactics of payday lenders in part reflected the high default rates of these groups.

Some stakeholders suggested that there was a noticeable shift in Welsh Government priority towards the tackling poverty priority over the last year or so (and away from supporting credit unions per se) which raised fundamental questions about the rationale of the Credit Unions project and whether there are other, more effective, ways of providing financial services to excluded groups in Wales. Despite support for credit unions being clearly documented in Welsh Government policy documents, it was suggested there appeared to have been a reduced level of Ministerial support to the development of the credit union sector as an end in itself over the last year. Recent decisions such as the Welsh Government's decision not to fund the development of the pre-paid credit union credit card and decisions not to award capital funding to two credit unions who applied recently, implied to some a reduced priority upon supporting actions which were focused on developing the sustainability of the sector.

A few consultees argued that the provision of grant funding to the sector had moved some credit unions further away from being self-sustaining operations in that the availability of funding to support 'ambitious' and 'peripheral' activities, such as schools-based provision, had made credit unions more dependent on grant funding. It was argued that the provision of financial support had encouraged credit unions to move away from their core business of saving and borrowing, thus potentially jeopardising their future.

Some consultees believed that Welsh policy was at a crossroads and requested greater clarity about the single objective which the Welsh Government wanted credit unions to achieve. Credit unions stressed that if the priority was to provide services to financially excluded groups, then such provision had to be compensated on an on-going basis: 'dealing [exclusively] with people who can't pay you is commercial suicide'.

However if the key Welsh Government policy was about developing sustainable operations, then credit union representatives called for a fundamental change to the way credit unions are supported. For example, it was suggested that Welsh Government ought to place a greater emphasis upon supporting credit unions to recruit and service non-financially excluded customers (tier 1 and tier 2 customers) as these tend to take out larger loans and have a better repayment record. It was also suggested that support to the sector ought to be differentiated - for example, a few raised questions as to whether Welsh Government should invest only in successful credit unions who were committed to growth and progression towards sustainability, as opposed to adopting a 'blanket' approach to support all credit unions and possibly 'throwing good money after bad'.

In terms of the current project, there was a strong argument from within the credit union sector that there continues to be a need for it and that it should remain in place until the end of 2013. Furthermore the majority of those consulted thought that support to the sector should continue post-2013, although there was less clarity about how this support should look . Many expressed concerns that if credit union funding is turned off at the end of

2013, many credit unions would return to their previous positions and benefits from the progress made would be lost.

In terms of policy expectations (as expressed in the Credit Union Action Plan) mixed views were conveyed about their appropriateness and realism at this stage. Some credit unions and stakeholders regarded them as being achievable, whilst others argued that they were only appropriate for a small number of credit unions and unrealistic for the majority. For example it was thought that some, but not all, credit unions would be able to achieve a 6% market penetration by 2020. Furthermore, whilst it may appear that the policy objective of providing all-Wales coverage had been achieved, in reality it was thought this was not the case as credit unions were prepared to admit that they did not fully service their 'common bond' areas: in particular, there was thought to continue to be a lack of real access to services in many rural areas.

4.2.2 UK Policy

It was argued that the introduction of the Legislative Reform Order 2010 had not had a significant impact upon the credit union sector in Wales to date. Evidence was given to suggest that some credit unions were able to extend their common bond area which has, in a couple of cases, created some conflicts between those credit unions operating across the same common bond area. The introduction of the legislation also enabled credit unions to admit corporate members, but it was not thought that many Welsh credit unions had taken this opportunity as yet.

Whilst a few Welsh credit unions had participated in the previous Department for Work and Pensions Growth Fund, it was not known at the time of our fieldwork whether any Welsh credit unions would be involved in the delivery of the follow-on Modernisation or Expansion Fund. The fieldwork revealed that the Fund may be an opportunity for the largest credit unions, but it would be difficult for the majority to engage given that they would not meet DWP criteria. Furthermore, a couple of credit unions reported upon the negative experiences that they had experienced via the Growth Fund and said that they were reluctant to consider going down this route again.

At the time of our fieldwork, it was not known whether any Welsh credit unions would be engaged in the direct delivery of the new Welsh Social Fund. However, some credit unions noted that they would be expected to partner the successful contractor by referring people to the Fund and having unsuccessful applicants referred back to them.

Feedback from consultees suggested that Welsh credit unions were starting to anticipate and feel the effects of UK Welfare Reforms, and several credit union consultees believed that the introduction of Universal Credit would have an adverse impact upon customers. Some foresaw that a greater demand would be placed upon credit unions to help members manage changes such as monthly payments and payment in arrears. One credit union expressed their concerns about losing control over member loan arrears if universal credit were paid into another financial services provider account since they currently have arrangements in place for individual members to assign specific benefits to pay into their credit union account to safeguard their loan arrears. On the other hand, a small number of consultees thought that the planned welfare reforms presented opportunities to credit unions, particularly in terms of opportunities to work with housing associations. However, many concerns were conveyed that credit unions were not prepared for these opportunities and might ‘miss the boat’. For example it was argued that housing associations were likely to prefer to work with larger credit unions who could offer services across several local authority areas, and who had capacity to manage a large number of accounts. One stakeholder noted: ‘a housing association has said to me that if a credit union can’t offer 4,000 accounts then they are not interested.’

4.2.3 Other External Impacts

There was unanimous agreement that there had been a recent increase in the availability and use of other financial provider services, including pay day loan companies such as Provident and Wonga as well as other high street money shops, which had increased levels of competition for credit unions.

Furthermore, several credit unions argued that the strong presence of financial services websites such as moneysupermarket.com had reduced the effects of any marketing undertaken by credit unions and the project – particularly since credit unions lacked a common brand to compete and not all credit unions have a website in place.

Many credit unions referred to a recent drop in the demand for loan products, and this change was attributed to the economic downturn and members being more likely to use their savings rather than borrow.

4.3 Project Targets and Performance

In this section we discuss the project's performance to date. This includes a brief summary of phase one as well as a detailed account of phase two performance.

4.3.1 Phase One Targets

Our First Year Report found that the phase one project was able to either meet or exceed the majority of its WEFO-funded Convergence targets, although there was a lack of evidence to substantiate some outputs and a lack of consistency in the definitions adopted. Our First Year Report also revealed a fairly weak outturn in terms of credit unions' performance against their individual targets for phase one. The main issue related to the fact that credit unions adopted a wide range of ill-defined targets (and that the overall number of targets in different credit unions' funding agreements varied tremendously) which meant that assessing value for money proved impossible. Furthermore, our First Year Report found that there had been a lack of alignment between targets agreed with individual credit unions and project level targets agreed with WEFO.

Our First Year evaluation found that the Wales Co-operative Centre was contracted to deliver upon six key areas of activity in terms of supporting credit unions as well as administering the SGEI funding agreements. We concluded that the Wales Co-operative Centre was largely able to fulfil its contractual obligations during phase one and deliver the support provision required, albeit that the focus of work was weighted towards the administration of the SGEI funding agreements. However given the lack of specific Key Performance Indicators for the Wales Co-operative Centre to deliver in phase one, we concluded that it was very difficult to assess its success, or otherwise, in meeting Welsh Government objectives.

4.3.2 Phase Two Project Targets

The phase two project has nine high level targets to achieve by the end of December 2013 in the Convergence area, and a review of data supplied by the Welsh Government, summarised in Figure 3 shows that the project is making good progress against these.

Figure 3: Convergence Area Performance Against Phase Two Targets as at September 2012

	Target	Achieved to Date
Social enterprises financially supported	17	13[32]
Social enterprises assisted	17	13[33]
Number of jobs created	7	13
Social enterprises created	1	N/A[34]
Number of people accessing services (financial services)	7,500	9,016[35]
Enterprises adopting or improving Environmental Management Systems	17	4
Enterprises adopting or improving equality strategies and monitoring systems	17	7
Net social enterprises created	1	N/A
Net jobs created	1	13

Source: WEFO Progress Report submitted by the Welsh Government for period ending September 2012

Perhaps most importantly, good progress has been made in respect of the increase in the number of people accessing financial services. Our First Year Evaluation revealed some concerns that the target of supporting people to access financial services (set at 7,500) was unrealistic, but the Welsh Government's decision to realign credit union SGEI funding agreements with

[32] Despite this output being lower than the original target, this target has been achieved in that the project has worked with four credit unions covering the Convergence area in North Wales which merged into North Wales Credit Union in January 2011.
[33] Ditto.
[34] It was agreed with WEFO that the indicator for Social Enterprises Created (and Net Social Enterprises Created) would be removed on the grounds that the newly formed North Wales Credit Union was a merger of five former credit unions in North Wales, four of which were in the Convergence area.
[35] In addition to these, 3,449 junior savers have been recruited since the start of the project.

this target during 2011 is proving effective in that the target has now been exceeded. The change resulted in a significant increase in the number of financially excluded people recruited and reported by the project (a total of 9,016 financially excluded people to date). In addition, 3,449 junior members have been supported bringing the overall number to 12,465 within the Convergence area alone.

In terms of the number of social enterprises financially supported, the project is currently only able to report 13 credit unions in receipt of project support in the Convergence area.[36] However, in total, this target has been met over the duration of phase two (thus meeting WEFO's target) as four credit unions covering North West Wales (as well as the Wrexham Credit Union) merged into one credit union in January 2011. One new credit union (Llynfi Valley) was also recruited to the project late 2011/early-2012. Thus in total, 17 credit unions within the Convergence area have been supported.

