



Southwark Credit Union

The Development of Southwark Credit Union 1982 - 2007



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Foreword



The Rt Hon Harriet Harman QC MP, Leader of the House of Commons and Lord Privy Seal; Minister for Women; and Labour Party Chair, MP for Camberwell and Peckham

This publication celebrates 25 years of commitment to the people of the London Borough of Southwark. It tells the story of Southwark Credit Union from its origins within the council workforce to its becoming the community financial institution that it is today. No longer just serving council employees, Southwark Credit Union now offers modern and professional financial services to many thousands of people who live or work in the borough, many of whom are on low incomes or would otherwise face financial exclusion.

Growing and establishing the credit union as a quality organisation has not been easy. Over the years, there have been many challenges, set backs and hurdles to surmount. But in each decade, committed volunteers and staff members have worked tirelessly to make sure the credit union succeeded and went forward. The early years were particularly difficult, and as this publication records, the credit union was close to closure around 1988. But people with vision refused to give in and found ways of making sure that the credit union survived and developed in the interests of the membership and of the wider community.

I had personal experience of the credit union surmounting a period of great difficulty. In August 2000, Camberwell Credit Union had a Section 19 order placed on it by the Financial Services Authority, which prevented members from withdrawing their savings because the credit union was insolvent. There was a real prospect that members, many on very low incomes, would lose a significant amount of their savings such was the plight of the credit union. The credit union and I worked extremely hard with the FSA, Southwark Council, the Association of British Credit Unions, PriceWaterhouse Coopers, the British Bankers Association and others to ensure that all members' savings were safe. Nobody lost a penny. Southwark Credit Union took the brave step of accepting a transfer of engagements from Camberwell Credit Union and to bring all its members into SCU membership. With the protection, since 2002, of the Financial Services Compensation Scheme, a similar situation could never arise again. The Government has ensured that members' money in a credit union enjoys exactly the same protection as in a bank or building society.

The history of Southwark Credit Union, as at the time of Camberwell, has been one of volunteers and staff seizing opportunities and developing new ideas as they endeavour to drive the credit union forward. In an appendix of this publication, there is a list of Southwark Credit Union firsts. These include the first credit union to organise payroll deduction, the first credit union to obtain a live and work common bond for the whole of the borough, the first credit union in London to offer credit union current accounts and, importantly, the first credit union in Britain to sign the Department of Works and Pensions (DWP) contract to deliver Growth Fund loans to the economically disadvantaged. Southwark Credit Union has led the way in so many areas of credit union development in Britain.

It is with great pride and pleasure, as a Southwark Credit Union member myself, that I recognise the commitment and achievements of credit union directors, committee members, staff members and volunteers over the years. I take particular pride in recognising the lead Southwark Credit Union has taken in developing financial products and services for the least well off in society. The original founders were motivated by a sense of social justice and a desire to improve the economic situation of council workers. This same sense of mission and purpose permeates the credit union today.

I wish Ann, Lucky and the team at Southwark Credit Union every success for the future and I am sure the credit union will grow from strength to strength over the next 25 years, as it did over the last quarter of a century.

Realising the Vision



*Ann Brewster,
Chair of Southwark
Credit Union Ltd.*

The development of the credit union over the last 25 years is an amazing story of dedication and hard work by the staff and Board in the interests of the people of Southwark. As Chair of the current board, I am conscious of having to ensure that the credit union continues its growth to become the quality institution that our members want and need.

The quality of our products and services is key to success. We need to react fast to the changing needs of our members and ensure that we provide them with the products they want. Benefit Direct Accounts, for example, were introduced specifically to meet the needs of a group of our members. They aim to give people a safe place to save and the security of being able to obtain an affordable loan when they need it.

The credit union has gone on now to introduce current accounts for all our members. These again are in response to members' needs and we are working hard to ensure that this new development becomes a sustainable business endeavour.

Another new development has been the introduction of the Young Saver Accounts. The aim is to educate the next generation of Southwark residents to face future financial challenges from a position of knowledge and strength. With the right training, we look to our young people to take the credit union forward for another 25 years.



*Lakshman (Lucky)
Chandrasekera,
Chief Executive Officer,
Southwark Credit
Union Ltd.*

This publication records the many challenges that the directors, managers, staff members and volunteers of Southwark Credit Union have faced and overcome over 25 years. Their dedication and commitment has ensured that SCU has become a stable financial institution able to serve its members with the products and services they want and need.

I am proud to have been part of SCU since 1993. I have worked closely with the board and have led the staff team, to ensure that SCU develops as a modern and professional credit union. In this period, we have seen the introduction of the PEARLS financial system, the new current accounts and the Financial Inclusion Growth Fund, all of which have made a fundamental difference to the way SCU operates and performs.

The best is yet to come. Proposed changes to credit union legislation will bring new opportunities for all credit unions. Changing the restrictive requirements of our current common bonds will, alone, enable us to reach out to many more people, particularly those on low incomes and facing financial exclusion.

Over the years we have built up great partnerships with both central and local governments, banks and, of course, with all political parties and other organisations. This publication, supported by Barclays, is in itself an example of partnership working in action. My vision is to develop these partnerships to make sure Southwark Credit Union continues to grow into one of the most successful credit unions in the country.



*Louis (Roy) McLeod,
Treasurer of Southwark
Credit Union Ltd.*

As treasurer of the credit union, and someone who has had a long association with its development, I see the success of Southwark Credit Union as being built on a long-standing commitment to financial discipline and prudence. In the SCUDA years, we learnt the importance of financial management and stability. This was a lesson that was to pay immense dividends when we received into membership Kings, Borough and Bermondsey and Camberwell credit unions. That was a difficult time and hard financial decisions had to be made, but we came through because of the financial capability of both board and management. Financial discipline has been also central to our adoption of the PEARLS financial monitoring system.

PEARLS, however, has been more than financial discipline. It has transformed the way the credit union operates and delivers its products and services. As a financial organisation, we have to compete in a complex and difficult financial market. We have to target our services aggressively and ensure that we win business on the basis of the quality of the products and services we provide.

In partnership with other organisations, the credit union is committed to building its profile in the community in a way that demonstrates financial stability and security. The people of Southwark can have confidence in this credit union and know that it will serve the entire community effectively for many years to come.



*Mark Lyonette, CEO,
Association of British
Credit Unions Ltd.*

Southwark Credit Union has been a pioneering organisation in many ways during its 25 year history. The credit union has developed new services and new ways of providing these services to meet the needs of its changing membership over the years.

In 1999, the credit union expanded from providing services to local authority and healthcare employees in the borough to providing services to anyone living or working in the whole of Southwark. By doing this it became not only the first credit union to change its common bond from employment to live or work but also made Southwark the first London borough to have full credit union coverage.

Southwark Credit Union's commitment to providing inclusive financial services to the people of Southwark has kept it at the forefront of developments in British credit unions. It has been one of the first credit unions to introduce benefit direct accounts, partnerships with money advice agencies, schools savings clubs and the Credit Union Current Account and continues to be an example to other credit unions around the country.

I would like to congratulate everyone who has been involved in such a success story during the last 25 years. I look forward to seeing how the credit union continues to innovate as it brings inclusive financial services to ever more people.



*Jenna Eastlake,
Senior Financial
Inclusion Manager,
Barclays.*

Barclays is committed to tackling financial exclusion and recognises that credit unions have an important role to play in creating a more inclusive financial system. However, if credit unions are to make a real impact, the sector needs to work together to continue to grow in strength and professionalism. It is important that credit unions learn from one another, which is the reason why Barclays has supported this research into the history and development of Southwark Credit Union. It provides some true insights into the challenges Southwark Credit Union has faced in becoming a quality and professional organisation.

This report records how Barclays has supported Southwark Credit Union directly in assisting it to develop a closer working relationship with local money and debt advice agencies and, importantly, to participate in the PEARLS project. PEARLS is a credit union business monitoring tool which has been introduced to Britain through ABCUL, with funding provided by Barclays. PEARLS has marked a real step change in Southwark Credit Union's development, enabling it to focus on growth and to work smartly towards greater self-sufficiency, whilst ensuring it maintains its social goals and support for the financially excluded.

We hope that this report supports and encourages the sector as a whole to develop as quality organisations, especially those smaller credit unions following in Southwark's footsteps.



*Nicholas Stanton,
Leader of Southwark
Council.*

As Southwark Credit Union marks this milestone in its rich history, I would like to congratulate the Board, staff and members on its many accomplishments. The problems that gave rise to credit unions still affect our communities today. The battle against poverty, and the challenge of increasing access to and awareness of affordable financial services, are high on the list of the council's priorities.

The council supports Southwark Credit Union as it continues to make a difference to the lives of people living and working in Southwark. The credit union's efforts to reach out to all sections of our communities are commendable. It operates in what are, sometimes, challenging circumstances to serve its members, to increase the choice of accessible and affordable financial services for all, and to assist some of the most vulnerable people in our communities to move towards economic independence.

Southwark Credit Union has been and continues to be a valued partner. It is moving forward with the times and developing new services. I wish it every success for the future.

Acknowledgements

The authors would like to thank all those who have contributed to the production of this publication. In particular, we would like to thank Ann Brewster, Chair of SCU, Louis (Roy) McLeod, Treasurer, and all the members of the board of directors and Lakshman (Lucky) Chandrasekera, CEO, Joan Driscoll, Manager, and all the staff team at SCU who have assisted with the research and analyses underpinning this publication.

Special thanks go to Peter Bussy, ABCUL's London Business Development Manager, whose meticulous record keeping and recall of the history and development of SCU has informed so much of this work.

We would also like to thank Bill Yoxall, former Head of Consumer Services at Southwark Council and the Rev Jack Pawsey, former curate of St Giles Church in Camberwell, who contributed their recollections of the early days at SCU. We would specially like to thank William H. Smith, John Raymond and Mary Bowes, longstanding members of the credit union, who shared with us their memories of first joining the credit union and the contribution it has made in their lives over many years.

Thanks also go to Tina Barnes, SCU's Business Development Manager from 2005-06, and currently the Financial Inclusion Fund Programme Manager at Citizen's Advice, who has contributed to the research on SCU's role in promoting financial inclusion and has proofread much of the text.

Particular thanks go to Peter Kelly and Jenna Eastlake, of the Financial Inclusion Team at Barclays, who have enabled and supported the production of this publication. Barclays have been a long-standing supporter of SCU, and of the credit union movement in general. They trust that the lessons learnt from this research will inform the development and strengthening of the credit union movement throughout the country.

Finally the authors would like to congratulate the board of directors, CEO, staff and members of Southwark Credit Union for the inspiration and sense of direction they have brought to the British credit union movement.



*Paul A. Jones,
Senior Researcher,
RUF.I.*

Paul A Jones

O. Sallyanne Decker

Research Unit for Financial Inclusion
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*O. Sallyanne Decker,
Part-time Researcher,
RUF.I.*

Paul A Jones is a senior researcher in the Research Unit for Financial Inclusion. His research interests are in the fields of credit union development, co-operative and social enterprise and financial services for people on low incomes.

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The Research Unit for Financial Inclusion (RUF.I) is situated within the School of Applied Social and Community Studies at Liverpool John Moores University. It undertakes academic, action and evaluative research in a wide range of areas related to the development of financial services for lower income households. RUF.I has a particular expertise in research aimed at strengthening credit union capacity and effectiveness.

For further information on RUF.I see <http://www.ljmu.ac.uk/HEA/financialinclusion/index.htm>

Chapter One

Introduction

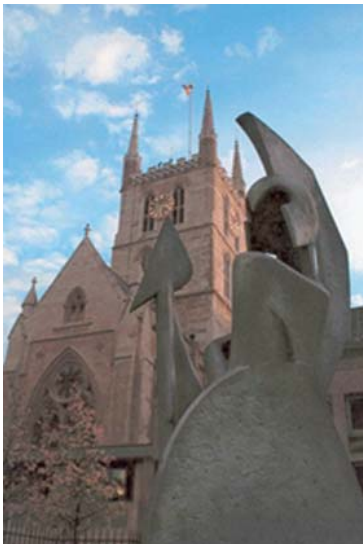
Southwark Old Town Hall where the inaugural meeting of the first organising committee was held in 1982.



Southwark Credit Union (SCU) is the largest community credit union in London and one of the leading credit unions in the country. It has three branches throughout the London Borough of Southwark, is managed by a workforce of over 30 staff members, has assets of over £6.8 million and serves over 7,000 members with a range of modern and professional financial products and services. SCU's membership is wide and economically diverse, with payroll deduction facilities in 19 companies and public sector organisations. Yet, from its foundation, SCU has always aimed to serve those on moderate or low incomes and now plays an increasingly important role in providing a pathway to financial inclusion for people, including many in the immigrant community, who find themselves excluded from mainstream financial services.

Born out of the commitment and vision of council workers

SCU has come a long way since it started life in 1982, with no premises, with very little capital and as a wholly volunteer-run financial co-operative for council employees. However, the values and principles that inspired its original founders are as much a part of today's organisation as they were of the emerging credit union 25 years ago. SCU was born out of the commitment of a small group of Southwark Council workers who had the vision of creating a self-help financial institution that would offer the opportunity of economic advancement and financial stability to their colleagues and workmates. Among these, mostly manual staff, many were low paid and unable to access affordable credit from mainstream providers. In 1982, financial hardship was widespread among low paid manual workers, particularly, but not solely, from Caribbean and other BAME communities, and financial insecurity loomed large with the introduction of compulsory competitive tendering for council services. The founders of SCU were driven by a passion to improve not only their own financial circumstances, but those of their fellow workers, through mutuality and co-operation.



Southwark Cathedral.

