

DARLINGTON CREDIT UNION

Chairman's Report

for the **2020 financial year**

Bob Carson

This report and our Treasurer's Financial Report cover the calendar year 2020. The unprecedented situation which we find ourselves in from March 2020 due to the pandemic has been a dominant factor during the calendar year. More details on the impact of the pandemic are provided in Janice Lincoln's Financial Report and the report of Tony Brockley our Chief Executive at the end of the Annual General Meeting.

Many local residents including our members have suffered the loss of loved ones and had to deal with health problems due to the pandemic. They have our deepest sympathy.

Darlington Credit Union (DCU) is a non-profit making organisation owned by its members. The vision of DCU is to be a leading, sustainable business which facilitates and improves the financial wellbeing of our community. The mission is to provide a broad range of affordable, sustainable and ethical financial services to all of our members and to encourage the development of good financial practice.

In 2009 our membership was 400, by early 2018 it stood at over 6,500. This rapid expansion and the expectations of our members led to the need to substantially upgrade our systems. This transformation took place in 2018 and the early part of 2019 and included the move to a new banking platform. The subsequent consolidation phase was referred to in last year's AGM report and this period of consolidation extended to much of 2019. Our initial plans were to manage a period of expansion in 2020.

The Board and our CEO have been working over the last few years to provide a better, more efficient service for members. This included members being able to manage their accounts remotely using mobile and home computing devices, should they wish to, whilst still having access to our banking hall and the important face-to-face contact with our staff. Following the imposition of the first lockdown in late March, a very reluctant decision was made to close the banking hall. This was done to ensure the health and safety of our members and staff. Our staff working from home put systems in place using phone and internet-based services to minimise any difficulties that customers were experiencing due to the closure. Tony Brockley in his report will explain how this remote working operated.

2020 was a difficult year for all financial institutions. There are many challenges faced by the Credit Union movement in providing financial support to many who may already be excluded from 'traditional' banking and other financial services. The pandemic has resulted in financial insecurity becoming chronic for many who were just surviving and has led to a sharp increase in numbers only just getting by with the help of food banks.

The impact of the pandemic was to put on hold many of the initiatives that were planned for calendar year 2020. Prior to the pandemic our aims included:

- To increase income based on a controlled growth of the loan book of between 10 – 20%
- To reduce bad debt through adoption of better practices and processes
- Creation of new revenue streams

- Full on-line and digital banking
- Fully automated loan processing
- Fully automated membership application process
- Attracting new membership, especially from a younger demographic
- Increased payroll partnerships
- Increased number of corporate accounts

What occurred following the initial lockdown was difficult to predict. Positive aspects included our members deposits increasing but there was a significant decrease in income caused by a reduction in loan balances as demand dropped away significantly. An important ratio is the loan book as a percentage of our deposits and this has been steadily declining. At the same time there has been an increase in bad debts. This is mainly due to people finding themselves in straitened financial positions. Furloughing has entered our language and our lives. Payment holidays, IVAs and the temporary scrapping of ELDS (Eligible Loan Deduction Scheme) have all contributed in this much changed economic climate

A decrease in income and an increase in bad debt is not sustainable in the long term. This scenario is not unique to DCU or even to the credit union industry. High-street banks are reporting potential losses in the billions in relation to bad debt. It is a major concern to the credit union industry and all the credit union trade associations have been making strong representations to the Treasury for support funding. This is ongoing.

Some positive activity during 2020:-

- We did receive some Government funding through the Business Rates Grant Funding Scheme
- We have also been successful in a bid for funding from the National Lottery Community Fund
- Four of the North East's largest and most progressive credit unions, including DCU, have begun talks in the wake of this crisis to investigate further what type of collaborative approach we can pursue going forward. Early discussions have been positive and we share the belief that now more than ever, we have to maintain a strong NE credit union presence post-Coronavirus.
- The Business Continuity Plan, involving our staff working from home, has worked well. No member has had cause to complain of any lessening of the quality of the service they have received. Staff members and our IT support company Circle Cloud have made the transition to working from home as seamless as possible.
- Fully automated loan processing is now in place.
- We have produced an investment prospectus which sets out the relevance and importance of DCU to the community, with a view to initiating corporate interest in investment. Whilst it is our ambition to be self-sustaining there is likely to be some reliance on grants or investment support in the short to medium term.