The quarterly report submitted to WEFO in September 2012 states that the 'net gain in credit union employment is 13'. Data on jobs created (and net jobs) was collected from credit unions and reported to the Welsh Government via TSIB. We understand that evidence of employment is retained by the reporting credit union to ensure the safeguarding of personal information.

The latest progress report to WEFO[37] states that only four credit unions have achieved the Green Dragon level two environmental standard, which is a very low output against the target of 17 given that the project only has just over a year to go. However, the September 2011 return noted that nine credit unions had adopted and four had improved their environmental management systems, which raises some confusion as to the project's achievements in this area.

[36] The project also currently supports a further four credit unions who operate solely outside of the Convergence area namely Brecon, Cardiff, Newport and Romcul bringing the total number of credit unions involved in the project across Wales to 17.
[37] Up to September 2012.

It remains the case that seven credit unions have adopted revised equal opportunities policies and there has been no increase to this output since September 2011. The remaining seven are working towards adopting or improving these strategies. However when looking at individual credit union progress reports, 10 credit unions claim to have either adopted or improved their equality strategies or systems which again suggests some confusion around the actual output achieved. Generally, it would be worthwhile for the project to focus upon improving its reporting upon these cross-cutting areas of activity in the remaining year of delivery.

4.3.3 Phase Two Credit Union Targets

Our First Year Report stated that the credit union targets which formed part of their SGEI funding agreements, were wide-ranging and varied significantly in number and type for each organisation. Data made available to us for the October 2010-June 2011 period showed that the progress made by individual credit unions was mixed. Data made available by TSIB on the achievements of 15 credit unions against their service targets for the first three-quarters of phase two showed that:

- three credit unions[38] appeared to have made very good progress against their annual targets, having achieved all but one or two of their targets;
- eight credit unions appeared to have made reasonable progress against their annual targets, bearing in mind that the final quarter for 2010/11 were yet to be reported at the time of our research; and
- four credit unions[39] had made poor progress against their annual targets – one had not achieved any of their targets and the remaining three had only achieved one of their targets.

Following the Welsh Government’s decision to simplify credit unions SGEI Funding Agreements for the remaining part of phase two and to align them more clearly with project level targets, credit unions have only had to report against two targets since October 2011 – namely new financially excluded

[38] Brecon, Bridgend and Dragon Savers.
[39] Cardiff and Vale, Gateway, Haven and Romcul.

adult members and new young savers (albeit that they are only contracted against the target of new financially excluded adult members). Our fieldwork during 2012 showed that the simplification of targets for credit unions had been very welcome.

As shown in Figure 4 below, the Welsh Government contracted with credit unions to achieve an all-Wales target of recruiting 9,198 new financially excluded adults and a further 1,205 new young savers. Of these, it was expected that 7,154 new financially excluded adults (just short of the WEFO's target of 7,500) and 1,070 new young savers would be recruited within the Convergence region. Data supplied by the Welsh Government shows that collectively contracted credit unions have exceeded their all-Wales targets. Collectively, those based in the Convergence area have already exceeded their targets whilst those in the non-Convergence area have exceeded their new young savers target and are close to meeting their new financially excluded adult target.

Figure 4: Achieving Phase Two Targets (as at September 2012)

Credit Union	**New financially excluded adults**			**New Young Savers**		
	Target	Achieved	Variance	Target	Achieved	Variance
ERDF Only						
Bridgend	455	782	327	199	99	-100
Credcer	336	112	-224	0	74	74
Dragon Savers	1,036	1,275	239	119	532	413
Haven	253	126	-127	112	24	-88
Islwyn	120	83	-37	0	30	30
LASA	264	935	671	300	199	-101
Llynfi Valley	100	92	-8	0	24	24
Merthyr Tydfil	346	693	347	0	483	483
Neath Port Talbot	801	1,594	793	68	1,154	1,086
Save Easy[40]	401	101	-300	7	10	3
Combined ERDF						
Gateway	875	705	-170	50	201	151
North Wales	1,629	1,607	-28	140	427	287
Smart Money	638	917	279	75	192	117
ERDF Total	7,154	8,924	1,770	1,070	3,449	2,379
Combined Non-ERDF and Domestic						
Gateway	132	108	-24	0	81	81
North Wales	606	641	35	35	48	13
Smartmoney	130	240	110	0	2	2
Brecon	191	56	-135	0	8	8
Cardiff	480	131	-349	0	11	11
Newport	450	729	279	50	173	123
Romcul	55	93	38	50	55	5
Non-ERDF Total	2,044	1,998	-46	135	378	243
All Wales Total	9,198	10,922	1,724	1,205	3,827	2,662

However, the performance of individual credit unions against their contracted targets varies – with those such as Neath Port Talbot, Merthyr Tydfil, Newport and Smart Money already far exceeding both of their contractual targets. It is also the case that LASA is performing well in terms of the number of financially excluded adults it has recruited, albeit the target set at 264 was arguably quite low. Save Easy, Credcer, Brecon and Cardiff Credit Unions appear to be performing relatively poorly against their targets in that they are

[40] Save Easy outputs relate to their provision in Pembrokeshire only.

yet to achieve half of their financially excluded adults target. Haven is the only credit union which has not yet achieved either of these targets - although we are mindful that all credit unions have another year to meet these targets. Our fieldwork revealed that six of the eight case study credit unions visited were confident that they would achieve their targets (indeed some already had done so), one credit union thought it highly unlikely that they would achieve their funding targets whilst the eighth was unsure.

Our fieldwork with credit unions revealed some interesting findings as to why some credit unions were performing well against their targets, whereas others were struggling. In the case of Save Easy, it was argued that they had been encouraged to extend into a new local authority area (Pembrokeshire) by the Welsh Government despite having major reservations about doing so, given the differences between the new area in Haverfordwest and their core area in Llanelli. They were also mindful of their lack of links to the local community in Pembrokeshire and were not particularly confident about their ability to meet the contracted target for adult members. In the case of Cardiff, one of the key difficulties in meeting the target was thought to be linked to the fact that membership of the credit union is highly skewed to public sector employees who do not necessarily fall into the financially excluded target definition. In the case of Haven, staff recruitment and retention issues have meant that the project has not had the anticipated resources in place throughout phase two to date.

4.3.4 Phase Two TSIB Targets

TSIB continues to be contracted by the Welsh Government to manage and distribute the SGEI grant payments to credit unions as well as deliver support and advice to credit unions involved in the project. Our First Year Report found that the majority of the KPIs set for TSIB had been achieved during the first year and needed to be reviewed (upwards) as well as made SMARTer to reflect the provision made available. The Welsh Government took a decision to revise the Key Performance Indicators for TSIB and this involved reducing the original 20 KPIs to a more manageable number (seven), outlined below (Figure 5). It is encouraging to see that each of the revised KPIs issued by the

Welsh Government had specific deliverables and timescales for provision – whilst not specified in Figure 5, each of the activities outlined had set deliverables and estimated completion or frequency dates in place.

Figure 5: Phase Two (Second and Third Year) Key Performance Indicators for TSIB[41]

- To provide business support to credit unions to improve business planning and governance arrangements to comply with requirements imposed by the Financial Services Authority.
- To provide quarterly progress reports on credit unions participating in the project covering financial health and solvency, SGEI activity and business developments.
- To provide intensive business stabilisation support where there is an identified risk of business failure based on the information contained within the credit union quarterly report.
- To develop and implement a programme of training designed to improve and maintain the capacity, ability and professionalism of directors, volunteers and paid employees of Welsh credit unions.
- To facilitate closer collaboration between Welsh credit unions by supporting regular regional meetings for the purpose of exploring opportunities for collaboration and sharing of notable practice. Where appropriate, [to] support the merger of credit unions when in the best interest of the members and the communities served by those credit unions.
- To develop and implement a marketing and communications strategy.
- To process claims from credit unions in accordance with the provisions contained within the agreements to provide Services of General Economic Interest.

Our document review and fieldwork findings reveal that TSIB has been able to fulfil its contractual obligations to date and a discussion around the extent to which these have been effective is presented in Section 4.5.

4.4 Project Delivery Arrangements

In this section we review the effectiveness of project management and operations. For the sake of comprehensiveness, we summarise our view on the delivery arrangements adopted for phase one (Section 4.4.1) before turning to discuss phase two processes (Section 4.4.2).

[41] Taken from a Welsh Government Letter dated 4 November 2011 address to TSIB.

4.4.1 Phase One Delivery Arrangements

Our First Year Report found both strengths and weaknesses to the phase one approach taken by the project – for example the National Credit Union Liaison Group was regarded as being an effective mechanism for credit union dialogue and several lessons had been learnt which were later adopted in phase two. In terms of the negatives, we reported that the resources available within the Welsh Government to manage the project had not been consistently adequate. Furthermore the contracted provider (Wales Co-operative Centre) had primarily focused upon the administration of the SGEI funding agreements, and questions were raised about the effectiveness of the credit union development work undertaken.

4.4.2 Phase Two Delivery Arrangements

Phase two continues to be overseen by a (now) adequately resourced core Welsh Government project team based within the Third Sector Unit and a small team at TSIB (compromising a Project Manager, Project Administrator and a team of advisors) working as sub-contractors directly with credit unions. Since our First Year Report, a member of the Welsh Government staff has been seconded to TSIB for the duration of the second phase to focus exclusively upon the stabilisation initiative.