Although created for an employee workforce, and with the advantage of being the first British credit union with payroll deduction, SCU was established according to a similar model of development as the majority of traditional model British credit unions. It was created as a small, volunteer co-operative, with limited capacity and infrastructure, and which offered its members a restricted range of financial products and services. As subsequent research revealed, traditional model credit unions were not built for growth (Jones 1999). They were further constrained by, what the World Council of Credit Unions described as, the worse credit union legislation in the world (Co-operative Commission 2001). With hindsight, it was not surprising that SCU was only able to recruit two or three hundred members for at least nine years of its existence out a workforce which, at times, was over 12,000.

Adopting more professional and business-like approaches

Like many credit unions faced with the challenge of poor growth, SCU recognised that it had to strengthen both governance and management and adopt more professional and business-like approaches if it were to succeed, particularly in the low income market-place (Jones 1999). From around 1991 onwards, with the support of the newly created Southwark Credit Union

Development Agency, SCU turned its first real corner and a process of change began. With a new and dynamic board of directors, SCU refocused its approach on robust business planning, on moving to suitable premises, on introducing improved IT systems and developing a professional staff team. This new approach led to the opening of its common bond, in 1996, to the employees of King's College Hospital, and, in 1999, to everyone who lives and works in Southwark.

However, it was not long before international research (Branch and Cifuentes 2001) convinced SCU, and the British credit union movement in general, that if it were to grow into a significant financial institution and make a long-term contribution to its community, a much greater reform would be required. This demanded a radical financial and organisational restructuring that came to be known as new model credit union development. At the heart of this restructuring was the PEARLS financial monitoring system (Richardson 2001, ABCUL 2003) which was introduced into Britain in 2002. SCU was one of the first group of credit unions to follow the Barclays supported PEARLS training programme. The introduction of PEARLS, and the new model methodology on which it was based, prompted SCU to enhance financial discipline, to maximise savings, to split savings from loans and to reform its products and services in response to people's needs and wants (cf. Jones 2004a). It led, in 2006, to SCU to being one of the first credit unions in Britain to introduce current accounts.

Financial restructuring and organisational reform has enabled SCU to play an increasingly important role in serving low income communities and in promoting financial inclusion. So too has the network of links and partnerships that the credit union has developed in order to access financially excluded communities more effectively. Financial exclusion is characterised not just by a lack of affordable credit but by having no savings, no bank account, no assets, no access to money advice and no insurance (HM Treasury 1999b, 2004,2007). SCU is now able to respond to the needs of people through its ability to address each of these elements in a co-ordinated and holistic manner. It can offer financially excluded groups access to current accounts, benefit direct accounts, flexible savings accounts, instant and accessible loans, affordable home contents insurance and access to money advice and debt counselling services. SCU was the first credit union to sign the Department of Works and Pensions contract to deliver the Financial Inclusion Growth Fund in 2007.



Peckham Peppers Market.

25 years of transformation and change

SCU has developed from a small, and for many years struggling, staff benefit organisation to a multi-million pound professional financial co-operative institution serving a diverse inner city London borough. This has taken 25 years of transformation and change. It is now an established and well-known credit union (Jones 2006) able to serve a large and growing membership. But it still faces new challenges that are already present or are looming on the horizon. It has outgrown its premises on Denmark Hill, continually needs to reform and update its processes and procedures and will have to respond to the demands of forthcoming changes in legislation.

This publication is written to commemorate and celebrate the 25 years of achievement of SCU and is dedicated to all those volunteers, staff members, directors, partners and stakeholders who have given so much to improve the economic situation of their friends, family, colleagues and members of the community of Southwark. It is also written so that credit unions throughout the country can learn from SCU's experience and gain insight from this story of development and change that will hopefully help to strengthen their own organisations and their ability to serve their own communities effectively.

Chapter Two

Origins of a credit union for Southwark Council's Employees

The first credit union office in Neckinger.



In 1982, Southwark was a distressed inner city area that suffered disproportionately from the economic recession of the period. Social and economic deprivation was endemic, unemployment was high, poor housing and overcrowding were prevalent and more than half of the population lived on a gross income of under £100 per week compared to a third nationally (Goss 1988). It was recognised by government as an area of high priority need (Trim 1983). Access to financial services, particularly to affordable credit, was difficult and often impossible for those on low incomes, a reality reinforced as banks increasingly fled low income communities and sought more profitable markets.

Most people on low incomes in Southwark suffered poverty and financial exclusion, but there is strong evidence to suggest that Southwark's ethnic minority population suffered the most. At the time, as now, Southwark was a very diverse community, with BAME¹ groups accounting for 25.5% of the population (1981 census). Among these, people from the Caribbean formed the largest single group of non-UK born residents. The Rev. Jack Pawsey, former curate of St Giles Church in Camberwell, recalled the intense difficulties faced by the West Indian community at the time in accessing financial services and the ways in which they informally tried to help one another. *"[They] had very little access to reasonable loan terms and, instead, they used schemes called "meetings", "pardners" or "susu" that were entirely trust based", explained Jack, "There was a lot of poverty in the area and a real lack of [access to] mainstream credit".*

Ten years earlier, in 1972, a group of committed church people, from various denominations and many from a Caribbean background themselves, had already mobilised the spirit of self-help in the community and had come together to respond to the financial needs of those on low incomes in Southwark. Conscious of the large number of black and minority ethnic people who were constantly turned away by banks and legitimate lenders, and who ended up being exploited by money lenders and loan sharks (ABCUL, 2004, 2007), they agreed that the community had to take action by and for itself. They were inspired by a Barbadian pastor, resident in London, to create a community credit union, which many people were already familiar with back home in the Caribbean. Seven years before the Credit Unions Act was introduced in 1979, this group was one of the first in the country to pioneer the co-operative credit union ideal. Collectively, they formed Camberwell Credit Union (CCU).



View of River Thames.

In common with many later community credit unions (Jones 1999), CCU was established with the express purpose of serving a low income community with the affordable financial services it needed. It had social and economic goals. The Rev. Jack Pawsey stressed that CCU was created at a time when *'race relations were at the denial stage'*, by people with a common concern for race equality and for social justice for a clearly disadvantaged section of society. *'For the group of founders'*, Jack explained, *'the credit union offered an obvious practical advantage to a local community where banking facilities were either not available or too expensive'*.

It was with the same goals of serving a low income, underserved community that the idea of creating a credit union for Southwark Council employees emerged. The late Rod Fairclough was an active member of CCU and a carpenter who worked in Southwark Council's Housing Maintenance Department. Like many of the members of CCU, Rod was originally from the Caribbean and was a passionate believer in and promoter of credit unions. His zeal and enthusiasm led to his being described by his colleagues as *'a credit union missionary'*. He was on CCU's education committee and spreading the news of the benefits of credit union membership was important to him. He progressively began to introduce to his colleagues at the council, many of whom were themselves on relatively low wages and had similar difficulties of accessing affordable financial services, the idea of creating a credit union for the workforce. Southwark had one of the highest proportions of

¹ Black, Asian, Minority Ethnic (BAME)

manual workers in London, the second highest number of manual workers in London and the highest number of unskilled manual workers (Goss 1988).

Passion, vision and co-operation

Rod's passion for credit unions was fuelled by attending credit union summer schools in Ilkley, Yorkshire, that were organised by Len Nuttall, Chief Executive of the Credit Union League of Great Britain (CULGB), now the Association of British Credit Unions Limited (ABCUL)². A regular guest speaker at these training events was Paddy Bailey, who worked through the 1970's for both CUNA³ and WOCCU⁴ in the United States and who became the managing director of WOCCU in 1975. Paddy was a charismatic credit union promoter of international repute and Rod was inspired by his talks on the value of co-operation and benefits of credit unions for people, particularly for those of modest means and on low incomes. Rod was able to relate to the vision of co-operation articulated by Paddy as not only was Paddy originally from Jamaica, but, before joining CUNA, had played a central role in developing the Jamaican credit union movement. Paddy demonstrated to summer school participants how, with effort, imagination and endeavour, a vibrant credit union movement could be established in Britain, just as back home in the Caribbean. In fact, Paddy himself played a key role in creating some of the earliest community credit unions in London, such as the Hornsey Credit Union in 1964 (ABCUL 2004).



AA "Paddy" Bailey,
Managing Director of WOCCU

Rod was conscious that CCU served a limited common bond and that the benefits of credit union membership, as experienced and valued by himself, were denied to many of the colleagues with whom he worked. CCU's common bond extended only to residents in the SE 5, SE 15 and SE 17 postcode areas, which excluded many council employees. Inspired by Paddy Bailey, Rod shared his thoughts about creating a council credit union with Peter Bussy, CULGB's field officer for London and the South East. Peter, also a member of CCU, immediately saw the potential that this afforded for expanding the credit union movement not only in Southwark but throughout Britain. As field officer, he was directly responsible for setting up and developing new credit unions and Rod's idea of a council credit union coincided with new thinking emerging from the United States on effective credit union development.

From its inception, CULGB had close relationships with CUNA Mutual and WOCCU and had learned much about credit union philosophy and operations from the United States. It was for this reason, that Paddy Bailey was a regular attendee at CULGB summer schools. For the Americans, based on their own experience, the most successful way of establishing a sustainable credit union was by creating them first among employee groups with the guarantee of payroll deduction agreements with employers. The lesson emanating from Madison⁵ was that payroll deduction was the key element of success as it ensured regular savings deposits and loan repayments into the credit union and it provided a unique selling point in attracting moderate as well as low income employees into membership. The ease of payroll deduction for employees meant that they could save and repay loans even before receiving their monthly salary.

There were already a small number of employee credit unions in Britain before 1982. Coventry City Council Credit Union was established for local authority staff and Carrington Works Credit Union existed for Shell employees. Closer to Southwark, the employees of the consumer services department of Lambeth Council had set up Lambeth Z Credit Union. However, none of these credit unions offered payroll deduction for savings and loan repayments. Peter and CULGB were keen to seize on Rod's idea for an employee credit union and create the first credit union in Britain with payroll deduction.

If Southwark employees and CULGB could obtain the agreement of the council for payroll deduction, it would be a major step forward in British credit union development, and one that could be replicated in employee credit unions nationally. A credit union with payroll deduction would generate greater volumes of savings and loans, would reduce bad debts through regularity of loan repayments and, above all, would demonstrate the commitment and support of the employer to the organisation. This employer commitment would build credibility among the workforce and stability within the credit union itself. All depended on Southwark council's employees and CULGB convincing the council that supporting the credit union would bring long term benefits to the workforce by promoting the habit of thrift, by enabling access to affordable credit and by reducing poverty and overindebtedness among staff members.

2 The Credit Union League of Great Britain became the Association of British Credit Unions Ltd. following the name change at the 1983 ABCUL AGM in March of that year.

3 Credit Union National Association (CUNA), the credit union trade association in the United States

4 World Council of Credit Unions (WOCCU), the association of the international credit union movement

5 Madison, Wisconsin, is the home of Credit Union National Association (CUNA) and the World Council of Credit Unions (WOCCU) in the United States.

The Credit Unions Act 1979, savings clubs and council workforce morale.

In addition to Rod's passion and Peter's vision, there were a number of other factors that would prove favourable to the development of an employee credit union in 1982.

First, the early 1980s was a time of optimism in the credit union movement. The Credit Unions Act 1979 had recently given credit unions a new legal status and a sense of financial security that they had not had previously. There was now a legislative and operational framework that afforded credit unions an identity and an image that would change the way local authorities and others would perceive them. They now had an image of safety. The Act made it a requirement for officers of credit unions to be bonded, which was to reassure members that they were protected if the credit union's officers were found guilty of fraud. The legal identity of credit unions, and their recognition by the Government, would prove invaluable in encouraging councils to take credit unions seriously as responsible financial institutions able to serve their staff and workforce effectively.

Secondly, there were a number of financial self-help schemes already existing in the council and unregulated savings clubs were common among the council workforce. In fact, these informal means of savings were important for people on low incomes and many of Southwark's employees saved in them. Although these clubs were unregulated and funds unprotected, they handled large sums of money. At Southwark, cash flows of some savings clubs at the time could be as much as £45,000- £50,000. Christmas clubs were particularly popular as people wanted to put money aside, that they could not withdraw until November. Southwark Council Employees Credit Union was not specifically established to replace council savings clubs. However, the level of security that the savings clubs could now offer, arguably, influenced council decision making. Savings clubs were vulnerable to fraud and misappropriation which credit unions, under the Act, were protected against. Certainly, it was a key objective of CULGB to convert savings clubs among groups of workers throughout Britain into credit unions.



Southwark Bridge, River Thames.

Thirdly, if the early 1980's was a time of optimism for credit unions, it was a time of gloom for many left-wing councils, such as Southwark, and their local authority workers. In 1979, a Conservative government was elected with an overwhelming majority and Mrs Thatcher came to power. One of this government's earliest policies was to introduce compulsory competitive tendering in a bid to seek better value for money in local government. The Local Government, Planning and Land Act (1980) followed which provided for the council's highways, building maintenance and construction to be put out to tender. This had a fundamental destabilising effect among the council's large manual and low-paid workforce, who saw their jobs now under threat. Morale in the council was low as many of these direct labour workers would be the first to suffer job losses as a result of CCT. Supporting the development of the credit union as a staff benefit, particularly for lower-paid manual workers, would be one way the council would try to redress the poor morale of those early days of the new Conservative government.

Starting up – challenges and tactics

With the vision and commitment to establish an employees' credit union agreed, Rod and Peter began to explore the practicalities of setting up the organisation. The council was the largest employer in the borough, with over 12,000 staff, which meant that the credit union would have a sizeable common bond and there was a real opportunity to recruit many people into membership. On the other hand, organising the credit union would not be easy given the council's decentralised structure and the dispersed office locations. Each department had, for example, its own separate personnel section, which Rod and Peter would have to contact individually.