One aspect that observers have noted is that during the pandemic there has been a revival of 'community spirit'. It has been important for Darlington Credit Union and our staff, board

and members have demonstrated great positivity and mutual support during very trying times.

Janice Lincoln, our treasurer will present the Financial Statements shortly. We are disappointed to show a deficit for 2020 of £10K. The deficit is primarily due to loan income being below budget and the continuing bad debt problem.

Keeping bad debt under control and minimising risk is a major challenge for DCU and for the whole of the credit union movement in the UK. An important part of our customer base includes the lower paid and those on benefits. Freezes to benefits and the dysfunctional universal credit system have had a damaging impact in our community and on many of our members, pushing them into debt. We help when we can and keep our charges to a minimum but always have to hold in mind the risk of bad debt. An issue that became more apparent during the year is that an increasing number of our clients have been taking out Individual Voluntary Agreements (IVA's) which have had the impact of substantially reducing our income. There are companies offering advice regarding IVA's without full explanation of the consequences regarding credit scores, and future problems clients may have in getting a mortgage or even when renting.

In September two decisions were taken by the board to mitigate some of the problems mentioned above and to ensure that we are still able to provide ongoing financial support to those most in need.

- It was agreed to introduce an annual membership fee of £5. This approach is very much in line with many Credit Unions. The decision was taken with reluctance but is in response to the unprecedented problems caused by the pandemic.
- A review was undertaken of staff responsibilities and some reductions were made to staff hours. A proposal was agreed to implement a reduction in hours of the CEO to be reviewed on a 3 - month basis.

In the past the Money Works project (now Money Smart) has played a very important role in helping members to budget and manage their finances, including debt, and we are determined to sustain this service in the future. We are grateful for the funding of this important project by the Morrison Trust through their Big Lottery funding. This source of funding ended in 2020. With some re-deployment of staff responsibilities we have managed to continue to provide this service during 2020 through a 'You are not alone: managing money together' project funded by the National Lottery Community Fund. This year we were successful in gaining funding for a further period of 5 years.

During the early part of the first lockdown the board met remotely for fortnightly briefings. From August your Board continued to meet monthly with more formal meetings. There were 7 board meetings in 2020. Our Finance & Risk Committee was reconstituted and now meets monthly. The management of risk is always a major part of discussions at meetings.

Our 7,000 members had total share deposits of over £3.8m of which we had loaned £2m at the year end.

We are proud of our work in the school community serving 13 schools with 1,400 savers and £191,000 of deposits. With the new on-line banking and mobile access facilities it is our aim to attract teenage students at our secondary schools and colleges.

Our corporate membership base is strong and building, standing at the year end at 70 organisations with £327,000 of deposits.

Serving as a board director is demanding but highly rewarding and I pay tribute to those who served throughout 2020 and those who continue to serve. We owe a big debt to all of our board members and other volunteers. To be able to implement a Vision “to be a leading, sustainable business which facilitates and improves the financial wellbeing of our community and its people” is a high calling and vital in building local financial resilience.

An ongoing issue is the lack of diversity within the board. It was agreed that we should advertise for additional board members and prior to doing that the existing board members completed a skills audit. We have been successful in recruiting four excellent new members who are included on the agenda this evening for confirmation. The presumptive members are Dr. John Furness, Bill Dixon, Alistair Russell and Kath Hull.

Very sadly board member Nigel Foster died in July. Although a relatively new board member Nigel had just taken on the role of Secretary. Carol Miller retired during 2020. We are very grateful for her contribution. Janice Lincoln is standing down as a board member this month. Janice has done a terrific job as Treasurer and has agreed to continue to support DCU in a financial book-keeping role.

An important relationship is that with Darlington Borough Council and I express my grateful thanks on behalf of the Board for their on-going support and encouragement.

Our success to date has been built on unswerving teamwork and trust. The passion and enthusiasm for the credit union ethos and Darlington Credit Union by Tony, Jo and his team is acknowledged. The tenacity, hard work and loyalty of our staff has given DCU a respected position throughout the Darlington community and much further afield. All of us owe you a great deal. Thanks are due to all our staff for staying strong through a difficult year and never losing sight of the vision.

A big thank you is due to all of our members for putting your faith in a local mutual organisation which belongs to you and works for you. You are helping to build a financial entity which can reach out to many more people and can grow to be the financial institution of choice for the majority.

Clive Owen & Co have been supportive auditors during the year working with great diligence.

I commend this report to you.

Bob Carson **Chairman Darlington Credit Union**