An Operational Project Board (OPB) was established by the Welsh Government during 2010, with members drawn from internal staff, to oversee the delivery of the Credit Unions project and feedback suggests that this continues to work effectively.

Our fieldwork suggested that relationships between credit unions and the Welsh Government have improved significantly over the course of phase two, with several credit unions referring to a close working relationship and increased trust between them and the Welsh Government – for example one noted that Welsh Government staff 'call in casually now' to the credit union offices, while others argued that the team had a good grasp of the key operational issues facing credit unions. There was a general recognition that

Welsh Government officials were much more prepared to listen to the sector now than in the past and a view that they regarded themselves as 'champions' for the sector. Consequently one added that 'we don't have to play games any more'.

In the main the National Credit Union Liaison Group continued to be regarded as an effective group for sharing good practice despite it only meeting twice a year. One consultee suggested, however, that 'there's not a lot of communication in between' these meetings suggesting that alternative methods of sharing good practice may be useful in the future.

4.5 Phase Two Support

In this section, we discuss the key support elements that have been made available to credit unions during phase two, including TSIB's contribution (Section 4.5.1 and Section 4.5.2), the training via Cardiff Metropolitan University (Section 4.5.3) and the project's marketing and promotional campaign (Section 4.5.4).

4.5.1 TSIB Business Support

The majority of credit unions visited during our evaluation stated that they had received advice and support from TSIB, albeit mixed views were conveyed around the value of the intervention. More specifically:

- one credit union had received very intensive support from TSIB via the business stabilisation scheme to help address governance issues, to recruit and appoint new Board members and to develop a marketing plan which was deemed to have been very useful and instrumental in securing the future of the credit union.
- three credit unions mentioned that they had accessed a business plan template or received help in developing a business plan, but in a couple of cases the credit unions had found that the business plan produced had been of little value to them. In one case a credit union

would have welcomed greater support in implementing the business plan produced;

- at least three credit unions mentioned that TSIB advisors had attended their Board meetings and given advice at these sessions. In one case, it was thought that the advice provided had enabled the credit union to take a more holistic approach to its work;
- several credit unions stated that it was useful to have TSIB available as a source of information and advice to be called on when required. Thus, one interviewee claimed that ‘we would have noticed it if wasn’t there’ and another commented upon the ‘excellent knowledge’ that staff had of the sector when advice or information had been sought;
- one credit union referred to the fact that they had received support from TSIB to achieve their environmental sustainability award;
- one credit union acknowledged the support from TSIB in helping to facilitate a merger between their credit union and another;
- two credit unions noted that they had, via TSIB, undertaken a visit to a good practice credit union (in Yorkshire and Northern Ireland respectively). One felt that their visit had been particularly useful as following the visit they had, as a result, changed their policy so that clients can qualify for an immediate loan rather than needing to save for eight weeks initially. The other did not feel that the visit had proved particularly useful because their operations were further developed than those credit unions which they had visited: ‘we didn’t go to see any credit unions that had current accounts’. This particular interviewee added that TISB had not thought through what Welsh credit unions required in terms of good practice; and
- one credit union, who took the view that they had not received much in the way of support from TSIB, acknowledged that they had facilitated a marketing session for them but that this session had not been particularly useful.

TSIB has also been involved in leading sector-wide developments such as exploring Islamic compliance products and a Welsh pre-paid debit card scheme. Several credit unions thought that the feasibility study on the Welsh Debit Card undertaken by TSIB was a good piece of work, despite the fact that the Welsh Government had decided not to fund the concept. One credit union was more critical in that they thought the study demonstrated a lack of understanding of the sector.

Perhaps unsurprisingly, credit unions which had received intensive support were generally more likely to state that the TSIB intervention had made a difference to their operation. Those which had received little support tended to suggest that it had not made that much difference to their organisation. Generally it was widely recognised that TSIB's support could only serve to have a marginal impact upon credit unions.

4.5.2 TSIB Training Provision

To date TSIB has delivered six training courses to credit unions covering themes such as human resources, marketing and social media, new Directors' training and succession planning as well as a summer school. Not all credit unions have participated in the training offered, and it was suggested that those which are most keen to grow and develop generally take up the offer. This is a major issue for both credit unions and TSIB – and it was argued that those who require the training most (particularly credit union directors) are the least likely to participate. One credit union member of staff suggested that it may be worth the Welsh Government considering making training a requirement of any future funding in order to improve participation.

Only five of the credit unions visited during our fieldwork noted that they had participated in TSIB-led training, and in some cases only one member of staff had attended any of these sessions. As such, the amount of feedback collected was fairly low. Reasons given for low participation included difficulties in persuading Directors to attend training, particularly if it involved travelling to courses held outside of their local authority area, work commitments (particularly for part-time staff) as well as the fact that several said that they were more likely to turn to the Association of British Credit

Unions Ltd (ABCUL) or the Access to Credit Unions for Everyone (ACE) Credit Union Services for their training requirements.

Credit union representatives who were interviewed, conveyed mixed views about the quality and value of the training made available by TSIB. Amongst the comments received were:

- staff at one credit union were particularly critical of a TSIB course which had been delivered specifically to them on governance and delegation as they felt the training had not been pitched appropriately. Amongst the comments made were ‘they told us about stuff we were doing 15 years ago’ and the experience had been a ‘tick box exercise’ similar to ‘dipping sheep’; and
- two members of staff at one credit union mentioned that they had attended TSIB’s 2012 summer school and had found this event ‘quite useful’. One of the highlights of this event was thought to be a presentation provided by Bristol Credit Union on automated banking procedures, which they had then been able to implement in their own credit union.

4.5.3 Cardiff Metropolitan University Training Programme

Two short courses were designed by Cardiff Metropolitan University (CMU) - formerly the University of Wales Institute Cardiff (UWIC) - for delivery to credit union volunteers, staff, managers and directors. The courses were developed in response to the findings of a research project undertaken by UWIC which pointed to the need for such training in Wales. Whilst it is not our intention to review the quality and content of the training, it is clear that the content of both courses reflect the skills development areas which were identified as being required by the sector in the original research.[42]

[42] Cardiff Institute for Co-operative Studies (2009) A Review of the credit union movement in Wales, Executive Summary, Welsh Assembly Government.

The two courses developed by CMU were:

Certificate in Management of Credit Unions and Financial Co-operatives' Management and Governance	Certificate in Management of Credit Unions and Financial Co-operatives' Work and Organisation
• Induction and personal development planning. • Co-operative values, history and principles of good credit union governance. • Governance Matters. • Risk Management. • Financial reporting and compliance. • Strategy and operations.	• Induction and personal development planning. • Co-operative values and principles. • Understanding the financial and legal environment. • Understanding systems and procedures. • Understanding the market for credit union services. • Customer care in member-based organisation.

It was intended that each short course would be delivered as six units, with the Management and Governance course leading to a CMU professional development award and certificate worth 60 credits at the Credit and Qualifications Framework for Wales (CQFW) Level 6 (Undergraduate Level 3) and aimed at credit union staff and directors whilst the Work and Organisation course would lead to 30 credits at CQFW 4 (Undergraduate Level 1) and would be suitable for credit union administrative and volunteer staff.

In the event, CMU delivered one of the courses (the Management and Governance course). This was delivered on a monthly basis from September 2011 onwards by a mix of internal CMU lecturers and external experts. The training was subsidised with 75% of the fees paid by TSIB and 25% by the credit union. Despite this, only 13 credit union representatives from across seven credit unions attended the sessions and it is believed that average attendance at each session was around 10 attendees. At of the time of our fieldwork, only one attendee had submitted their assessment so as to qualify for the 60 credits at Level 6 of the Framework Qualification.

It is understood that TSIB is currently undertaking a post-attendance evaluation of the course to gain feedback on the training received. During our evaluation, we spoke to three individuals who had attended the course – one thought it had been very useful whilst the other two were less positive in their comments. All three individuals commented upon the large workload involved with the course and thought that the intensity of the work required outside formal course sessions had been unreasonable and communicated late in the day. Two individuals also stated that it had been poorly managed by CMU.

There are no current plans in place to deliver the second course for volunteers and administrators within the project due to the lack of demand from the sector itself.

Interviewees suggested ways in which future training for the sector could be improved, and these included making available more local training for credit unions as well as extending the mode of delivery to include virtual learning environments. Feedback suggested that it would also be worthwhile considering residential course provision to reduce the regular travel to attend sessions, say in Cardiff.

4.5.4 Project Marketing and Promotion

The main elements of marketing and promotion undertaken at a project level during phase two have included:

- a daytime TV advertisement campaign which provided 60 daytime slots on ITV Wales at a cost of £15,000 – viewers were directed either to a hotline number featured in the adverts which was handled by North Wales Credit Union or a webpage managed by ABCUL (www.findyourcreditunion.co.uk);
- a programme of credit union roadshows which commenced in July 2012: to date four have been held in Neath Port Talbot, Cwmbran, Bridgend and Merthyr Tydfil;
- the production and distribution of resources such as a promotional DVD and a generic promotional leaflet; and

- the appointment of a PR company to assist with media coverage and preparation of case studies for use in the media.

It is likely that future promotional activity will also include a radio advertisement over the coming Christmas period.