Initial contact was made with Madeline Stack, who worked in the council's Personnel Management and Services Department based at Commercial Way. Madeline in turn introduced Peter to Don Sinclair, who worked in the personnel section of the Social Services Department which was based at Castle House in Elephant and Castle. A significant step forward was made, however, when Don Sinclair introduced Peter to John Lyons, who worked for the Environmental Health Department, based at Spa Road. John was the representative of the National Association for Local Government Officers' trade union (NALGO) and he immediately saw the potential benefits of the credit union for his NALGO members. Rod had also assured the support of his own trade union, the GMB. In

1982, trade unionists were central to any successful development as they had considerable influence on council decision making. They were regarded, by the council itself, *'as facilitating the smooth running of the council's affairs by assisting in solving the problems and worries of fellow workers in the local situations as well as 'negotiating' on the wider issues of council business'*⁶.

By gaining the support of NALGO and the GMB, Rod and Peter were on the road to the eventual full council acceptance of establishing the credit union. By the end of 1981, enough support had been gained from the unions and groups of workers for a letter to be circulated to key people in the council and in the unions formally outlining the proposals for the credit union. These proposals included the appointment of local representatives in each location or department, the setting up of an organising committee and the procedures for borrowing, making payments and bookkeeping systems.



Promoting credit union services in the workplace.

Inaugural meeting and early structures

The credit union's inaugural meeting was held in the Mayor's Parlour at the Municipal Offices, Walworth Road on 18th February 1982. It was at this meeting that the first organising committee was established which comprised of Don Sinclair, Mrs Jean Scott, Norma Francis, Alan Coe, Frank Ridler and Rod Fairclough himself. These founders were the core group that Rod and Peter had mobilised to forge links and connections across the council and its departments. Eight area representatives were also appointed to strengthen the network. At this inaugural meeting, the 22 initial shareholders required by the Registry of Friendly Societies to form a credit union were identified. Importantly, goodwill messages from the CEO of the council and from Lambeth Z Employees Credit Union were read out. Council support for the new venture was publicly assured.

The first meeting of the organising committee held on 17th March 1982 was well attended by those who had been appointed at the inaugural meeting and by others who had played an important role in developments up to that point, including Madeline Stack and John Lyons. By this meeting, the council had already agreed in principle to payroll deduction on condition that the treasurer appointed by the future board of the credit union was agreed by the Borough Treasurer. It appears, from the minutes of that meeting, that the council was prepared to intervene to ensure that the new board would have the financial skill and expertise necessary to organise an effective financial institution. At the meeting, the first budget was agreed on the basis of a minimum payroll deduction per member of £2.50 a week or £10 a month. Based on American experience, payroll deduction was seen as critical to success and had to be made available from the outset to process deposits and loan repayments.

Payroll deduction was obligatory for all members of the credit union. However, not all members of the workforce had their wages paid directly into bank accounts, and, in fact, most manual workers would have been unbanked. The notion of a current account for all had not surfaced in 1982. Many workers were still paid in cash in little brown envelopes. In order to introduce payroll deduction, money had to be deducted, by the payroll section, before the employees received their envelopes. For many, payroll deduction was their first experience of saving in a financial institution.

Credit union registration - 29th November 1982

After many months of meetings, discussions and negotiations with the council, especially the Personnel Department and Payroll section of the Borough Treasurer's department, the organising committee applied for the registration of Southwark Council Employees Credit Union in September 1982. From March, this committee had changed slightly and was, at the time of application, made up of Don Sinclair, Chair; John Lyons, Treasurer; Frederick Ridler, Secretary; Madeline Stack and Rod Fairclough, members. This committee became the first board of directors of SCECU when the credit union was officially registered with the Registry of Friendly Societies on 29th November 1982.


The credit union also became a member of CULGB on the same day and has played an active role in ABCUL ever since. The credit union was promoted simply as *'the alternative SAVINGS AND LOANS organisation which so many people feel makes a lot of sense'*. On offer was *'the easiest way to save and the cheapest way to borrow by payments made direct from wages or salary'* (taken from leaflets of the time).

⁶ Recorded in the minutes of the council's Establishment Committee. 3rd November 1982.

At the time of SCECU's registration, 27 out of the 65 credit unions in Britain were based in London. The majority were community credit unions, established primarily to serve the financial needs of various low income communities. Although an employee credit union, SCECU shared with these community organisations a common commitment to serve the underserved. SCECU was a grass roots organisation and was created through the vision of one man, Rod Fairclough, support from CULGB and the drive of a group of like-minded people who worked together to bring the benefits of credit unions to their colleagues.

The creation of SCECU was by no means easy. Many of the elements, today understood as essential prerequisites for setting up a credit union were absent. There were no premises and no external funding and, in fact, no experience or skill on the board in governing a financial institution. But it did have council support and payroll deduction, which was ground-breaking for credit unions of the time. Peter Bussy described the setting up of SCECU as 'a baptism by fire'. Despite everything, this small group of people were prepared to take a leap in the dark in order that their colleagues, families and friends could benefit from credit union membership. For the group, the challenge that remained after registration was to ensure that the new credit union lived up to expectations and grew into the kind of effective organisation that would attract many of the council's 12,000 strong workforce into membership.

Early credit union literature



The Credit Union League of Great Britain Limited
 ECUMENICAL CENTRE, FIRBECK, TOWN CENTRE, SKELMERSDALE, LANCASHIRE WN8 6PN
 Telephone: Skelmersdale (STD 0695) 31444
 Member of the World Council of Credit Unions.
 Chief Executive Officer: Mr. LEN NUTTALL

145c St. Georges Road,
 London SE1 6HY
 (261-1392)

SOUTHWARK CREDIT UNION
INAUGURAL MEETING

Considerable interest has been shown by people working for The London Borough of Southwark in the idea of starting a Credit Union, and so we will be holding the Inaugural Meeting for people who would like to help to get the Credit Union started:

DATE : Thursday 18th February 1982
 TIME : 5.15 pm
 PLACE: The MAYOR'S PARLOUR, Walworth Road Old Town Hall.

The main purposes of the meeting will be to:

- 1) Answer anyone's further questions about the Credit Union.
- 2) Complete the Application for Registration to The Registry of Friendly Societies. This requires 22 signatures.
- 3) Form an Organising Committee to establish the Credit Union and run it until its first Annual General Meeting when all officers must be elected by the membership.
- 4) Discuss some of the major steps which must be taken in the near future, in particular:
 - securing automatic payments from the payroll
 - organising area and departmental representatives.

If you have any friends or colleagues who you feel are willing and able to assist the formation of The Southwark Credit Union in some way, please encourage them to come to the meeting.

If there are other people (probably many more) who just wish to be members and benefit from the services of the Credit Union, please ask them to fill in one of the enclosed forms, return them to you, and then bring them with you to the meeting.

You will also find enclosed a copy of an article from last Sunday's Observer which you may find interesting.

Looking forward to seeing you on Thursday 18th February 1982.

Yours sincerely,

Peter Bussy,
 CULGB Ltd. Field-
 Officer

Not for profit — not for charity — but for service to the community
 A Voluntary Association of Credit Unions Registration No. 23136R Industrial and Provident Societies Act

Early credit union literature

APPLICATION FOR MEMBERSHIP

S. C. E. C. U. CREDIT UNION LIMITED

Applicant's Name: _____ MEMBER'S No. _____

Address: _____

Date of Birth: _____ Occupation: _____

I hereby apply for membership of and agree to abide by the rules of SOUTHARK COUNCIL EMPLOYEES CREDIT UNION LIMITED. I declare that the information given by me on this form is true and correct to the best of my knowledge and belief and that I am not, nor have not, been a member of any credit union other than those listed overleaf.

Date: _____

Applicant's Signature: _____

Proposed by: _____ No. _____

Seconded by: _____ No. _____

USE BALLPOINT PEN OR TYPEWRITER

NAME: _____ ACCT NO. _____

Payroll No. _____ SOUTHARK COUNCIL EMPLOYEES CREDIT UNION

TO PAYMASTER: THE BOROUGH TREASURER

I hereby authorize you to deduct the following amount from my pay each payroll period _____ until further notice from me, and transmit same currently to the above named credit union.

Signature of Employee: _____

Start Change

Date: _____ Effective Date: _____

S. C. E. C. U. SOUTHARK COUNCIL EMPLOYEES CREDIT UNION LTD

It's here at last! After many months of meetings, discussions, and helpful negotiations with the Council we are very pleased to announce that The Credit Union for all Southark Council Employees is on its way.

The Credit Union is the alternative SAVINGS AND LOANS organization which so many people feel makes a lot of sense. The members, who must be Council Employees, agree to save on a regular basis to create a COMMON FUND; and from this fund (or £5.50 on a loan of £100 repaid over 10 months). Any surplus the Credit Union makes is returned to the members as a dividend on their savings.

Thus S.C.E.C.U. is a democratic, non-profit-making, co-operative organization offering:

- the easiest way to save, and
- the cheapest way to borrow
- by payments made direct from wages or salary.

INTRODUCING THE ORGANISING COMMITTEE

Chairman Don Sinclair Social Services-Personnel
 Treasurer John Lyons Environmental Health
 Secretary Fred Ridler Social Services-Area One
 Member Madeleine Stuck P.M.S.-Empl. Serv. Off.
 Member Rod Fairclough Housing - Neckinger

Any other volunteers wanting to assist this exciting initiative will be welcomed with open arms.

THE BENEFITS

S.C.E.C.U. already offers an impressive range of SERVICES:

- * CONVENIENT REGULAR SAVINGS deducted at source from your pay-packet. The minimum amount is £2.50 per week, or £10 per month; and each pound saved buys one SHARE in the Credit Union.
- * DIVIDENDS on SHARES is tax free and up to 8%.
- * FREE LIFE SAVINGS ASSURANCE means that every share earns up to another pound in benefit - max. £1000.
- * CHEAP AND SIMPLE LOW-COST LOANS at only 1% interest per month (12.68% annual percentage rate). Local Loan Representatives make it easy and relaxed to arrange a loan.
- * FREE LOAN PROTECTION INSURANCE means family or relatives do not have to repay a deceased member's outstanding loan balance.
- * QUARTERLY STATEMENTS and
- * ACCESSIBLE FINANCIAL COUNSELLING help you to manage your financial affairs better.
- * DEMOCRATIC CONTROL since each member is entitled to one vote in the Credit Union and is encouraged to help run it.
 - External Auditors,
 - a Fidelity Bond Insurance,
 - Prudent Management,
 - Elected Internal Auditors,
 - Supervision by The Registry of Friendly Societies,
 - Practical Assistance from the national and worldwide movement of Credit Unions,

all these go to ensuring the security of your money.

THE FUTURE

S.C.E.C.U. is just starting off, but already the organisers are looking ahead and hope soon to offer other useful services such as:

Bill Paying Service Credit Card Settlements
 Christmas Savings Club Holiday Savings Club
 Lines of Credit Special Purpose Loans

A SPECIAL OFFER

Joining S.C.E.C.U. will involve a one-off Joining Fee of £2.00 to cover Registration, Data-Processing, Administration etc. As part of the current membership drive S.C.E.C.U. are waiving this fee to everyone who joins BEFORE 30th NOV.1982.

If you are NOT keen on boosting Bank profits at your expense, and want to use your money co-operatively whilst gaining access to the cheapest credit available, join Southark Council Employees Credit Union by completing the TWO forms overleaf; or contact:

Fred Ridler,
 Social Services Area One,
 Municipal Offices,
 151 Walworth Road, SE 17
 Tel: 703-5464 x 2243

PLEASE RETURN YOUR COMPLETED FORMS OVERLEAF TO FRED RIDLER AT THIS ADDRESS.

S.C.E.C.U. "HOW YOUR MONEY WORKS" AND WORKS FOR YOU

You have agreed that a certain amount of your pay will be stopped by Borough Treasurers as a Deduction at Source (D.A.S.). Every member is required to stop at least £2.50 per week, or £10.00 per month, which is added to your personal SHARE ACCOUNT.

When you receive a LOAN from the Credit Union, the amount of the monthly LOAN REPAYMENT must be in addition to the £2.50/£10.00 savings you are making. All loans must be repaid within 12 months; and are charged at an interest of 1% per month on the reducing balance of the loan (12.68% A.P.R.). When you have been a member for 3 months you can apply for a loan equal to your shares plus £100; after 12 months you can apply for a loan up to twice the amount in your shares. If you already have a loan balance outstanding, it is subtracted from the maximum amount you can apply for. Therefore the more you save in shares, the more you will be able to borrow.

REMEMBER also that your loan and shares are covered by Life Insurance, courtesy of your Credit Union. So if you die, your next of kin do not have to repay your loan; AND she/he will probably receive your shares double.

So when you see the total of your stoppages to add on your pay slip, remember that one part remains on your shares, the other part goes to repaying any loans you have received.

S.C.E.C.U. is your own Cooperative and Democratic Financial Institution run 'Not for Profit - Not for Charity - But for Service'. It is owned and controlled by you the members, and always needs the help of the members to give a little help with it work of running it. Please volunteer yourself; if

PEOPLE HELPING PEOPLE

SOUTHARK COUNCIL EMPLOYEES CREDIT UNION LIMITED

LOAN TABLE: Based on an interest rate of 1% per month on the reducing balance (12.68% A.P.R.).