When asked about the effectiveness of project marketing activities, most of those consulted focused specifically upon the TV advertisement campaign adding that they were not aware of any other promotion that had taken place. Data made available by the Welsh Government shows that in all 122 calls were made to the telephone hotline as a result of the TV advert, with 20% of these from people within the area covered by Cardiff Credit Union and 16% from those covered by North Wales Credit Union. Rural credit unions received the fewest enquiries with six taking no calls at all. ABCUL also reported an increase in website traffic for Welsh credit unions during the January to March 2012 period. Whilst it may be the case that some of this increase would have come about anyway due to the general media coverage for credit unions at the start of 2012 as a result of legislative changes and the establishment of ABCUL's new website 'find your credit union',[43] it was argued by some consultees that the recruitment had been sustained in Wales for a longer period of time when compared to English recruitment trends. In all, credit unions reported having recruited 90 new members as a direct result of the TV advert (at £123 per new member).

In contrast to the positive data made available by the Welsh Government, credit unions who were interviewed, argued that at best they had only received 'a handful of referrals' as a result of the TV advertisement campaign. It was generally recognised that the TV campaign had been the first major step by the project to actively market the credit union provision in Wales and whilst welcome, a few suggested that it had not really scratched the surface in terms of what was required to generate a step change in awareness and understanding of credit unions.

[43] www.findyourcreditunion.co.uk.

Several voiced their concerns that this campaign had been aired slightly late in the project, and others expressed their criticism about the quality of the advertisement itself. Many would have welcomed a more sustained campaign.

It was suggested that future marketing campaigns implemented by the project ought to consider the following points:

- that the messages ought to focus on raising people's understanding of a credit union rather than simply raise awareness of credit unions;
- that promotional activities would benefit from presenting a unified brand for Welsh credit unions; and
- the need to attract a wider and more diverse client base to the credit union sector, which would help towards achieving sustainability.

4.6 SGEI FUNDING

4.6.1 SGEI Funding Administration

Stakeholders and credit unions generally thought that TSIB had administered the SGEI funding effectively, and according to some credit unions TSIB had adopted much more rigorous processes than those of the Wales Co-operative Centre during phase one. Whilst accepting that they had to meet WEFO's reporting requirements, a couple of credit unions argued that the financial reporting requirements were too onerous and time-consuming and called for these to be simplified, for example the preparation of bank statements to show what has been paid takes a considerable amount of time.

4.6.2 Use of SGEI Funding

Our fieldwork revealed that SGEI revenue funding has been used primarily to fund staff salaries with smaller amounts used for operational expenses in some cases. SGEI funding can account for up to 50% of income for some credit unions and there was a consensus view that credit unions could not operate in the way that they currently did without this revenue funding. Whilst most credit unions interviewed had only two forms of income (SGEI funding and loan interest) a small number had been able to secure other income streams including Rural Development Funds, Communities First and Local Authority funding.

All but one of the case study credit unions had received capital funding during the first phase. The funds had primarily been used to purchase and renovate new or existing premises. In some cases this had provided credit unions with a high street presence for the first time.

The feedback from credit unions strongly suggested that these changes in terms of new or additional staff as well as investment in premises, would not have come about had it not been for the SGEI funding.

4.7 Credit Unions' Development and Performance

This section discusses the financial performance of supported and non-supported Welsh credit unions (Section 3.7.1) and also presents the key developments implemented and experienced by supported credit unions (Section 4.7.2). It then explores ways in which credit unions work together (4.7.3) before finally turning to discuss comparator credit union performance and development (4.7.4).

4.7.1 Financial Performance Analysis

This section builds upon our analysis of credit union performance undertaken for our First Year Report. Again we assess credit union performance against the standardised PEARLS measure[44] and each of the six measures of PEARLS are discussed for the 17 credit unions involved in the project at an all-Wales level. It is worth noting that the financial performance of credit unions is affected by a number of factors, and that the contribution made by the Credit Unions Project is only one such factor. Where data have been

[44] PEARLS stands for Protection, Effective Financial Structure, Asset Quality, Rates of Return, Liquidity, and Signs of Growth.

made available we have compared the performance of supported credit unions with non-supported Welsh credit unions.[45]

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

- nine[46] of the 17 credit unions achieved the PEARLS solvency ratio target in September 2012 (compared with five in June 2011, two in September 2010 and none in September 2009). A further two,[47],who had achieved the solvency ratio in previous years, only narrowly missed this target by less than 1% in September 2012;
- 11 of the 17 credit unions increased their solvency ratio between September 2010 and September 2012; and
- in comparison, all six non-SGEI supported Welsh credit unions achieved the PEARLS solvency ratio required in September 2012 (averaging a ratio of 124%) and these ratios have remained fairly static over the last year.

Secondly, two calculations are used to assess Effective Financial Structures of credit unions – Net Loans to Total Assets Ratio and Institutional Capital to Total Assets Ratio. The net loans to total assets ratio measures the percentage of total assets invested in making loans. Loans to members generate income for the credit union through interest.[48] The PEARLS target is for a 70% to 80% loan to assets ratio. Analysis of the data reveals generally weak performance on this measure. In particular:

- only three credit unions[49] achieved the 70-80% target in September 2012 and a further one credit union[50] was very close in achieving this measure at 69.95%. This represents a slight improvement on the two

[45] For consistency we have compared the data available for six control credit unions namely All Flintshire, BAG (Bargoed and Aberbargoed), Marches, Red Kite, St Therese and Plaid Cymru.
[46] Credcer, Dragon Savers, Gateway, Islwyn, LASA, Merthyr Tydfil, Romcul, Smart Money and North Wales
[47] Neath Port Talbot and Llyfni.
[48] If loans to assets are too high, then the credit union may be over-exposed to risk on repayment.
[49] Gateway, Newport and Save Easy.
[50] LASA.

who achieved the target in June 2011 but comparable with the baseline data for September 2010;[51]

- credit union performance continues to weaken against this measure when comparing data for September 2010 and September 2012 (i.e. 10 credit unions whose ratios were outside the recommended target, moved further away from the target range over the project duration between September 2010 and September 2012).[52] It is very concerning that four credit unions[53] have a ratio of under 30%; and
- in comparison, none of the non-SGEI funded credit unions achieved the 70-80% target in September 2012[54] - one had an exceptionally high ratio of over 90% whilst the remaining ones had ratios between 36% and 54%.

The Institutional Capital to Total Assets is a measure of the institutional capital – or statutory reserves – held by the credit union as a means (of last resort) for meeting liabilities. Credit unions involved in the project have made significant improvements to this measure as 10[55] of the 17 credit unions achieved the 10% PEARLS target in September 2012, compared with five (of 14) in June 2011, two in September 2010 and none in September 2009. All 10 credit unions who had achieved the target, had reported increases in their capital-assets ratio since September 2010 whilst this was true of only two credit unions[56] who had not achieved the target.

Thirdly, the Asset Quality measure is calculated as a credit union's bad debt provision (total delinquency to loans ratio). This measures the percentage of loan balances on the books that are vulnerable to default and write-off. The PEARLS target is that the delinquency ratio should be no more than 5% of loans one month or more in arrears. In September 2012, 11 of the 17 credit unions had achieved this target, compared with five (of 14) credit unions in

[51] Three credit unions (Cardiff, Newport and Save Easy) met this measure in September 2010.
[52] Whilst Save Easy did experience a slight drop in its loans as a percentage of assets, it was still within the recommended PEARLS remit.
[53] Credcer, Llynfi, Romcul and North Wales.
[54] Based on data for five credit unions.
[55] Bridgend, Credcer, Dragon Savers, Gateway, Islwyn, LASA, Merthyr, Romcul, Smart Money and North Wales.
[56] Brecon and Haven.

June 2011. One credit union[57] had a ratio close to 20% whilst another stood at over 11%.[58] The situation had improved in 12 credit unions between September 2010 and September 2012 whilst worryingly it had worsened in five.

Fourthly, the Rates of Return measure is calculated as the credit union's Operating Expenses to Average Assets ratio. Operational efficiency is measured by comparing expenses with average assets i.e. the cost associated with the management of a credit union's assets. The PEARLS target is 5% or less - although the sector, which regards this as an unrealistic target, tends to view credit unions with a target of 15% and under as being efficient operations. September 2011 data shows that only one of the 17 credit unions[59] achieved the 5% PEARLS target (compared to none of the 14 credit unions whose data was available for September 2010) although a further 10 had a ratio of under 15%. In 13 cases, credit union performance on this measure had improved, with ratios closer to the target than in September 2010, but in three cases operating costs remain over 20% of average assets, and in a further three, the ratio is between 15% and 20%.

Fifthly, a credit union's Liquidity measure is taken as the Short-Term Payables to Total Deposits ratio. This measures whether credit unions are holding adequate liquid cash reserves (i.e. to satisfy savings withdrawal requests and all payment obligations for the next 30 days). The PEARLS ratio target is for cash reserves to be between 15-20% of total savings deposits. The findings reveal that only one credit union[60] achieved this target range and that all remaining 16 credit unions continue to hold very much more cash reserves than desired under PEARLS, as was the case in June 2011. The data shows that 11 credit unions hold more than 50% of total deposits and seven hold more than 70%. Whilst this position means that all credit unions have a strong short-term liquidity position, it does point to an over-cautious approach to

[57] Credcer.
[58] Haven.
[59] Islwyn.
[60] Gateway.

lending or difficulties in delivering loans as well as sub-optimal performance in terms of making assets work efficiently for the organisation.

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

- all but one of the 17 credit unions[61] experienced a growth in their asset base during the last year in nominal terms, whilst good levels of growth were reported for previous years since September 2009. When inflation and a 10% industry standard growth is taken into account however, only eight of the 17 reported an annual asset base in real terms between September 2011 and 2012. SGEI-funded credit unions grew at a slightly greater rate than non-SGEI supported credit unions (average annual growth of 18.2% compared with 11.7% for 2011 to 2012) and only one non-SGEI supported credit union reported annual growth greater than 10%;
- adult membership had grown in 15 of the 17 credit unions[62] between September 2011 and September 2012 which is more than the eight of the 14 credit unions who reported adult membership growth between September 2010 and June 2011 (11 of 15 from September 2009 to June 2011). On average, supported credit unions had experienced an annual growth rate of 16% and this compares favourably with the membership growth reported by non-supported credit unions for the year ending September 2012 at 5%;
- junior membership had grown in 14 of the 17 credit unions[63] between September 2011 and September 2012. This is a greater number than was the case for the previous year - eight of the 14 credit unions reported a growth in junior membership numbers between September 2010 and June 2011 (12 of 15 from September 2009 to June 2011). On average, supported credit unions experienced an annual growth rate of 25% in junior membership numbers, a much higher proportion compared with non-supported credit unions at around 15%; and

[61] Not Credcer.
[62] Not Credcer and Islwyn.
[63] Not Credcer, Romcul and Smart Money.

- 11 of the 17 credit unions had managed to increase their loan portfolio in the year leading up to September 2012. This compared with 10 of the 14 credit unions who had managed to increase their loan portfolio between September 2010 and June 2011 (with similar increases in 10 of the 14 credit unions for the period September 2009 to June 2011). The remaining six credit unions reported a reduction in their loans. On average, an annual loan portfolio increase of 10.8% was experienced amongst supported credit unions in the year ending September 2012 which was the same as for non-supported credit unions who reported an increase of 10.9%.[64]

4.7.2 Key Developments

It was widely thought that the availability of SGEI funding has helped many credit unions to extend their products and implement key improvements to their customer services. Having said this, it is important to point out that credit unions were starting from very different situations and it remains the case that there is a marked difference in the range of products and services which can be accessed across credit unions. The main developments highlighted by those credit unions visited included:

- Introducing a wider range of savings and loan products (such as current accounts, pre-paid debit card scheme, life insurance, white goods loan schemes etc);
- improving general access to the credit unions by increasing the number of collection points available and extending opening times;
- improving members' experience of the credit union service (for example by providing cash withdrawal facilities to members rather than issuing cheques which require cashing at post offices);
- providing services to new audiences such as junior savers through the provision of school savings accounts (one credit union has been able to establish 26 collection points across schools, including all secondary schools, within its local authority area); and

[64] Based on data available for five non-supported credit unions.

- introducing on-line banking facilities (albeit where this has taken place it is largely limited to reading account details and downloading statements as opposed to on-line transactions).

All but one of the credit unions visited acknowledged that the impact of the SGEI funding upon their organisations has been huge – it was stressed that the funding has been particularly beneficial in helping credit unions establish solid business foundations from which they can grow. One such credit union representative stated that ‘without the funds we would not be where we are now’. However the extent of improvement and success obtained across the credit union sector does vary, which led to some credit unions and stakeholders questioning whether ‘good money has gone after bad’ following the Welsh Government’s decision to fund all credit unions, regardless of their contractual performance or financial situation.

Feedback from within the sector suggests that SGEI funding has enabled credit unions to grow in terms of increasing their membership numbers and asset base, but that it has not necessarily led to an improvement in bad debts. Indeed bad debt arrears remain high and had worsened within one of the credit unions visited.

It was generally thought that there has not been a fundamental change in terms of credit union self-sustainability, but rather small incremental gains had been experienced over the last two years.

It remains the case that many credit unions are likely to struggle to operate in a financially sustainable manner when SGEI funding comes to an end in 2013 – only one or two of the credit unions visited during our evaluation regarded themselves as being ‘almost there’ in terms of sustainability, although feedback from TSIB suggests that three well-performing credit unions would survive as sustainable operations when SGEI funding comes to an end. Concerns were expressed about the immediate withdrawal of funds to the sector as it was argued that this would be likely to lead to crisis mergers as opposed to managed mergers between credit unions – again feedback from TSIB suggest that around six well-performing credit unions would benefit from a tapered funding approach post-2013.

For those credit unions which were thought to be performing reasonably well in financial terms, and where earned income represents a relatively high proportion of overall turnover, concerns were expressed that elements of their operations could be withdrawn in order to reduce the gap between earned income and costs currently covered by SGEI funding in that ‘you cut your cloth accordingly’. In these cases it was suggested that the ‘nice to have’ activities such as school collection points or a mobile van service may have to go. From this perspective, one interviewee, admitted ‘if the tap was turned off then yes, we’d cope’.

For others, particularly those who have used the funding to take on staff for the first time, there appears to be a danger that they may resort back to a far more limited role once funding comes to an end, thus raising questions about the sustainability of progress made. It was argued by these credit unions, that sustainability could be achieved at different levels of activity and that they could survive by going back to a community-led model with far less ambition to service financially excluded groups and with far more limited resources (for example, relying on volunteers instead of paid staff).

Finally it was suggested that there are a handful of small credit unions, particularly those based in rural areas, whose future existence is likely to be jeopardised once SGEI funds come to an end as they have not been able to implement adequate changes to their business model within the current round of funding to enable them to survive in the long-term. Indeed, it was argued by some that the project has served only to delay the inevitable in such cases.

In all, TSIB officials took the view that there were around five credit unions which fall into these last two groups in that they are not close to being able to sustain their current level of operations.

Whilst credit union governance improvements were reported by those consulted, stakeholders in particular took the view that this remained a major weakness for the sector. It was also recognised that it has been difficult, if not impossible, for the project to strengthen the governance of credit unions, particularly amongst those credit unions which lack an appetite for change. Feedback suggests that credit union succession planning remains a huge issue for the sector which needs to be prioritised over the remaining period of the project. A couple of consultees suggested that the project should develop a more systematic way of helping credit unions to recruit new Board members.

4.7.3 Collaboration between Credit Unions

Our fieldwork found that whilst relationships between Welsh credit unions are generally good, there is scope for greater collaboration across the sector.

It was thought that umbrella groups such as the South and North Wales Chapter of ABCUL as well as the All Wales Credit Union Liaison Group were helping cement relationships and enabling discussions of good practice to take place. For example, it was thought that the North Wales Chapter had been an effective vehicle for building relationships between North Wales' credit unions and paving the way for the merger that eventually took place. However, in light of the merger questions were now being raised about the purpose of the North Wales Chapter. Several credit unions also referred to the lack of a funded ABCUL presence in Wales which was thought to have reduced the emphasis upon collaboration between Welsh credit unions generally.

It is clear that the introduction of the Legislative Reform Order allowing credit unions to extend their common bond areas, has resulted in some mistrust between those credit unions which have found themselves operating and competing in the same area.

Some examples of collaborative projects were identified during our fieldwork but generally these were few and far between:

Smart Money, Gateway, Newport and Merthyr Tydfil Credit Unions continue to share a Debt Recovery Officer and a Financial Harmonisation Officer. Despite project level funding for these activities having now come to an end, the work was deemed effective and credit unions took the decision to continue funding these posts from their own funds. Likewise, Credcer and Haven Credit Union debt collection officers jointly collaborate in their efforts to tackle bad debt – this has included the sharing of good practice as well as undertaking joint visits to debtors.

It was widely thought that greater cross-organisation working could take place within the sector, particularly when exploring options for working more effectively such as the sharing or out-sourcing of back office work (for example the possible roll-out of pilot on-line banking developments led by the North Wales Credit Union), joint purchasing to achieve greater value for money as well as joint-contracting for particular services (for example debt collection services).

4.7.4 Comparator Credit Unions: Key Messages

Whilst we have used the financial performance data of non-supported Welsh credit unions in the preceding section, we recognise that such data may be skewed in that those credit unions not involved in the project are the ones least likely to have ambitions to grow and develop. We therefore present some of the main findings from our fieldwork with control credit unions (two being based outside of Wales) in this section.

<u>Changes in Membership</u>: All three comparator credit unions had experienced a growth in their adult membership in recent years. Both the English Credit Unions had grown rapidly over recent years, with one having quadrupled membership since 2004 (from 800 to 3,500) and the other now having an adult membership of some 7,500 members and an asset base of £4 million. The Welsh comparator credit union had experienced a smaller and more organic growth in membership numbers (at around 200 additional members

per year to its existing active membership base of just under 1,400). Both English credit unions attributed much of their growth to the DWP Growth Fund. In both cases this had created issues for them – one reported that as a result of the Growth Fund, the majority of their members are now from relatively deprived backgrounds and both credit unions stated that their key objective in moving forward was to obtain a more balanced member profile. One credit union argued that external funding sources, such as the Modernisation and Extension Fund's focus upon servicing highly risky financially excluded groups without balancing poor quality lending with better quality loans, could potentially undermine their efforts to become self-sustaining.

Self-Sustainability: The three comparator credit unions were at different positions in terms of self-sustainability: the Welsh-based credit union being wholly self-sufficient primarily as it perceived itself to be a volunteer-led organisation with very low overheads and staffing costs. It was argued that the growth experienced by the credit union had been managed and a conscious decision made by the Board of directors to focus upon the core principles of credit union savings and loans, as opposed to extending activities to financially excluded groups via the Welsh Government project. Both of the English-based credit unions expressed a desire to become self-sustaining organisations - in one case, the Board of directors was particularly committed to developing the organisation into a self-sustaining organisation and were arguably closer to this point than the second as the overwhelming majority of its income currently came from loan interest and fees. It was likely that this credit union would decide to forego potential grant funding such as from the DWP's Modernisation Fund, in order to improve the overall quality of its loans book and secure its own long-term future. The second credit union on the other hand remains reliant on direct and indirect support from its local authority in that the Council covers the salaries and on-costs of two members of staff and provides rent-free accommodation.