Amount of Loan	Term in Months	Monthly Loan Repayment	Minimum D.A.S. per Week	per Month
£50	3	£17.00	£7	£27
75	3	25.50	9	36
100	3	17.25	7	27
150	3	25.70	9	36
200	3	34.51	11	45
250	3	29.17	10	44
300	3	35.02	11	45
400	3	44.42	14	54
500	3	53.30	17	63
600	3	62.19	20	72
700	3	71.07	22	81
800	3	79.96	24	90
900	3	88.84	24	99
1000	3	97.74	25	100
1250	3	106.18	27	118
1500	3	127.73	32	136
1750	3	141.67	33	132
2000	3			

NOTE FROM THE S.C.E.C.U. BOARD OF DIRECTORS: (June 1985) For the time being the maximum amount that a member can borrow from the Credit Union is twice their shares balance. The amount a member can borrow includes both any outstanding loan not fully repaid plus a new amount being requested. For Example:

1. Shares £300 + Loan £700. £300 x 2 = £600 min £200 = £400; with D.A.S. at £16 pw or £63 pm
2. Shares £150 + Loan £350. £150 x 2 = £300 min £250 = £20; with D.A.S. at £11 pw or £45 pm
3. Shares £300 + Loan £700. Not Eligible for Loan. D.A.S. should be £16 pw or £72 pm.

SOUTHARK COUNCIL EMPLOYEES CREDIT UNION LIMITED

FINANCIAL ENQUIRY

To The Credit Union Treasurer/Cashier,
 Please give me details of my accounts in The Southark Council Employees Credit Union.

MEMBER'S NAME (Capitals):
 First Name(s) _____
 Surname _____
 HOME ADDRESS _____
 Post Code _____

PAYROLL NUMBER _____
 MEMBER NUMBER _____

Member's Signature: _____
 Work Place to be returned to: _____

The Spaces below will be filled in by The Credit Union Treasurer/Cashier.

EFFECTIVE DATE _____
 SHARE BALANCE £ _____
 PAYROLL AMOUNT £ _____ per week/month
 LOAN BALANCE £ _____
 LOAN REPAYMENT £ _____ per month

You could / could not apply for a loan / an increase on your loan of £ _____

Chapter Three

The Early Days, 1982 - 1988



Tower Bridge, Southwark.

SCU was created with the support and agreement of Southwark Council. It was regarded by elected members and council management as a positive contribution to staff morale and economic advancement, and as an important staff benefit. However, initially, council support did not go as far as assisting the credit union with resources, funding or premises. The emerging credit union began life entirely dependent on volunteers who organised and ran the credit union in addition to their regular employment responsibilities. With no central credit union office available, the volunteers formed a network of local area representatives, based at different sites throughout the borough. These volunteers included founder members, such as Norma Francis (based at an office near Newington Library), Rod Fairclough (based at Neckinger), Madeline Stack (based at Commercial Way in Peckham) and Don Sinclair, as well as a number of union shop stewards who had agreed to assist by signing up members or help with publicity.

A challenge for volunteers

Organising the credit union in the early days was challenging for volunteers. Not only were they inexperienced in their new role, the dispersed nature of council locations made communications, operating systems and procedures complex and often cumbersome. All deposits and repayments were made by payroll deduction, but area representatives signed up members, handled enquiries and dealt with loan applications. Paperwork was transmitted to Norma Francis, the treasurer, for manual processing at the office where she worked. Replies to balance enquires and loan applications were then sent back to the members at their designated work location. Processing loans and communicating decisions was particularly lengthy and it was not uncommon for the administration of loan applications to take several months. Delays increased when demand for loans outstripped the funds available.



*Irish Festival - Summer event
in Southwark.*

Even though SCECU was an employee credit union, started with the benefit of payroll deduction, it replicated the operations and management of traditional model credit unions (Jones 1999). It was a small, volunteer-run organisation, offering a limited and constrained range of products and services and, as all credit unions of the time, was hindered by the restrictive legislation of the then new Credit Unions Act 1979. Like in all credit unions, loans were linked to savings both to encourage a savings habit among members and build the capital of the credit union. With hindsight, it is now recognised that such credit unions were not built for growth and had little chance of rapid expansion (Jones 2006). This was certainly the case at Southwark.

At the outset, enthusiasm and expectations for the new credit union were high and 130 new members joined in the first year. However, by the end of 1984, membership had only risen to 347, approximately 2% penetration of the total workforce. In fact, in subsequent years, membership began to decline to below 300 and only rose again to over 300 in 1991. From reports of the period, it was clear that the level of service, including delays in decision making, caused discontent and disappointment amongst members, which led to account closures and withdrawals. Volunteers too were feeling the strain and the board, by 1984, was increasingly finding it difficult to attract volunteers with the skills and expertise required to carry out operational functions and staff the various committees. It was imperative that the board identified new resources and reviewed the way in which the credit union operated within the framework of the council structure.

Support from Peter Bussy (ABCUL) and the local authority

Since registration, Peter Bussy, the CULGB (ABCUL) regional officer, had continued to provide SCECU with technical advice and volunteer training and, given the lack of resources, had helped with the book keeping and the accounts. Fortunately, the Greater London Council (GLC), which was responsible for administering strategic services in the London boroughs, had, in April 1983, awarded a grant to ABCUL, through its London Grants scheme, to support credit union development work in London. This enabled ABCUL to secure Peter's post, and employ a second development worker, Carmel Jones. It was this GLC funding that supported Peter's interventions at SCECU. However, the problem of SCECU's lack of resources and central office premises remained.

The much-needed support came from Southwark Council. In May 1984, following a request from the Chair of the council's Establishment Committee, Peter met with Ray Molkenthin, of the Borough Treasurer's department, to discuss how the council could support SCECU. The outcome of this meeting exceeded all expectations. The council agreed to pay for a part-time administrator and offered free premises for a central office at the Gate House, which was situated above the Neckinger Depot in Spa Road. This was a major step forward for the credit union, for with an office and a paid staff member, a resolution to the credit union's systems and communications problems was possible.

With council support, SCECU was one of the first credit unions in the country to employ paid staff. One of the credit union's longest standing members, William Smith, recognised that SCECU would not have survived the early days without the support it received from the council. *"It was very small, if they had a meeting 25 years ago there would have been about four people there. It was only because Southwark [Council] had a very good vision and was prepared to give officers to the credit union and stop wages [payroll deduction]— If it wasn't for Southwark, I don't think the credit union would have got off the ground".*



Nurses signing up for membership.

First staff member appointed

In early 1985, Catherine Dempsey, the wife of one of the trade union shop stewards was appointed as the credit union's first paid administrator. Although its location was not ideal, in close proximity to the council's Refuse Department, the office centralised activities and improved coordination. It also upgraded the status of the credit union within the council itself. *"This investment of resources by the council, modest as it was, changed the perception of the credit union. People began to regard [the credit union] as a facility that was available rather than as a random service",* noted Bill Yoxall, the Council's Chief Trading Standards Officer at the time. Regular opening hours were introduced even though they were, at first, for just one day a week. Systems certainly improved as rationalisations were introduced. Cheques for approved loans, it was noted at the time, could now be collected from three instead of eight locations. These were Lorrimore Road, Castle House and the credit union office at the Neckinger Depot.

However, the credit union's problems did not all disappear. By September 1985, membership had declined to 299 and the value of savings increased by a mere 1%. Only 279 loans were made compared to 423 in the previous year. This disappointing lack of growth was compounded by some serious problems with delinquency as members left their jobs with the council without making arrangements to repay loans. The situation caused the credit union's auditors, Appleby and Wood, to express real concern about the level of delinquency.

In an effort to reduce delinquency, changes were made to loan agreements in January 1986, making it possible for the credit union to have outstanding loans settled by the Borough Treasurer's Department from final salary payments owing to members leaving council employment. Also, by 1986, the credit union had begun to tighten credit control procedures and started, for the first time, to take legal action to reclaim outstanding loans. This was a step in the direction of becoming a more business focused organisation, prioritising economic as well as social goals.

Membership declined again in 1986 to 230. However, this drop was not as severe as the previous year, as the credit union had actually succeeded in recruiting 51 new members. The decline was due to the board's increasingly rigorous approach to closing, or at least not counting within the membership, dormant accounts. With this slight upturn in real membership, there was also a more

encouraging growth in savings. In 1986, savings grew by 18% compared to the 1% in the previous year. Given the improvement in economic performance, the board recommended its first dividend payment of 1.5% at the 1986 Annual General Meeting.

Barbara Wellington appointed as administrator

By the end of 1985, Barbara Wellington had replaced Cathy Dempsey as the credit union's administrator. Barbara had joined SCECU at the end of 1985 and had come from the Australian Broadcasting Corporation Credit Union, another employee credit union albeit at the other side of the world. As was recognised at the time, she brought with her a wealth of credit union experience and sound organising skills. Barbara believed that the members' dissatisfaction arose from their failure to understand how credit unions operated, a lack of money advice when members applied for loans and, above all, an absence of organisational systems and adequate record keeping.

With Barbara's support and management intervention, the credit union took immediate steps to improve the processing of transactions. SCECU became one of the first credit unions to subscribe to a computerised batch data processing service introduced by ABCUL in 1985. As was noted by the Board at the time, this service led to marked improvements in processing members' records and in the efficiency of service delivery. In 1986, Barbara oversaw the smooth transition of the computerised accounting system from CUNA Data to GEAC, both provided through ABCUL. This was changed again in 1987 to the independent MNS system. Investing in computerisation was a significant financial outlay for the credit union at the time, but it was considered vital to improving the quality of service to members and to ensuring the sustainability of the credit union. In fact, at a time when most credit unions remained wedded to manual systems, the early introduction of computerised accounting would prove to be a key factor in the longer term stability of the organisation. An immediate result was the greater control of delinquency through improved accuracy in record keeping.



Southwark Festival - Summer events in Southwark

Yet, as well as improving systems, the credit union had to grow rapidly if it were to establish itself as an effective financial institution. Barbara recognised that a lack of effective marketing was hampering progress. It was then that she turned her attention to raising awareness of the credit union in the council and actively promoting growth. She began to consult members, and potential members, and research what they wanted from the credit union, rather than just assume that they were happy with the standard savings and loan products on offer. This resulted in the introduction of Christmas Savings Accounts. These were a particular need at the time as the unregulated Christmas savings clubs that widely existed in the council had been closed down. Many council workers had a long tradition of using Christmas savings clubs and missed the discipline of saving that these afforded. Barbara recognised that a similar facility in the credit union would attract more members, especially as they would have the advantage of payroll deduction.

By the beginning of 1987, the mood in the credit union was becoming more optimistic. The Board felt that, with many of the long-standing problems being addressed and new volunteers being recruited, the credit union now had a firm foundation on which to build and develop membership growth. In reality, things were not to be so easy. Membership failed to grow, although it had now ceased its decline. It increased by seven in 1987 to 237. Encouragingly for the Board, savings and income grew in 1987 and 309 new loans were made.

Continuing problems and lack of growth

However, new challenges compounded the difficulties for the credit union. The most immediate was the continuing job losses, particularly among manual workers. In a desire to control local government spending, the Government had passed further legislation, following the 1980 Local Government Planning and Land Act, to induce councils to reduce their budgets. The result was that, increasingly, councils put services out to tender. The impact in Southwark was significant. In the five years, 1982 – 87, the council workforce had dropped from over 12,000 full and part-time employees to just 9,000. Between 1987 and 1988, the credit union failed to increase membership at all. 9,000 is still a large common bond, but widespread job insecurity proved an unfavourable climate for growth. Whenever members joined, they were balanced by members leaving the credit union. With so many members leaving, despite new credit administration policies, delinquency also remained a problem.

Lack of growth, and the need to make provision for bad debts, impacted seriously on the financial position of the credit union. This was made even more difficult, in the financial year 1988/89, when the council, under pressure to cut its own expenditure, withdrew the salary of the administrator. The credit union's response was to try to grow the business by extending office hours to two days a week and by introducing a new loans policy. This new policy allowed members to borrow £200 plus the value of their savings, or 2.5 times their value, whichever was the greater. This was an increase on the original loan policy which allowed members to borrow £100 plus the value of their savings, or twice their value, whichever was the greater.

The loss of Barbara Wellington, as part-time administrator, in 1988, due to the council cuts, had a significant impact on the credit union. The many commendations of Barbara's work in the board reports of the period underline her skills in organisation and in the co-ordination of day to day operations. Barbara had supported the Board, the various committees and officers with her expertise, dedication and invaluable help. Her leaving to work for the London Taxi Drivers Association Credit Union was a set-back from which the credit union would find it hard to recover. When she left, Peter Bussy and other ABCUL field staff had to step in once again to assist the credit union while a way was found to fill the administrator post. Nobody wanted to return to being a completely volunteer organisation once again. The credit union did find, from its own funds, the resources to employ another worker, Carmen McLeod to undertake bookkeeping for a few hours a week, but this was only ever seen as a temporary solution. In fact, Carmen remained for a period of six months, until she left to have a baby.

Barbara's leaving heightened the realisation, both within the credit union and in the Council, that something significant had to be done if the credit union were not to collapse through a lack of resources and poor membership growth. By 1988, the situation was, in many ways, dire. The credit union had only maintained 237 members after six years of development. Poor growth, high delinquency, lack of capital and resources, difficulties in finding and maintaining skilled and experienced volunteers characterised not only the development of SCECU but characterised many of the credit unions across London and the South East region at the time.

Despite these difficulties, SCECU maintained a small group of volunteer board members who were committed to the development of the credit union. In the face of set-backs, they were convinced that the credit union could, and would, bring long term benefits for council workers. Within the council too, a great deal of support for the credit union remained. What was lacking was a long term strategy to take the credit union forward. Under the weight of day-to-day operational difficulties, strategic thinking and action planning were missing.



Seafood stall, East Street Market.

The impact of Faith in the City

In 1988, support in developing the credit union's strategic focus was to come from the Church. In 1985, the Church of England had published its Faith in the City Report, which had been commissioned by Archbishop Runcie. This report highlighted the widening divisions in urban cities between those experiencing disadvantage and exclusion and those benefiting from an economic boom. In general, it galvanised local authorities into action and, significantly, for SCECU, it established the Church Urban Fund to support local organisations tackling poverty in England's poorest communities

At Southwark Council, there were renewed efforts to address local deprivation and a new anti poverty strategy was formulated. Within this strategy, credit union development, seen as a key initiative, was to play a significant role. The result was that the Church Urban Fund, Southwark Council and the Department of the Environment came together to establish, and to fund, a credit union development agency for Southwark. This would prove to have a significant long-lasting impact on the sustainable development of SCU.