Products and Services: Similarly to the situation for SGEI-supported credit unions, there was a significant difference in the range of products and services offered across the three comparator credit unions. We found that the products available at the comparator Welsh credit union was limited to traditional ordinary savings and loans whilst in England one of the credit unions offered a wide array of services including the Credit Union Current Account (CUCA), ‘jam jar’ accounts for ringfencing rent for private landlords and savings and loan accounts which are comparable with provisions available within the most advanced of Welsh-supported credit unions.

<u>Strengths and Weaknesses</u>: Both English credit unions referred to their main strengths as highly committed and forward thinking Board members (in one case the credit union had targeted the recruitment of new Board members in a purposeful way rather than relying upon organic growth) as well as having capable and skilled staff in place. Interestingly one referred to the lack of public awareness as a weakness whilst another referred to the poor image of credit unions in that they were deemed to be ‘a poor man’s bank’.

4.8 Feedback from credit union customers

Whilst it was our intention to interview project beneficiaries (i.e. financially excluded individuals) during our fieldwork, in reality a cross-section of 25 credit union members were interviewed at seven credit unions as it proved easier for a small number of credit unions to carry out interviews with customers for us as they accessed the service on the day of our visit.

We found that members had come to hear about their credit union via a variety of ways, but the most popular method was of by word of mouth – in many instances members knew of another member, staff or volunteers before joining. A smaller number of those interviewed mentioned that they had attended a presentation about the credit union at their place of work or a community venue such as a local church. The reasons for using their credit union were also mixed in that just over half of those we spoke to considered themselves as savers whilst the remaining members’ main purpose of using the credit union was to borrow.

Generally, interviewed members pointed to the main strength of credit unions as being friendly staff/volunteers who could offer a personal service, particularly when compared to mainstream banks: ‘the staff are nicer … they don’t look down their noses at you’ and ‘they know your name … and your [membership] number’. The other main strength of the credit union was deemed to be ethical lending practices and low interest rates on loans when compared with the alternative, for example one member said ‘the interest rates are fantastic … you couldn’t get it cheaper anywhere … and those quick loans on TV all rob you’. One particular case study below illustrates these points:

Case Study Member A

One female member, who was a lone parent and on benefits, explained that she had visited the credit union for the first time in the last few weeks having heard of them through her daughter’s friend to enquire about a loan. She had been informed that in order to apply for a loan that she would have to open a savings account and transfer some of her tax credits into this account. She was returning to the credit union to submit her application for a small loan which would enable her to buy a fridge freezer. The member commented that she had received an ‘excellent’ service from ‘very friendly staff’ who ‘don’t look down on you like banks do’. Furthermore she had been very surprised at the low interest rates offered by the credit union, which had been the main reason for turning to them in the first place.

A few members suggested that there has been a professionalisation of the services offered to customers in recent years (as shown in member case study B) but it is clear that these improvements have not been consistent across the credit unions (as illustrated in member case study C).

Member Case Study B

A female member, in her 50s and in full-time work, had initially heard about the credit union whilst at her place of work in the local authority several years ago. The credit union had visited the council offices to give a presentation and she had decided to join primarily for altruistic reasons: ‘I could see the benefits to the community really’. She had set up a savings account which she tapped into for ‘nice to have’ purchases such as ‘trips’ and ‘Christmas presents’ – indeed the purpose of her visit on the day was to withdraw some savings. A local presence on the high street was important for this member although she relied on high street banks for day-to-day banking activities. As she was a fairly longstanding member of the credit union, she commented on the ‘drastic improvements’ that had taken place over the last two years – ‘you can now get cash over the counter and you don’t have to take a cheque to the post office. The office is so much better now as well’.

Case Study Member C

An elderly, retired man had been a member of one credit union for 11 years and had come to hear about them through his workplace. His main reason for joining was down to his sympathy to the social inclusion agenda. He finds the credit union a convenient way to put away small amount of money for unexpected things. Overall he was very satisfied with the services although he did feel that his nearest collection point had limited opening times and that the credit union could benefit from extending their opening hours to include Saturday. He also noted that the credit union was not as efficient and professional as a bank. The two biggest issues were related to the fact that the credit union could not offer a confidential service as conversations were being overheard and the confined payment method of only issuing cheques.

The weaknesses highlighted by Case Study Member C are not unique in that members at other credit unions highlighted similar issues at their own credit union about the absence of a private interview room, for example one office was deemed to be ‘so small … everybody hears what you’re talking about’.

4.9 Extent to which First Year Report recommendations have been actioned

Our First Year Report made five recommendations in all and in this section we discuss the extent to which each has been actioned.

Firstly, we recommended that the Welsh Government and the Welsh European Funding Office (WEFO) continue to fund the Access to Financial Services through Credit Unions Project. This has been the case and funding is in place until October 2013. It does not look likely that further funding will be made available to the sector after this date however.

Secondly, we recommended that a smaller number of key priorities focused upon the WEFO Business Plan targets and credit union financial sustainability indicators (as presented by PEARLS) be adopted and agreed as the focus for the remaining phase two period. The Welsh Government has been able to part-implement this recommendation in that they have reduced and simplified the SGEI contractual expectations to one single output, which has been clearly defined and reported against. Efforts to implement credit union financial sustainability targets did not materialise, although arrangements have been put in place to monitor the financial status of credit unions on a quarterly basis. Again this raises an issue around the underlying objective of the project and whether it is there to compensate credit unions for service provision which they could not otherwise afford to undertake or as a mechanism to develop the sector per se.

Our third recommendation was that both capital, if possible, and revenue investment, be made available to credit unions in Wales via the project. Revenue funding has continued to be made available to 17 credit unions and a capital funding programme was put in place by the Welsh Government via the Community Development Fund. Credit unions could only access these capital funds on application if they demonstrated that the funding would contribute towards their strategic development and growth. In our view this was a logical and appropriate approach for the Welsh Government to have taken. However, no capital funds have been made available to the sector since these changes were implemented, despite two applications having been made. As we have not reviewed these applications, we cannot comment further on the rationale for the decisions not to award funding.

Fourthly, we recommended that the current delivery arrangements for the project be continued and that the support made available to credit unions be made more specialist. The evidence suggests that this recommendation has been actioned, particularly with the secondment of a Welsh Government officer to TSIB and the use of external experts to cover areas such as legislation and human resources. Consideration was given to our recommendation that the Welsh Government should explore the option of administering credit union SGEI funding agreements directly so as to simplify and to reduce project administration costs. However, as the arrangements had improved by the end of year one, the Operational Project Board decided that the current arrangements should be continued until the end of the project in September 2013.

Our fifth and final recommendation revolved around the need to improve communication and relationships amongst credit unions, with a view to promoting good practice and exploring opportunities for sharing resources/services. Our findings during this round of fieldwork would suggest that relationships between credit unions have strengthened in the main, although it is impossible to know whether such improvements can be attributed to the project only. There is evidence to suggest that the project has facilitated the promotion of good practice between credit unions but less so in terms of facilitating opportunities for sharing resources or services.

4.10 Extent to which the Project is achieving The Credit Union Action Plan targets

An analysis of Welsh credit union membership numbers[65] shows an increase of just under 10,000 members since the outset of the project in September 2010 – from 41,571 to 51,752 by September 2012 (See Figure 6). This represents an annual rise of 10.8% for 2010/11 and 12.4% for 2011/12. When considering the data for SGEI-contracted credit unions only, the annual 2010/11 increase was slightly greater at 12.8%, whilst the 2011/12 increase was significantly so at 19.0%. The inclusion of two credit unions who joined the project at some point during the period, distorts the data somewhat – Llynfi and Islwyn had just over 2,000 members in September 2011 when they were reported as non-supported credit unions and just over 2,100 members in September 2012 when they were reported as supported credit unions. The decline in non-supported credit union members can be fully attributed to this change. Stripping out these two credit unions, the growth of the other SGEI-contracted credit union membership between 2011 and 2012 was 13.7%, compared to growth of 3% in the remaining non-supported credit unions.