Chapter Four

New Beginnings - the Development of SCUDA, 1989 - 1993

Staff of SCUDA, CCU and SCECU 1993.



The momentum to create a credit union development agency for Southwark came from Southwark Council. Having learnt of one such agency in Birmingham, the council considered that a similar organisation in Southwark would be able to both strengthen SCU and Camberwell Credit Union (CCU) and to establish a network of credit unions throughout the borough. With the support of the Church Urban Fund and the Department of the Environment, the council was able to facilitate, in 1989, the creation of the Southwark Credit Union Development Agency as an independent organisation, supported but not owned by the council, with a mission to develop employee and community credit unions simultaneously.

Credit unions as key community development initiatives

Bill Yoxall, the Head of the council's Consumer Services Department at the time, was one of the main drivers in the council behind SCUDA. He had a vision of the role that credit unions could play in tackling exclusion and economic deprivation and in the development of low income communities if they were supported with adequate resources to meet both their social and economic goals. The primary focus of the council in supporting SCUDA was to address, through credit unions, the poverty and disadvantage that was endemic throughout the borough. Credit unions were seen as key community development initiatives that would encourage financial education and the wise use of money, address overindebtedness and provide access to affordable credit in low income communities. As Bill noted, through developing and promoting credit unions, it was hoped SCUDA would provide a way out for people in debt and help residents to rid themselves of loan sharks and money lenders.



First SCUDA office.

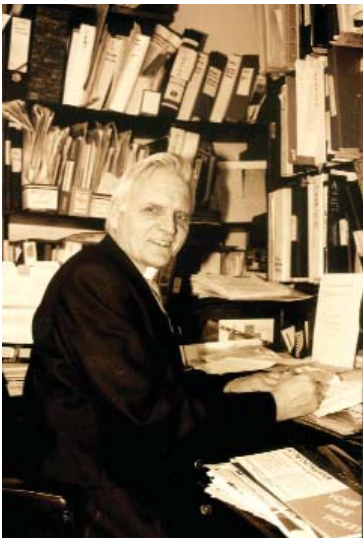
SCUDA was based on a similar development model to that of the Birmingham Credit Union Development Agency (BCUDA), previously established in 1987 to support the promotion, registration and development of credit unions in the administrative area of Birmingham City Council. However, there were some significant differences between the two organisations. Unlike BCUDA, SCUDA was designed to support employee as well as community credit unions. At the outset, and for many years, BCUDA would not support employee credit unions on the grounds that they were not grassroots organisations tackling poverty in local communities. In many ways, this approach weakened the strategic growth of credit unions in Birmingham for years. In Southwark, SCUDA's founders realised that employee credit unions equally have the potential of serving many low income or overindebted households and that SCECU too had an important role to play in the council's anti poverty strategy.

Another important difference was that, unlike BCUDA, SCUDA was not set up for the long term. BCUDA, as did a number of credit union development agencies in Britain, grew to become a self-sustaining entity and the main recipient of public funds for credit union development in Birmingham. Research has shown that those funds would have been better invested directly in strengthening credit unions (Jones 1999). However, SCUDA was designed as a specific time limited project precisely to avoid this happening. An end date of 31st March 1993 was set in the project plan. SCUDA was officially launched on 18th September 1989, just two months after it was established.

Louis (Roy) McLeod appointed SCUDA project coordinator

Louis (Roy) McLeod⁷ was appointed as the SCUDA project coordinator and company secretary. In 1988, he had replaced Carmel Jones⁸ at ABCUL but worked for Peter Bussy just for a few months prior to taking on his new role. His challenge was to set up the credit union development agency from scratch. In this, he was to work closely with the SCUDA board of directors, chaired by the Rev. Peter Challen, and which involved people appointed by the Church Urban Fund and Southwark Council. Bill Yoxall acted as the council's monitoring officer on the SCUDA board.

Roy opened a SCUDA office in premises allocated by the council in Spa Road, in the same Neckinger Depot building as SCECU's own office. The proximity of the two organisations would prove an important factor in enabling a strong partnership and joint working relationship between SCUDA and SCECU from the beginning. Joan Drane was appointed the SCUDA administrator. In later years, Joan went on to work for SCU and eventually become a director.



Rev Peter Challen,
President of SCUDA 1993.

Roy's first task was to clarify SCUDA's objectives and to develop a strategic plan through which they could be achieved. Central to the SCUDA plan was the setting up of a network of credit unions throughout Southwark so that anyone living or working in the borough could have access to the services of at least one credit union. In those days, a network of individual credit unions was the only way a large geographical area could be served as common bonds were tightly restricted to defined employee groups or small local areas by the Registry of Friendly Societies. This was not just the result of regulation; the credit union development model that held sway at the time ideologically favoured small, locally based organisations. Small collectivist approaches were seen as fundamental to credit union development as they were regarded as the only legitimate way to ensure local ownership and democratic control. A large borough-wide credit union would not only have been unacceptable to regulators, it would have been unacceptable to credit union activists as well. For them, it would have undermined community development at the local level. It would be SCUDA's role to provide the resources and expertise to develop credit unions in each locality throughout the borough. However, before this could take place, the SCUDA action plan wisely understood that it had to stabilise and to assure the sustainable development of Southwark's existing credit unions. It was a priority for SCUDA that SCECU and CCU were established as independent, strong organisations. This was welcomed by the SCECU board, who were still struggling to keep the credit union afloat.

Roy recalled that *"the credit union [SCECU] was floundering, in the sense that the volunteer officers did not have time to recruit members or directors as they were occupied with their full time jobs."* There was a real fear, Roy remembered, that SCECU would not survive. In SCUDA's view, SCECU needed to radically improve its level of service to members and to rigorously promote growth in membership, savings, loans and assets. But without permanent staff, this was difficult for SCECU to achieve on its own. The volunteers did not have the time or the energy to take on the challenge of moving SCECU forward. So, virtually from the day SCUDA started, the administration, management and organisation of the credit union was undertaken by SCUDA staff, under the supervision of Roy. Andrew Simpson was the first SCUDA staff member to be seconded to administer the credit union and he was to be followed by many others. In fact, it was to turn out that SCECU would be administered through SCUDA for many years to come.

SCUDA enables credit union business development

The wide range of business development measures put in place by SCUDA to develop the credit union encompassed all areas of the credit union's operations and management. *"I had to find volunteers, provide input for strategy, advice on day to day credit union operational matters, introduce new marketing tactics and develop strong links with the council's personnel department"*, Roy recalled. The first step was a vigorous recruitment drive which aimed *"to create a BUZZ in the council"*. Promotional leaflets were attached to payslips, new employees were informed about the credit union as part of the induction process and credit union's services were included in the staff handbook as a staff benefit. In addition to the quarterly statements that were sent to members, newsletters were also introduced to keep members up to date with operational and policy changes. With the promotional exercise underway, SCUDA's attention turned to improving the efficiency of operations and strengthening the credit union financially. In 1990, with the advice of

⁷ Louis McLeod, the director of SCUDA, subsequently director of SCU, is known more often in the credit union movement as Roy, a name adopted when he travelled as a band musician.

⁸ Carmel Jones left ABCUL to work for the Home Office and concentrate on developing Pentecostal Credit Union which he had helped to establish in 1980.

SCUDA, the credit union's members voted against a dividend in order to fund the modernisation of the computerised accounting system and to increase capital by building the statutory reserves. This was a momentous decision to take, given that the credit union had awarded a 3% dividend the year before.

The close working relationship and interconnectedness between SCUDA and SCECU contributed greatly to the development of both organisations. SCECU directors were on the board of SCUDA and SCUDA staff were supported by volunteers from SCECU and from CCU. Added to this, was the close link with ABCUL. Peter Bussy, ABCUL's Regional Organiser was SCUDA's Treasurer and board member. In addition, professional support was provided to both organisations by a solicitor, a public relations consultant and an accountant. There was a continual cross fertilisation of ideas between SCECU, SCUDA and ABCUL that created a synergy and vibrancy throughout the combined and inter-related structure.



*Richard Blackmore and Roy McLeod
in management meeting.*

Impact on growth

There was a constant sharing of information between the organisations and SCECU, in particular, benefited from a transfer of resources, especially manpower and expertise, from SCUDA. SCUDA's impact on SCECU's growth and performance was demonstrated through the fact that the credit union achieved its fastest growth to date during the SCUDA years. The period between 1990 and 1993 saw remarkable increases in membership, savings and loans. Membership quadrupled, rising from 274 in 1990 to 1187 in 1993. This represented a staggering 333% growth in membership over a three year period. Savings for the same period trebled increasing from £214,162 in 1990 to £653,846 in 1993. Loans rocketed from £166,036 to £589,807. Similarly, assets also trebled, rising from £236,634 to £697,231.

This increase in financial performance was even more remarkable given the changes that were taking place in the council. Bennet (1994) notes that the period between late 1990 and early 1991 was particularly difficult because employee numbers were cut very severely. This had an effect on the credit union. Gary Jones, the credit union's treasurer in 1991, noted, at the AGM of that year, that the numerous departmental reorganisations and compulsory competitive tendering of the council services had led many disgruntled employees to leave the council in unpleasant circumstances. Some of these had failed to recognise the independence of the credit union, which led to a higher incidence of default, as they considered erroneously their debt was to the council.

Since 1986, the board had adopted an increasingly firm stance with people who did not repay loans on time or who tried to leave council employment without settling the debt on their loan. However, an increase in delinquent loans, around 1991, led the credit union to rethink its approach to delinquency. Demanding a full and final settlement of the debt, and termination of membership on leaving was not working, as it left many low income workers potentially without any financial resources when leaving through redundancy or job change. From 1991, it was arranged that members leaving the council could retain their membership for the remaining period of their loan and repay through standing order payments.

Developing a strong, capable board

SCUDA also took a lead in addressing the governance of SCECU. Roy understood how important it was for a credit union to have a strong, capable board and a process of reform of the board of directors was implemented. The board in existence in 1990 tended to be more representative than strategic. It brought together people with an interest in the credit union but who, in general, lacked the vision and the appetite for strategic change. Roy joined the board himself in 1991, a step in itself which cemented the relationship between SCUDA and the credit union. In the same year, Gary Jones, who worked in the Personnel Department of Southwark Council was recruited and Richard Blackmore, Head of Commercial Services, replaced Steve Provins as president. Horace Edwards, an accountant and systems analyst, was also recruited as a member of the supervisory committee and, later, became treasurer. Around the same time, Ian Ramsey became a supervisory auditor. Other members recruited included Mufutua Durowogu and Joyce Munroe. This reform of the board was to have a significant and lasting impact on credit union development.

Richard, Horace, Ian and Roy were to form a core group of people on the board with a commitment to strategic change. Together, they were able to inject a new dynamism into board thinking and development. By 1992, the board had changed radically from that of early 1991. It was regarded by many at the time as the most skilled and purposeful board in the history of the credit union. The new board was able to provide the leadership that had often been lacking in the past.

The strengthening of the existing credit unions, SCECU and CCU, had a direct result on SCUDA's ability to achieve its wider objectives and to move forward in establishing new credit unions throughout the borough. Credit unions registered with the support of SCUDA included Camberwell Health Authority Credit Union, Borough and Bermondsey Credit Union, Brotherhood of Cherubim and Seraphim Credit Union, Ichthus Credit Union and the Association of Churches Together in Sydenham (ACTS) Credit Union. There was also work undertaken with a number of study groups that did not eventually register as credit unions.

By the end of 1992, SCECU had been transformed through the administrative, marketing, operations and training support received from SCUDA. New products and services had also been introduced which included bill payments, revolving credit and a travel club loan designed specially with the needs of the many Caribbean and BAME members in mind. The credit union was becoming increasingly popular with the membership, which continued to increase. But much remained to be done. SCU had become more financially stable, but it was far from being a fully self-sustainable organisation. It was also still located at the Neckinger refuse depot in Spa Road which did not enhance the credit union's image and was inaccessible for many council employees.



Children opening a Young Saver account.

The SCUDA project was to end officially on 31st March 1993. This was not good news for the credit union. As Roy noted, "*The links were more than close at the time. SCECU and SCUDA's future were locked together*". If terminated at such a significant moment in the development of the credit union, the impact on SCECU could have been disastrous. For this reason, the boards of SCUDA, SCECU and CCU, which itself had similar issues, started to make the case for the continuation of SCUDA. The grounds for continuation were that much had been achieved, but that the wider and longer term objectives for change had yet to be accomplished. The long term financial stability and growth of SCECU was one of these key SCUDA objectives. A search started for a way forward to assure the continuation of the work of the credit union development agency in Southwark.

Message from Ken Livingstone, Mayor of London

"As a keen supporter of Southwark Credit Union over the years, I was delighted to establish an arrangement enabling Greater London Authority employees to become members of the credit union. I would like to congratulate the credit union for their work over the past 25 years and the benefits they have brought to the people of Southwark. I wish them every success for many more years to come."

Yours sincerely

Ken Livingstone

Ken Livingstone, Mayor of London

Chapter Five

PEACE breaks out in Peckham, 1993 - 1996

Directors of SCUDA, CCU and SCECU at 221 Rye Lane, 1993.



Encouraged by the positive contribution SCUDA had made to credit union development in the borough, including its impact on the growth of SCECU, Southwark Council, the Church Urban Fund and other stakeholders had no reservations in supporting Councillor Pamela Smith's plan for a new initiative which would extend the work of SCUDA for at least three years. Her proposal was to establish the Peckham Economic and Community Enterprise (PEACE) Project with the support of the North Peckham Task Force. Established in 1993, the PEACE project would enable SCUDA to offer SCECU the ongoing support that it needed at such a critical stage of its development.

Economic regeneration and business development

Located in the centre of Southwark, Peckham was, in 1993, one of its most economically and socially deprived neighbourhoods. The area's diverse population, significantly more multicultural than the rest of the borough, faced severe problems exacerbated by low income and high unemployment. Multiple indebtedness and lack of access to affordable credit were common, especially amongst immigrant and refugee communities. At the time, it was noted that the severity of deprivation and financial exclusion faced in Peckham was compounded by the fact that fourteen housing estates, in the North Peckham Task Force area, had been identified as red-lined or 'zoned areas' by financial institutions. In these areas, mainstream financial services were denied, or only offered at increased cost, to residents. The result was that many people on low incomes turned to high cost alternative credit providers or even illegal lenders.

The PEACE project was a multidimensional regeneration initiative which aimed to stimulate business and economic activity, combat poverty, create jobs, tackle overindebtedness and raise living standards generally in Peckham and the surrounding areas. It was a partnership programme led by the North Peckham Task Force (NPTF) and funded by NPTF, Southwark Council (Race Equalities Department) and the Church Urban Fund. Other partners included The Co-operative Bank, the Department of the Environment (Urban Programme), and SCUDA, CCU and SCECU.

SCUDA was chosen to manage the PEACE project even though the initiative went beyond credit union development. It encompassed a number of distinct but interrelated interventions, which included the provision of set-up capital and support for local enterprises through the Small Business Revolving Fund, the development of money advice services and, importantly for SCECU, the expansion of the credit union development programme. The opportunity to build on credit union development was welcomed by SCUDA and SCECU, as well as other credit unions in the borough. The Rev Peter Challen, president of SCUDA, praised *"the unprecedented way in which the new initiative united resources to enable the establishment of the largest credit union development programme in London and provide alternative financial services to the residents and employees of Southwark"*.

In 1993, there was yet another development that was going to have a major impact on SCECU. It was decided by both the SCUDA and SCECU boards that Roy McLeod, manager of SCUDA and the PEACE project, would also act as manager of SCECU, at no additional remuneration. A service level agreement between SCUDA and the credit union to that effect was drawn up. In fact, since the inception of SCUDA, Roy had been the driver behind the management of SCECU. However, with this formalisation of his role, he would be able to optimise the use of resources at his disposal by allocating them flexibly across SCUDA and SCECU. SCUDA now employed five members of staff, of which one, Andrew Simpson, had already been seconded to SCECU as an administrator. With Roy in the position of acting manager, SCECU had access to more staff for service delivery, resources for marketing materials, and an opportunity for greater market penetration and facilities



Tessa Jowell MP, Councillors Pamela Smith and Sally Keble (Leader of Southwark Council) opening 221 Rye Lane in 1993.

to improve the quality of the services provided to members. From 1993, with some of the funding identified from its own resources, the credit union was able to employ two administrators, Lakshman (Lucky), Chandrasekera, the present CEO and Jacqui Burlace on a permanent basis and as well as an additional temporary clerical officer. With the employment of Lucky and Jacqui, SCECU had made a partial step forward to its ultimate goal of complete self-sustainability.

Stability and permanence – the high street premises on Rye Lane

The PEACE project was officially launched on 14th June 1993 by Tessa Jowell, MP for Dulwich. With the financial support of the NPTF, the project acquired premises at 221 Rye Lane into which both SCUDA and SCECU immediately moved. This was another major step forward for SCECU as it became the first industrial credit union in Britain to move into high street premises. Its location, in the heart of Peckham, helped to raise awareness of the credit union as a financial services provider and to build its image as a trusted, effective, professional and quality organisation. The Rye Lane head office gave the credit union a presence in the community that demonstrated stability and permanence. Initially, a branch of CCU was also set up at the Rye Lane premises, even though its operations remained at offices located at the United Reform Church in Grove Lane. However, in due course, CCU moved all its operations to 221 Rye Lane.

With the new lease of life afforded by the PEACE project, SCUDA's approach to the development of the sustainability of SCECU changed. SCUDA's aim was now to focus on developing SCECU to the stage where it would be able to employ its own manager and a staff team of at least two other members of staff. Roy, as SCUDA and SCECU manager, set growth targets for membership, assets, loans and savings for the period up to 31st March 1996. These growth indicators were used to monitor performance. Deviations from targets were quickly identified and additional actions to correct performance implemented. Through this approach, SCUDA began to introduce an element of financial discipline and organisational rigour into the credit union. SCUDA's action plan was divided into two phases, with the first phase to end on 31st March 1995. By this date it was planned that SCECU would be able to meet its own financial commitments and would no longer need external funding to meet the costs of the service level agreement it had with SCUDA. Following on from 31st March 1995, the second phase of the project was for SCECU to use its own resources to fund and promote further growth, building on the rigorous and disciplined business planning introduced by SCUDA.



78 Denmark Hill Office, Camberwell.

Consolidating growth

Within the first nine months of the PEACE project's existence, SCUDA was successful in achieving the highest ever credit union growth rates in London. For SCECU, membership rose from 1,003 in April 1993 to 1,645 in March 1994. This represented a 64% annual increase in membership. In the same year, SCECU's savings, loans and assets all exceeded £1 million. This growth came about even though throughout this period the credit union continued to be affected by the impact of compulsory competitive tendering on the council's workforce. Since 1980, two subsequent pieces of legislation, The Local Government Acts of 1988 and 1992 had extended CCT beyond the construction, building maintenance and highways sectors to include virtually all blue collar workers as well as white collar and professional jobs in areas such as personnel, legal and financial services and IT. Yet as the council contracted, the credit union grew. The years of stagnant growth were over. With a new disciplined approach to business and financial management, confidence and trust in the new organisation was increasingly established throughout the workforce.

The council increasingly recognised the growing strength of the emerging organisation. In 1994, it contracted out the management of its Employee Welfare Fund (Hardship Fund) to SCECU under a service level agreement. The credit union was to administer the fund on behalf of the council in return for a management fee. This new source of income not only contributed to establishing the credit union's credibility among the workforce, it strengthened the credit union's financial position and enabled it to achieve the goal of financial sustainability agreed with SCUDA. The credit union's growth in membership, savings, loans and assets all continued into 1995.

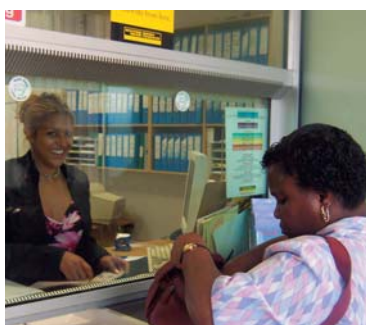
However, growth was not due to financial discipline alone. It was due to radical improvements in the quality of its service for members. SCECU began to provide products and services that members wanted and needed and to move away from just offering a single savings and loan product. In this period, it began to offer an over the counter service to its members, four types of

savings accounts, an employee welfare loan, a holiday savings account, a discounted travel service for members and a personal money management and counselling service.

SCUDA's action plan for the credit union was that it would be financial self-sustainable from March 1995. After that date, the credit union would not only pay all its own costs but begin to pay for the services it received from SCUDA. In fact, SCUDA's own continued existence depended on this new income generation from the credit union, as external funding wound down. By March 1995, the credit union had achieved its financial goals and the balance sheet allowed for SCUDA's board and monitoring officers⁹, in consultation with the SCECU board, to agree that SCUDA should continue for another year on the basis that SCECU now paid a management fee to SCUDA for consultancy services. Roy McLeod considered that this ability to pay a management fee was a sign of maturity. Moreover, it helped to foster the mentality with the credit union that it needed to deliver on results if it were to achieve its economic and social goals.

A vision for life after peace

Around the same time, SCECU's board was considering prospects for the credit union's future, once the PEACE project and SCUDA support came to an end. A pressing problem was that of premises. The physical limitations of occupying 221 Rye Lane as a head office were becoming increasingly apparent. Dick Blackmore, president since 1992, took the lead in seeking out a new location for the credit union. His vision was for SCECU to buy its own building to establish itself as an independent and autonomous financial institution. Dick, and others, spent many months through 1995 searching for a suitable property at the right price. This was eventually located at 79 Denmark Hill in Camberwell, not far from the Kings College Hospital. Although the property needed some refurbishment, its size and location convinced the board to purchase. By late 1995, SCECU's financial position was sufficiently stable to take on this important financial commitment and, early in 1996, SCECU succeeded in buying the property from Southwark Council. With this purchase, SCECU set another record in the history of credit union development in Britain by becoming the first industrial credit union to buy its own high street premises.



Counter services at Denmark Hill.

By March 1996, the credit union's membership was almost double what it was in March 1993. SCECU was now one of the fastest growing credit unions in Britain. In April 1996, it entered a revised financial agreement with SCUDA which detailed that it would continue to act as a resource facility for the credit union, providing consultancy and other services. It was also agreed that SCUDA would join SCECU at the credit union's new premises in Denmark Hill. CCU would remain as the sole occupant of the Rye Lane office.

Credit Union House at 79 Denmark Hill was officially opened on 11th July 1996 by the Deputy Mayor of Southwark. On moving to its own premises, SCECU was quick to install a 24 hour banking service computerised system, the first to be offered by a credit union in Britain. The service, known as Credit Union Direct, was a remote banking service by which members could check their balances by phone as well as make enquiries and apply for loans.

In 1996, the board's attention had also turned to internal management and Lakshman (Lucky) Chandrasekera, was appointed as the credit union's manager to coincide with the move. As the PEACE project and SCUDA were to end in November 1996, Roy McLeod would no longer be in a position to act as manager for the credit union. With the new premises and new full-time manager, a new era began in the credit union's history. The PEACE project, and SCUDA, had enabled SCECU to become financially self-sufficient and employ its own full time staff to deliver services and perform administrative and management functions in house. The need for the support of an external agency was over.

SCECU was now transformed from an invisible employee credit union into an important financial institution at the heart of the community. It was seen to be operating a viable business on the high street offices, during regular office hours. This visible presence instilled confidence and trust amongst the growing membership and the community at large. Importantly, SCECU was seen actively by many to be committed to the promotion of inclusion. As a financial institution, it was able to engage with a widening multi-ethnic membership and with an increasingly diverse range of people, both blue and white collar workers, who were willing to invest time in what they perceived as a worthwhile and value-driven organisation venture. The stage was set for SCECU to consider opening its common bond to all the people of Southwark.

⁹ SCUDA's board comprised Rev Peter Challen, Chairman (South London Industrial Mission), Peter Bussy, Treasurer (ABCUL), Richard Blackmore (president of SCECU), Leonard Montague (CCU), Pamela Smith with Bill Yoxall and Colin Hunter (Monitoring Officers, Southwark Council)

Top 20 British credit unions - 1996¹⁰

Southwark Council Employees Credit Union enters the top 20

Accumulated savings

	Name Of Credit Union	Savings
1	Scotwest Credit Union Limited	£7,319,698
2	Glasgow Council Credit Union Limited	£7,176,857
3	Mid West Police Credit Union Limited	£3,743,856
4	Greater Manchester Police Credit Union Limited	£3,732,276
5	Capital Credit Union Limited	£3,306,057
6	Strathclyde Police (Federation) Credit Union Ltd	£3,106,001
7	Leeds City Credit Union Limited	£2,796,121
8	Dalmuir Credit Union Limited West Central Scotland Community C U	£2,141,884
9	Scottish Passenger Transport Credit Union Limited	£2,092,791
10	L T D A Credit Union Limited	£2,065,185
11	Pentecostal Credit Union Limited	£1,844,598
12	Voyager Credit Union Limited	£1,670,656
13	Southwark Council Employees Credit Union Ltd	£1,450,056
14	British Airways (Uk) Employees Credit Union Limited	£1,423,420
15	Liverpool City Council Employees Credit Union Ltd	£1,292,138
16	Merseyside Passenger Transport Employees Credit Union Ltd	£1,282,581
17	Birmingham City Council Employees Credit Union Ltd	£1,211,355
18	Glasgow District Postal Workers Credit Union Ltd	£1,192,728
19	Newarthill Credit Union Limited West Central Scotland Community C U	£1,145,056
20	Merseyside Police Credit Union Limited	£998,190

Membership

	Name Of Credit Union	Members
1	Scotwest Credit Union Limited	11765
2	Glasgow Council Credit Union Limited	8445
3	Capital Credit Union Limited	5702
4	Dalmuir Credit Union Limited	4780
5	Greater Manchester Police Credit Union Limited	4198
6	Leeds City Credit Union Limited	4105
7	Strathclyde Police (Federation) Credit Union Ltd	3866
8	Mid West Police Credit Union Limited	3840
9	Scottish Passenger Transport Credit Union Limited	3799
10	Liverpool City Council Employees Credit Union Ltd	3103
11	Birmingham City Council Employees Credit Union Ltd	2764
12	Camberwell Credit Union Limited	2748
13	Newarthill Credit Union Limited	2724
14	L T D A Credit Union Limited	2425
15	Voyager Credit Union Limited	2365
16	East Kilbride Credit Union Limited West Of Scotland Community C U	2158
17	Merseyside Police Credit Union Limited	2097
18	British Airways (Uk) Employees Credit Union Limited	2037
19	Glasgow District Postal Workers Credit Union Ltd	1896
20	Southwark Council Employees Credit Union Limited	1692

10 Donnelly and Kahn (1997)

Chapter Six

Refocusing on the community, 1997 - 2001

Harriet Harman QC MP at meeting with Camberwell Credit Union informing that successful transfer of engagements to SCU is completed.