Figure 6: Changes in Credit Union Adult Membership Numbers

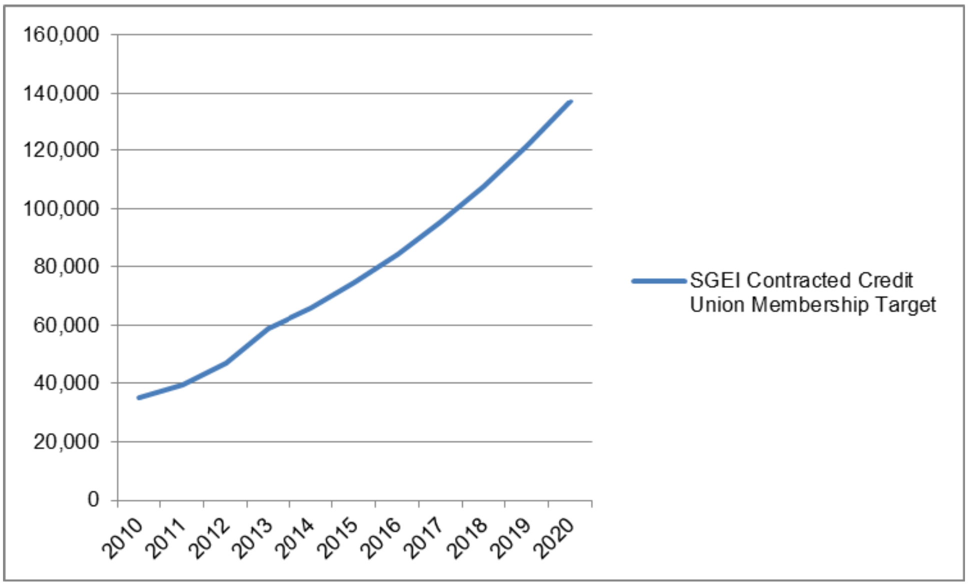
	Sept 10	Sept 11	Sept 12
Total Welsh Adult Membership	41,572	46,062	51,752
Credit union market penetration[66]	1.69%	1.84%	2.08%
SGEI-Contracted Credit Union Membership	34,970	39,437	46,945
Non-SGEI Contracted Credit Union Membership	6,602	6,625	4,807

Whilst a reasonable increase has been experienced in the number of credit union members to date, and indeed it appears that the increase can be attributed to the work of SGEI-contracted credit unions, it is important to point out that if the Credit Union Action Plan target of 142,000 members by 2020 (and likewise a penetration of around 6%) is to be achieved then the project needs to sustain an annual increase of around 13% in the overall membership

[65] Provided by TSIB.
[66] As a proportion of all population aged 16+ as provided by ONS.

base of SGEI-contracted credit unions (assuming of course that no change takes place in the membership levels of non-SGEI contracted credit unions). This effectively means that 2012/13 membership numbers need to increase by over 6,000; 2013/14 by 7,600 and 2014/15 by 8,500 as shown in Figure 7 below. Achieving such increases will become particularly challenging with time, particularly if credit unions need to reduce staff time as a result of the ending of SGEI funding.

Figure 7: SGEI-Contracted Credit Union Membership – Required Targets



The Credit Union Action Plan does not give a specific target for increasing credit union junior membership for Wales so as to measure the project's effectiveness. However, it is worth noting that there has been a reasonable increase in junior membership numbers since the start of the project from 9,090 in September 2010 to 11,218 by September 2012. SGEI-contracted credit unions have performed better than their counterparts, particularly during the last year, even having taking into consideration that data for two current SGEI-contracted credit unions (at around 700 in 2011 and 800 in 2012 for both) would have been included as non-SGEI outputs during 2010 and 2011, as shown in Figure 8.

Figure 8: Changes in Credit Union Junior Membership Numbers

	September 2010	September 2011	September 2012
Total Welsh Junior Membership	8,090	9,078	11,218
SGEI-Contracted Credit Union Junior Membership	6,582	7,361	10,100
Non-SGEI Contracted Credit Union Junior Membership	1,508	1,717	1,118

The Credit Union Action Plan's second target is to increase the asset base of Welsh credit unions from its baseline of £21 million to £75 million. There have been steady annual increases in the asset base of Welsh credit unions since 2010, with the growth amongst SGEI-contracted credit unions greater than that of non-SGEI contracted credit unions, even when data for the two credit unions who joined the project in 2012 are removed (as shown in Figure 9). The drop in non-SGEI contracted credit unions' asset base over time is explained by the inclusion of two credit unions' data in SGEI-contracted data by 2012 – in reality, the asset base of the six credit unions outside of the project has increased over time for example from £4.0 million in September 2011 to £4.4 million in September 2012, but at a slower rate than contracted credit unions.

Figure 9: Changes in Credit Union Asset Base

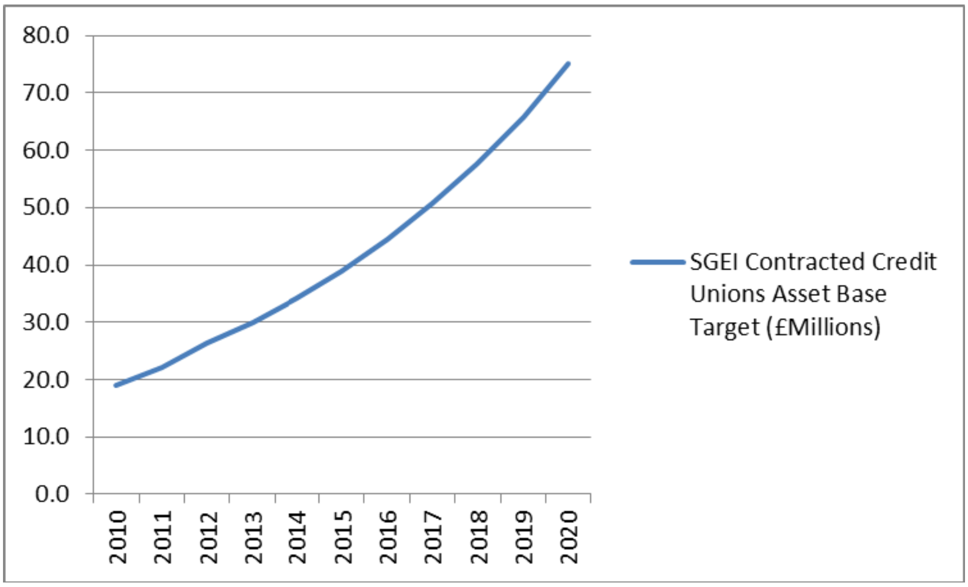
	September 2010	September 2011	September 2012
Total Welsh Credit Union Asset Base	£23.8 million	£27.5 million	£30.7 million
SGEI-Contracted Credit Union Asset Base	£19.1 million	£22.2 million	£26.3 million[67]
Non-SGEI Contracted Asset Base	£ 4.7 million[68]	£ 5.2 million[69]	£ 4.4 million[70]

If the Credit Union Action Plan target of £75 million is to be achieved (and assuming that the asset base of non-SGEI contracted credit unions remains static) the project has to ensure a 14% annual increase in the asset base of its supported credit unions (as shown in Figure 10). We believe that this annual growth rate is only achievable if financial support is made available

[67] Includes Islwyn and Llynfi Credit Unions who joined the project later. Discounting these two credit unions, the figure would be around £25.4 million.
[68] Based on eight credit unions – including Islwyn and Llynfi Credit Unions who later joined the project.
[69] Based on eight credit unions.
[70] Based on six credit unions – by 2012 Islwyn and Llynfi Credit Unions had joined the project.

post-2013 – without funding achieving the Action Plan's target remains highly unrealistic.

Figure 10: SGEI-Contracted Credit Union Asset Base– Required Targets



The third key target of the Credit Union Action Plan is to increase public awareness of credit unions in Wales by September 2013. As the Action Plan did not provide any baseline data on awareness of credit unions, the Welsh Government set out in 2011 to measure and monitor public awareness via the Wales Omnibus Survey. The Welsh Government commissioned a series of questions to be asked of the general population via the Wales Omnibus Survey undertaken by Beaufort Research Ltd in November 2011[71] and again in June 2012.[72] It is the Welsh Government's intention to continue to deploy the survey so as to track changes in awareness.

To date, the survey findings revealed a fairly good level of awareness of credit union in Wales with just over half of those surveyed saying that they were aware of credit unions. It would be unrealistic to expect any major increases in awareness levels over a six month period and indeed awareness levels remained fairly static with 52% of respondents in November 2011 and 51% of respondents in June 2012 stating that they were aware of credit unions.

[71] 1,008 interviews were undertaken with the adult population resident in Wales aged 16 and over.
[72] 1,006 interviews were undertaken with the adult population resident in Wales aged 16 and over.

Generally awareness of credit unions appeared to be higher in North Wales (for example 64% in November 2011 and 52% in June 2012) whilst awareness was lower in the Valleys (at 31% in November 2011 and 45% in June 2012). Care must be taken when interpreting any change in the data over time due to the way the Beaufort Omnibus survey is conducted and variations in sampling design.

Awareness was generally better amongst older groups (particularly those aged 55-64 at 59%) than it was amongst young people (at 35% amongst those aged 16-24) and this was a consistent message in both of the surveys.

Awareness of credit unions was found to be broadly consistent across social classes, with highest awareness levels amongst those from managerial and professional groups and lowest levels amongst semi-skilled and unskilled manual workers. This is perhaps an interesting finding given the specific targeting of the financially excluded by Welsh Government policy.

During the November 2011 survey, 6% of the 52% of respondents who said that they were aware of credit unions indicated that they were currently a member of one, although this proportion increased to 12% in the Valleys. Of those who were aware of credit unions but were not members, the most commonly cited reasons for not being a member were not needing it (35%), not knowing what a credit union was about (11%) followed by not wanting to join (9%). Similarly during the June 2012 survey, of the 51% of respondents who said that they were aware of credit unions, 7% indicated that they were currently a member of one. The reasons for not being members were the same as for the November 2011 survey, although the proportion of respondents not knowing what a credit union was about had fallen from 9% to 3%.

In terms of increasing the number of active credit union volunteers (from a base of 754 in 2009 to 1,000 by March 2013) the latest September 2012 report produced by the project, shows that 893 volunteers were involved in the work of 18 credit unions representing a healthy increase on the baseline figure. We have no data for the remaining six non-SGEI supported credit unions in Wales to be able to assess whether the March 2013 target will be achieved.