The impact of compulsory competitive tendering on council services had, over a 17 year period, reduced the size of the council's workforce and, consequently, of SCECU's common bond. Further growth at the rate experienced, during the SCUDA and PEACE years, was increasingly difficult to sustain. In the period 1997 – 2001, the opportunity for growth was to come rather from a series of external factors that would lead the credit union to open its employee common bond and refocus on the community at large. The transfer of engagements from Camberwell Health Authority Credit Union, commonly referred to as King's College Hospital Credit Union, Borough and Bermondsey Credit Union and Camberwell Credit Union were to change the nature of SCECU fundamentally.

The transfer of 'Kings CU'

In 1995, Camberwell Health Authority Credit Union (Kings CU) was the first credit union in the borough to approach SCECU about the possibility of a transfer of engagements. At the time Kings CU had just 140 members and assets of £90,000, even though it had been established in July 1991, with the support of SCUDA, for the 7,000 employees of Kings Hospital. Kings CU was modelled on SCECU, and was promoted as an employee benefit and supported by the Health Authority with payroll deductions, office space and staff time. However, even with this support, it was not long before running the credit union became difficult for the employees who served as volunteers.



221 Rye Lane, Peckham.

Ann Brewster, currently president of SCU, was a volunteer loan officer and director at Kings CU. Ann reported that even though the credit union was growing in members, it became just too demanding for the three active volunteers involved to service, particularly as they all had full time jobs. Without full time paid staff or computerisation, operating procedures were difficult to execute. Volunteer burn out was exacerbated by the labour intensive and taxing process of manual record keeping.

Without the ongoing support of SCUDA, Kings CU struggled. Volunteers were stressed and overworked, bad debts were increasing and it was increasingly difficult to recruit a full board of directors. The future of Kings CU looked bleak. Simon Couldrey, the treasurer of Kings CU, believed that there were real benefits to be gained from merging with SCECU and he approached Roy and Lucky to discuss the proposal. For Simon, a transfer would ease the pressures on Kings CU volunteers and improve the quality of financial services for members. SCECU's Denmark Hill's office was close to the Kings Hospital and it made good economic sense for the credit union to be run by SCECU's skilled and motivated board and management team. Kings CU problems were not uncommon, and typical of many smaller credit unions that lacked a fully functioning board and team of volunteers. In such circumstances, transferring to a larger credit union is often the best way forward (Goth, McKillop and Ferguson 2006).

SCECU had always been willing to help Kings CU in the past and even though this was not a routine request for support, SCECU's board was willing to consider the proposed transfer of engagements. The proposal for a merger was formally approved as a special resolution at an extraordinary general meeting of Kings CU held on 19th September 1995. This motion set the ball

rolling for what was to be the first credit union transfer of engagements in Britain. It was not only going to be ground-breaking for SCECU, and the British credit union movement, but would also stimulate new learning for the Registry of Friendly Societies (RFS) as it was the first time that it had handled a transfer of engagements between credit unions.

After much negotiation with the RFS about the details of the new common bond, the RFS granted permission for transfer of engagements to take place. Two years after Kings CU passed a resolution to transfer to SCECU, this resolution was finalised on 1st October 1997, and the credit union was renamed Southwark and Kings Employees Credit Union (SKCU). Ann Brewster joined the board of directors of SKCU where, as she noted, she was impressed by the difference in management style between SKCU and Kings CU. She found a group of people who thought strategically and had a vision for the future.

She explained, *"It was such a relief to see that Southwark had such a strong board that could make decisions, at Kings we did not have that, there were no regular board meetings, just quick meetings in the office. The staff too made all the difference, it is essential to have staff to run a good credit union. "Southwark always had a vision to do something different".* Although only about 100 active members were transferred from Kings CU to SKCU, the transfer was the first step in a process that would lead eventually to the opening of the common bond to the entire community.

Live or work common bonds and the transfer of Borough and Bermondsey

Another development was to help SKCU realise its vision for growth. The new Labour Government, elected in 1997, was determined to encourage development in the credit union sector as part of its strategy to tackle social and financial exclusion. In order to play a more significant role in promoting financial inclusion, credit unions needed to be larger and have a greater community orientation. A new common bond was introduced, therefore, that would enable anyone living or working in a common bond area eligible to join a credit union that registered a 'live or work' common bond. Previously, with restrictive legislation current in Britain, credit unions could only register a live (residential) or work (employee) common bond, not both. This change in legislation meant that credit unions such as SKCU could now expand their membership base to include residents in the common bond area who were not employed by Kings Hospital or Southwark Council.



18 Pilgrimage Street, Bermondsey.

The possibility of this new common bond provided a lifeline for Borough and Bermondsey Credit Union (BBCU). BBCU had been launched on 1st November 1993, with the help of SCUDA. It was based in the north of Southwark and its residential common bond covered residents living in the area bounded by Waterloo Station, Southwark Park, the Old Kent Road and the River Thames. Although BBCU was a small credit union, it had become increasingly difficult for its dwindling group of volunteers and directors to manage and run. In fact, most of the responsibility for operations fell on one person, Gloria Holt, one of the few active directors. Talks commenced about a possible transfer of engagements from BBCU to SKCU. Unlike the earlier amalgamation between Kings CU and SCECU, this transfer would bring together two credit unions with distinctly different common bonds.

To facilitate the transfer, SKCU applied for a change of its common bond from being employee based to the new live and work designation. When the application was approved on 23rd September 1999, SKCU became the first employee credit union in Britain to change its bond from employee to live and work. To reflect its new status as a community based organisation the credit union changed its name to Southwark Credit Union (SCU) with effect from 1st October 1999.

Four months later, in February 2000, the transfer of engagements from BBCU to SKCU was completed. Since SCU did not have a high street presence in the north of the borough, premises were rented from the council making it possible for SCU to open a second branch at Pilgrimage Street in June 2000. Having been an employee credit union for 18 years, SCU had no experience of operating a community credit union and needed to develop expertise in serving its new members. Fortunately, Gloria Holt, one of BBCU's directors joined the staff of SCU in 2000 and was shortly followed by Gina Carrington, another BBCU director, who joined SCU's board in 2001.

While these changes were taking place at SCU, other developments in the credit union movement were heralding wider changes in credit union movement. Research undertaken at Liverpool John Moores University and recommendations made by the government's Policy Action Team 14 challenged credit unions to consider a different more business oriented and professional approach to their development (Jones 1999, PAT 14, 1999). This was an issue that SCU had been considering for some time. The board realised that a vision or desire for growth was not enough, it needed to be developed in a formal and rigorous business planning strategy. For SCU, this meant planning to engage more effectively with an increasingly diverse community membership and ensure that products and services met community wants and needs. Steps were taken to broaden the product range with the introduction of redundancy insurance, the family funeral plan and, importantly in a community with a high immigrant population, international money transfer provided through Western Union. To improve efficiency and member service, the credit union continued its investment in IT, adopting a document image processing system that reduced the amount of time staff spent on filling and retrieving documents. A new Windows based accounting system, CUMULUS, was commissioned in 2000 to enable staff to respond to enquiries in a more efficient manner.

Crisis at Camberwell

As SCU planned to move forward as a professional live or work community organisation, severe financial difficulties surfaced at Camberwell Credit Union (CCU). Established in 1972, CCU was the oldest credit union in Southwark and had shared premises with SCU and SCUDA at 221 Rye Lane. Like SCU, CCU had enjoyed rapid growth during the SCUDA years that had continued into the new millennium. CCU was widely regarded as a pioneering and dynamic credit union, especially as it served a wide range of needs, including providing funding for entrepreneurial initiatives which had been introduced as part of the PEACE project.

In August 2000, on discovering that the value of members' savings in CCU had collapsed, the Registrar of Friendly Societies imposed a Section 19 order, of the 1979 Credit Union Act, on the credit union. This was a major crisis situation. The order prohibited CCU from admitting new members, making loans or releasing savings and only allowed the credit union to accept loan repayments. With some 3,000 members, a failure of a credit union of CCU's standing could have far reaching ramifications, not only for the livelihood of some of the poorest members of the community, but also for the credibility of the credit union movement and for the government's plans to include credit unions as central to its financial inclusion strategy. If CCU collapsed, member savings were all at risk.



Harriet Harman QC, MP joining the credit union.

Harriet Harman, the MP for Camberwell and Peckham, and then Solicitor General in the Lord Chancellor's department, realised immediately the devastating impact that a collapse at CCU could have on the lives of credit union members. She was elected as MP for Peckham (now Camberwell and Peckham) in 1982, and knew intimately of the financial problems faced by many of her constituents. She also was aware of the difference that the credit union made to their lives in providing access to affordable financial services. Polly Toynbee, writing in the Guardian, described the impact of a CCU liquidation, on "*the student single mother who scraped together £220 for her son's future, the Irish widow, on benefits with two children who will lose £350, the 67-year-old West Indian chef who will lose £3,500 for his old age and the elderly woman whose son put £5000 into her account as she has no savings; the 24 people who had £800 each put into their account by Southwark Council for new furnishings*". The CCU crisis hit the headlines and presented a major challenge to SCU and to the whole credit union movement.

The rescue of Camberwell

With so much at stake, a major rescue operation was initiated by Harriet Harman to ensure that CCU,s members would not lose their savings. She assembled an impressive team of key players including SCU, the FSA, ABCUL, the Building Societies Association, the British Bankers Association, Price Waterhouse and London Borough of Southwark. The strategy formulated as central to the rescue plan was for SCU to accept a transfer of engagements from CCU.

There were good arguments for considering a transfer of engagements. SCU had already accepted a transfer of engagements from two other credit unions and its new live or work common bond

could readily accommodate a transfer from CCU. Although smaller than CCU in terms of membership, SCU had a cohesive board with skilled and able directors and had implemented strong financial discipline, delinquent loans were handled robustly and adequate provision made for bad debts. Yet, unlike in the previous transfers, SCU's board was concerned about the impact of the Section 19 order. Financial investigations revealed a short fall of approximately £155,000 in CCU's accounts which would mean that, if liquidated, CCU members, many of them small savers, would only receive about 80% of the value of their savings. Under the regulatory regime of the Registry of Friendly Societies, credit unions did not have recourse to the deposit insurance scheme which covered savings in banks or building societies.

Now with the clear knowledge of the financial shortfall, and the need to address this before a transfer to SCU could be fully considered, the rescue intervention began to mobilise donations, loans, offers of loans and expert advice in order to find the money to improve CCU's balance sheet. As the rescue effort gained momentum, generous donations to the tune of £53,500 were received from Southwark Council, ABCUL credit unions and an anonymous private donor resident in Southwark. However, this would not be enough to cover fully the funds needed for a smooth transfer of engagements to SCU. SCU's board would have to take the courageous decision to use SCU's own financial reserves to finance the acquisition of CCU. This was a difficult decision to take, especially as, since 1998, SCU had been building up its reserves in order to achieve a reserves/assets ratio which would allow the credit union to apply for a C11 certificate. A former member of CCU recalled how stressful the crisis was for CCU members at the time, *"It was a very courageous thing for them [the SCU board] to do. When I was told that SCU had agreed to take over CCU, the relief was just unbearable..."*.

SCU's board, fully aware of the adverse effect a CCU collapse would have on CCU members and on the national reputation of the credit union movement, decided to address the remaining financial shortfall out of its reserves. CCU was transferred into SCU on 4th October 2001. By 2002, the SCU's level of general reserves had diminished to only 42% of its pre-transfer level. In 2002, SCU recorded a deficit for the first time in its history.



Promoting credit union services in hospitals.

As a result of the transfer of engagements, however, the assets of SCU increased to £3.9 million, membership increased dramatically and SCU inherited premises at 221 Rye Lane. With no loss of members' savings, SCU's rescue had succeeded in maintaining the confidence in the stability of the credit union and the anticipated exodus of ex-CCU members from SCU credit union did not materialise. In spite of the impact the CCU transfer had on the balance sheet, the board paid a dividend of 1.5% based on its 2000/2001 results *"to enhance the credit union's image and reward members"*.

The transfer significantly altered SCU's membership base. With the majority of its members now from the community rather than from employee groups, SCU started to prepare itself for a new phase in its history. This would coincide, over the next few years, with major changes in the credit union movement itself, including its transfer of regulation from the RFS to the Financial Service Authority.

Chapter Seven

The development of a quality credit union, 2002 - 2007

*Launch of Credit Union Current Account February 2007
Cllr Nick Stanston,
Leader of Southwark Council,
and Harriet Harman QC MP.*



SCU's acceptance of the transfer of Camberwell Credit Union was recognised by many throughout the credit union movement and government as a highly courageous move. It put a strain put on SCU's financial reserves, but, at the same time, it rapidly opened the credit union to the whole of the people of Southwark with the large influx of community members that came over from CCU. This presented a challenge to SCU. It was faced with having to grow in capacity and capability to serve a diverse and complex market of which it had little previous experience. Serving an open community bond is de facto quite unlike serving a closed employee group. For SCU, it would mean a deepening engagement in serving people on low incomes or who faced financial exclusion.

However, two events in 2002 were to change the landscape for British credit unions and to offer a new opportunity for growth to credit unions, like SCU, with a capacity and an appetite for change. The first was the introduction into Britain of the concept and principles of new model credit union development (Jones 2002). The second was, with effect from July 2002, a new regulatory regime under the authority of the Financial Services Authority. SCU was to benefit significantly from both these developments. The result would be an annual average increase in assets of 12% over the next four years followed by a 32% increase in the fifth year, 2006/07. The higher figure in the fifth year was the result of support of the Financial Inclusion Growth Fund.