The fifth and final target contained in the Credit Union Action Plan related to the provision of support to credit unions in receipt of Welsh Government funding. Our fieldwork and document review undertaken during 2011, found that TSIB had undertaken such reviews with all credit unions before September 2011.

5. CONCLUSIONS AND RECOMMENDATIONS

In this section, we outline our overall conclusions and in particular revisit whether the objectives of the project, as stated in its original documentation, are being achieved as well as making seven recommendations which apply to both the duration of the project and future years.

Welsh policy remains generally supportive of the credit union sector in Wales, albeit that recent Welsh Government actions and decisions have intensified the debate about whether Welsh Government's expectations of the sector are focused upon the provision of financial services to excluded individuals as opposed to developing self-sustainable credit union sector – and whether these two goals are in conflict. The difficulties associated in pursuing both objectives have become even more profound for credit unions as they enter the last year of their SGEI funding agreements – with several now facing critical decisions around which avenue to take given that funding post-2013 looks unlikely.

We are of the view that the Welsh Government needs to clarify its policy in this area and suggest that if the long-term policy goal is to provide financial services to financially excluded individuals, then there is a strong argument for on-going compensatory funding to provide such services, possibly through a Service Level Agreement (SLA) mechanism rather than a grant. However, if the objective of such funding is to ensure services are provided to the largest number of people who are currently financially excluded at minimum cost, the Welsh Government will need to consider whether service providers other than credit unions, might be in a position to offer such a service and thus whether the service should be procured.

If (either instead of or as well as the goal of providing services to the financially excluded) the Welsh Government remains committed to building financially sustainable credit unions as a goal of public policy – in other words, as an ethically distinct alternative to commercial providers of financial services – then we believe it will need to adopt a different and separate approach to providing core funding to credit unions in future. Tapered funding to a smaller number of credit unions which have proved – by September 2013 – their capacity to grow their membership and asset base while increasing the proportion of revenue generated from earned income, should then be provided for a further period (of no more than three years), but with targets related purely to these three indicators. This funding stream should be wholly separate to funding through the SLA for providing services to financially excluded people.

Recommendation 1: We recommend that the Welsh Government clarifies its priorities for credit unions and the provision of financial services to excluded individuals so as to reduce the current conflicting demands placed upon the sector.

Recommendation 2: In light of this (and subject to budgetary pressures) we would further recommend that the Welsh Government commits to future on-going funding for the provision of financial services to excluded people, and undertakes a scoping study to investigate whether in practice other relevant (i.e. FSA licensed) institutions might be prepared to tender to provide such services. We are mindful however that other providers may be unable to offer services similar to those available via credit unions, such as deposit-taking, and would not necessarily be protected by the Financial Services Compensation Scheme.

Recommendation 3: Should the Welsh Government commit to the development of a financially sustainable network of credit unions post 2013 as a policy objective in its own right, then we are of the view that it ought to take a more ruthless approach to ensure better value for money is obtained from the investment. In particular it should:

- review the performance to date of SGEI-funded credit unions (drawing on the monitoring by TSIB and the evidence from this evaluation) to determine those which have succeeded best in terms of progress towards financial sustainability, and growing in terms of members and assets and thereafter focus future support on those which are clearly on an acceptable growth path;

- consider providing additional core funding (revenue and capital) to the targeted credit unions for a further three years but on a tapering down basis against credible business plans which show how sustainability can be achieved by 2016;
- remove requirements on these credit unions to target recruitment and growth efforts specifically at financially excluded individuals and agree targets for membership growth, asset growth and the percentage of turnover accounted for by earned income; and
- review support annually and withdraw funds from any credit unions which fail to deliver accordingly.

Despite these conflicting policy issues, we are of the view that the project is making a reasonable contribution in developing a strong and effective credit union movement in Wales – the main issue is the lack of consistency in development from one credit union to another.

The project is making good progress in achieving its WEFO-funded targets for the Convergence area and in our view should now concentrate its efforts on meeting the remaining targets, particularly the project's cross-cutting targets. The performance of individual credit unions in meeting their SGEI-funded obligations varies significantly and the Welsh Government may wish to review the arrangements which are in place within three under-performing credit unions, particularly in cases where it appears highly unlikely that targets will be met.

We are of the view that the Welsh Government's contracted provider TSIB is largely delivering against its KPIs and has effective processes in place to administer the SGEI funding agreements. However, the evidence from within the credit union sector suggested that the support and training made available via TSIB is only having a marginal impact upon the majority of credit unions. Our fieldwork also revealed some issues around the quality and appropriateness of the support made available in that several credit unions' expectations had not been met. We are of the view that TSIB should continue to function as a general source of information and advice to the sector but that it should focus its intervention and training upon those credit unions which require such support and can see the value in receiving it.

Whilst improvements in credit union governance and compliance standards were identified, it remains the case that there is widespread variation across credit unions and that there is scope to further improve credit union governance in many cases. It is also the case that there continues to be a marked difference in the business operations and approach of supported credit unions.

Recommendation 4: We recommend that the project, through its contracted provider TSIB, continues to provide governance and compliance support to credit unions for the remaining period of the project, and that a greater focus be placed on supporting the recruitment of new credit union Board members and facilitating succession planning within those credit unions who require such support and can see the value in receiving it.

Whilst there are certainly examples of SGEI-funded credit unions who have been able to make progress towards becoming self-sustaining organisations, in the main there is widespread recognition that the provision by those surviving credit unions which do not receive funding post-2013 will contract (in some cases quite considerably) and in other cases the withdrawal of funding will lead to the demise of a small number of credit unions. The fundamental issue is that SGEI funding has not necessarily been directed and used to transform credit unions in this way, for example, by supporting them to expand into commercially more viable markets. We are of the view that if this objective is to be pursued, the project needs to actively support credit unions to diversify their customer base over the remaining year so as to improve the chance of credit union sustainability post-2013.

Recommendation 5: We recommend that those credit unions which have achieved their contractual SGEI-funded targets be given greater flexibility by the Welsh Government to attract a wider membership base and increase their loan portfolio so as to increase their propensity to achieve long-term sustainability. These credit unions should also be encouraged to focus upon the retention of their current membership.

Whilst project promotion and marketing activity started somewhat late in the day, we take the view that the activities undertaken during 2012 have been appropriate and reasonably effective in helping to raise the profile of the movement in Wales. These activities now need to be sustained on an on-basis if a marked change in the profile of credit unions is to be realistically achieved.

Recommendation 6: We recommend that the project reconsiders its marketing provision so as to focus upon raising people's understanding of credit unions and broaden its marketing to attract a wider membership base to the credit union movement in Wales. We also recommend that consideration be given to strengthening the common credit union brand for Wales.

Our evaluation has found that there has been a healthy growth in both credit union membership and asset base in Wales, and feedback from credit unions shows that much of this can be attributed to the SGEI funding support in that without the additional resources to employ staff, credit unions would have been unable to develop in this way. Our analysis of credit union financial performance shows that credit unions are still weak in terms of their financial structures (net loans to total assets), still maintain very high operating costs and continue to hold more cash reserves than desired, whilst there have been both improvements and worsening of bad debt provision across the sector.

Recommendation 7: We recommend that the project provides support to the credit union sector to address its current key financial performance weaknesses, particularly around bad debt and reducing operating costs.

There is scope to further explore the sharing of resources and operating costs across supported credit unions.

One of the key highlights of the project has been the way in which it has supported credit unions to deliver financial inclusion initiatives and recruit nearly 11,000 new financially excluded members across Wales. Much of this success is attributed to the changes made to credit union contractual agreements midway through phase two and the increased emphasis placed upon monitoring the performance of credit unions in this respect. The project has already achieved one of its most ambitious WEFO targets and is to be congratulated on this. However, not all credit unions are demonstrating the same level of success in reaching new financially excluded members and there are several lessons to be learnt from their experiences in future activities – in our view current contractual performance ought to be considered in any future funding decisions made by the Welsh Government.

Annex 1: List of Interviewees

Name	Organisation
Stakeholders	
Stephen Chamberlain	Welsh Government
Bill Hudson	TSIB
Ceryse Fear	TSIB
John Chell	TSIB
Rhidian Morgan	Welsh Government (seconded to TSIB)
Adam Chown	Wales Co-operative Centre
Teej Dew	Wales Co-operative Centre
Steve Dobson	Wales Co-operative Centre
Lee Phillips	Money Advice Service
Delyth Morgan	Citizen's Advice Cymru
Alun Taylor	Chair of South Wales Chapter, ABCUL (also Chair of Cardiff and Vale CU
Sharon Angus Crashaw	Chair of ABCUL and North Wales Chapter
Steve Hay	Illegal Money Lending Unit, Trading Standards
Russell Smith	Cardiff Metropolitan University
Control Credit Unions	
Just (Shropshire and Telford and Wrekin Credit Union)	
Bristol Credit Union	
BAG (Bargoed, Aberbargoed and Gilfach Credit Union)	
Visits were undertaken to the following Credit Unions	
Dragon Savers Credit Union	
Haven Credit Union	
Islwyn Credit Union	
Merthyr Tydfil Borough Credit Union	
Neath Port Talbot Credit Union	
North Wales Credit Union	
Newport Credit Union	
Save Easy	
A focus group discussion was facilitated with representatives from the following Credit Unions	
Gateway Credit Union	
Bridgend Credit Union	
Laser Credit Union	
Newport Credit Union	