The emergence of new model credit unions



*Ken Livingstone, Mayor of London,
joining the credit union.*

Long before the Liverpool John Moores University's research study (Jones 1999) into credit union sustainability was published, SCU had already adopted, since the SCUDA period, professional and business-oriented approaches to its development. In fact, it was the success of credit unions like Southwark that led, in some measure, to the 1999 research conclusion that poor growth in credit union membership and assets could not be attributed to poor legislation and divided national trade associations alone, but was due more to inadequate organisational development models that were based more on social rather than on economic goals. For despite poor legislation and divided trade associations, SCU did grow and expand, as was clearly demonstrated in its financial performance from 1993 onwards. It was the growth of SCU, among others, that led ABCUL to promote a more business focused approach to credit union development, a move that received the support of government and of municipal authorities (HM Treasury 1999a, 1999b, LGA 2001).

However, in late 2001 and early 2002, British credit unions were introduced to important research carried out by WOCCU in Latin America (Jones 2002). This research was seen as particularly relevant to Britain because many Latin American credit unions had been established to serve low income communities with similar social models of development as British credit unions. The WOCCU research demonstrated that, if credit unions were to become long-term stable and effective financial institutions, with a capacity for making a real difference in low income communities, a more radical approach was required than the adoption of basic business practices

as envisaged in the 1999 LJM report. WOCCU argued, as documented by Jones (2002), that a fundamental financial, organisational and operational restructuring of credit union operations and management was needed if credit unions were to realise their potential (Richardson 2000a, 2000b, Branch and Cifuentes 2001). This restructuring came to be known as new model credit union development (Richardson 2000 b, Jones 2004b, 2005).

New model development was based on seven '*doctrines of success*' (Richardson 2000a). These were:- serving the financial needs of the population at large; prioritising savings by offering attractive interest rates; offering and marketing a range of attractive products and services that respond to member wants and needs; ensuring efficiency in operational systems; financial discipline; good governance and offering a pathway to financial inclusion for those excluded from the mainstream (Richardson 2000a). This new model approach was markedly different from the way many British credit unions had operated previously. It challenged credit unions to be saver rather than borrower focused, encouraged them to know their members and develop products in response to their wants and needs, demanded high levels of financial analysis and discipline, promoted professionalism in service delivery and emphasised a clear commercial approach to enterprise. New model credit unions had to compete in the market place and gain members through the quality of the products and services they offered.

Influenced by new model thinking, promoted increasingly by ABCUL, many leading credit unions, including SCU, began to rethink their future in new model terms. Lakshman (Lucky) Chandrasekera, manager since 1996, took a lead in developing and restructuring SCU's systems and procedures in order to attract savings deposits and, through effective lending, to generate sufficient income to build capital reserves and pay dividends on savings. The Camberwell affair had led to SCU declaring, in 2002, a deficit for the first time in its history, which led, in a number of years afterwards, to the board having no choice but to recommend the non-payment of a dividend on savings. Lucky was challenged to build the business so that this never happened again. He introduced new rigorous approaches to marketing the credit union among employee groups and, through a range of partnerships with community organisations, he enabled the credit union to reach out into communities and neighbourhoods throughout the borough. Electronic systems were introduced and updated with the website and the 24-hour, 7-day a week internet balance enquiry system increasingly promoted. However, it was the decision by Lucky and the board to participate in ABCUL's PEARLS project that would prove to be SCU's biggest single move in the direction of new model development.



*Simon Hughes MP
joining the credit union.*

The significance of the Barclays PEARLS project

Internationally, the key methodological tool used within new credit union model development is the PEARLS financial monitoring and business planning system (Richardson 2001). The PEARLS system has been central to the strengthening of credit union movements throughout the world. Through ABCUL's links with WOCCU, it was first tested in Britain as part of the West Midlands credit union development programme (Jones 2005) and then rolled out as a national pilot in the form of the PEARLS project. This project was financially supported by Barclays, as a key intervention to strengthen credit unions as financial institutions. It was launched in April 2002 by Howard Davies, the then Chairman of the FSA.

SCU was the largest of the nine credit unions to take part in the national pilot programme and was the only participant from London. Following the demise and rescue of CCU, financial discipline and sound financial management were high on SCU's agenda and Lucky, and the board, were keen to introduce PEARLS to SCU. It was seen as central to SCU's own business and development plan.

As explained by ABCUL (2003), "Pearls provides a systematic approach to developing strong, modern credit unions that balance the needs of savers, borrowers, stakeholders and staff. It is not simply about collecting data and monitoring financial ratios, it is a practical tool. PEARLS is invaluable in helping credit unions grow and develop, enabling them to better serve their target market; something that is critical if they are to play a key role in tackling financial exclusion".

It sets standards for credit unions in the following areas:-

- Protection – refers to the adequacy of loan loss provisions
- Effective financial structure – measures loans, assets, savings, shares and reserves as a proportion of total assets
- Asset quality - measures loan delinquency and non earning assets
- Rates of Return and Costs - measures rates of return
- Liquidity – measures liquid investments and reserves against withdrawal deposits
- Signs of growth – measures the growth rates of total assets, loans, deposits, savings, capital reserves and membership.

For each PEARLS indicator, target ratios are identified by which a credit union can measure institutional strength, economic viability and growth. Interconnected ratio analysis enables managers to see how and why the credit union is performing at its current rate and to take action to correct deficiencies or to stimulate organisational change and development. Essentially, it promotes decision making based on the observation and measurement of key performance indicators.

For SCU, the lessons learnt from participating in the PEARLS project were quickly translated into practice. Lucky and the board developed a set of key performance indicators that the credit union now uses in monitoring and reporting on performance. One of these, to which the credit union pays particular attention, is the ability to calculate the value of members' savings. Lucky explained, *"PEARLS helps management to see clearly the relationships between savings, loans, delinquency and the value of savings. This helps management in co-ordinating all aspects of the business and in carrying out a health check. Some of the ratios calculated, especially those related to delinquency, are also useful in reporting to the FSA"*.

Perhaps the most profound impact of PEARLS on SCU has been in the area of lending policy. Lucky elaborated, *"PEARLS biggest impact has been in the change the credit union has made to its lending policy. We have moved away from making loans based on savings to making loans based on risk. Prior to PEARLS, the credit union was turning down good credit risks"*.

Traditionally credit unions offered a simple loan account with identical conditions to everyone. An obligatory twelve week savings period preceded any loan application, the amount of the loan was then limited to twice or three times the amount saved. Savings could not be withdrawn if they were exceeded by a loan balance, a practice that actively deterred borrowers from saving more than they needed to access the loan they wanted. These restrictions were neither legal nor regulatory requirements but arose through custom and practice as a way to limit risk and ration loans to members. New model methodology, and PEARLS analysis, challenges credit unions to recognise that these restrictions were unattractive to existing and potential members and, consequently, unprofitable for the credit union. They have a particularly negative impact on the low income market as people in need of an instant loan, or unable to save, cannot be helped as they cannot afford to save as a condition of qualifying for a loan. New model methodology removes the link between saving and lending and enables credit unions to develop lending policies that are flexible, efficient and responsive to member needs. Instead of restricting a borrower's access to their savings, new model credit unions minimise risk by effective credit administration and lending based on a capacity to repay.

In 2003, after participation in the PEARLS programme, SCU took a leap forward and mostly abandoned the traditional link between savings and lending and introduced capacity based lending. For the first time, it was now possible to borrow without first saving for three months and loans were no longer granted as a percentage of prior savings. However, a certain link with saving was retained. A borrower's savings in a member's principal savings account could still not be withdrawn if lower than the outstanding loan balance. However, after the receipt of a loan, a



Alan Duncan, MP, visiting the credit union. With Tina Barnes and Lucky Chandraseka.

borrower can open new savings accounts and withdraw subsequent deposits freely. SCU also retained a requirement for borrowers to save in order both to encourage thrift, a traditional credit union value, and to promote savings mobilisation. The adoption of the new loans policy, supported by changes in legislation, led also to the dismantling of some traditional but now redundant operating structures, including the abolition of the credit committee.

These changes to the loans policy could not have come at a more opportune time for SCU. The make up of the credit union's membership had changed considerably subsequent to the three transfers of credit union engagements. Lucky and the board realised that new more market-driven and commercial approaches would be required to attract people into membership and build the loan book. Restrictive loan policies had made the credit union unattractive to many people, especially to the financially excluded. The change in loan policy, prompted by PEARLS, would enable SCU to grow and to respond more effectively to the government's financial inclusion agenda by playing an increasingly significant role in serving low income and excluded communities.

The impact of the new regulatory regime

In July 2002, credit unions became regulated as deposit takers by the Financial Services Authority (FSA). The introduction of this new regulatory regime marked a step forward in the strengthening of credit unions as financial institutions. For the first time, a culture of compliance was introduced and all credit unions had to meet defined threshold conditions and prudential standards for operation. For board members and key officers, a FSA approved person's regime was introduced. Credit unions were expected to provide timely financial returns to the FSA, maintain adequate levels of capital and meet defined standards in liquidity management and provision for loan losses. In return credit union deposits were insured by the Financial Services Compensation Scheme; this provided credit union members with the same level of depositor protection as customers of banks and building societies.

With the introduction of new regulation came, also in 2002, changes in credit union legislation, arguably until then the most restrictive in the world. No longer were credit unions limited to serving a maximum number of members and relaxations were also introduced to the upper limits of savings and loans balances. For the first time, two versions of credit union were created. Version 1 credit unions were able to operate with a capital requirement of no more than positive net worth, but were restricted to making loans of no more than £5,000 in excess of savings or, if they had a 5% capital assets ratio, of no more than £10,000 in excess of savings. Version 2 credit unions were subject to more stringent capital, liquidity and supervision requirements, but could make much larger loans over longer periods; £10,000 in excess of savings or 1.5% of total savings in the credit union whichever was the greater, made over periods of 5 years for unsecured and 15 years for secured loans. They could also offer variable dividend rates on savings accounts, payable more often than annually. Eight of the largest credit unions became version 2. However, with the majority of credit unions in the country, SCU decided that it had to remain as version 1 for the time being. For all credit unions, these relaxations in the law meant that they had greater opportunity to compete and to respond to the financial market. SCU adopted the new ABCUL credit union rule book, at its AGM in 2003, to ensure it took advantages of the new opportunities available.



Roger Marshall - the Manager, Mortgages and Credit Union Department - FSA, speaking at credit union current account launch.

For SCU, one change introduced by the new regulator was to make a substantial difference to the confidence and trust that the Southwark community had in the credit union. This was the introduction of the Financial Services Compensation Scheme (FSCS). For the first time in the credit union's history, SCU was now covered by the same deposit insurance scheme as banks and building societies. Extending FSCS to cover credit unions was a major leap forward for the British credit union movement and an act of confidence in the governance capacity of the sector. Given SCU's recent experience with CCU, where, for a time, members' savings looked very much at risk, FSCS provided a welcome boost to the SCU's community promotional efforts and effectively countered any concerns of members or the public at large about the safety and security of savings in SCU.

The development of a quality credit union

The transformation of credit unions into modern, market oriented financial institutions is not an easy process. It demands good governance and the skill, competence and hard work of senior management and staff as they endeavour to prioritise financial discipline, economic strength, professionalism and quality in financial services. This is the journey that SCU began to undertake with its adoption of PEARLS and new model development, a journey that was underpinned and supported by new legislation and regulation.

New model methodology furnished SCU with a road-map for this journey of transformation into a more effective financial institution. Credit unions following this map became known, in the British movement, as 'quality credit unions', a term that seemed less prescriptive than 'new model' (Jones 2006). SCU was determined, as an organisation, to become a quality credit union.

As defined by ABCUL (2005), a quality credit union is one that:-

- *"has a strong capable board with the skills, sense of urgency and capacity to drive the credit union towards sustainability;*
- *researches what its members want and seeks to provide services to meet those needs;*
- *is a flexible lender – does not require people to save before they borrow;*
- *is a responsible lender - assesses loan requests on the capacity to repay;*
- *emphasises savings mobilisation recognising that sustainable financial intermediaries are built on member savings not external capital;*
- *gives their members somewhere to deposit their wages or benefit and gives them easy access to their cash and a means of simply carrying out basic transactions".*

Following the PEARLS project, SCU committed itself to putting in place each of the above organisational and operational elements of a quality credit union.

Good governance



Staff Christmas party – 2005.

SCU recognises the importance of a strong, capable board of directors that is not only able to focus on the organisation's purpose but is able to implement and support the changes that are required to achieve sustainable growth. This was a key learning outcome of the SCUDA period. Another key learning outcome from previous experience is the importance of internal flexibility in allocating available resources particularly when leading the credit union in times of rapid change, such as in its present efforts to respond to the raft of interrelated factors that underpin and drive the demand for quality credit unions.

Recognising that cost effective innovation and responsiveness are crucial for ensuring sustainability in a dynamic environment and for meeting the needs and expectations of members and other stakeholders, SCU's board has taken steps to redesign the structure of the credit union's operations. The board has not only created a separate strategic CEO post that is supported by a hierarchy of operations and branch managers but has recently adopted a departmental structure that accommodates the increasing specialisation and growth of individual activities. Today, SCU's staff, that has increased from 8 in 2002 to over 30, is spread across three branches as well as the banking (current account), customer services, loans, outreach and accounting and finance departments.

Although SCU's six person board reflects a range of skills and experience, efforts are made constantly to expand its capacity and to recruit new members as the credit union grows and evolves. SCU aims to sign up to the Code of Governance that will be promoted by ABCUL in 2008.

Researching member wants and needs

The credit union could no longer depend on growing organically in the same employee market offering the same products and services. PEARLS had taught SCU that it had to reach out into new markets and develop the kinds of products and services that people want and need.

Reaching out into the community and learning about the financial needs of members and potential members has become central to SCU development. As an employee based credit union, SCU was experienced in recruiting members, through staff benefit schemes, often with the help of well-established channels and infrastructure for accessing potential members. This approach could not be translated to accessing community members, especially those 'hard to reach' groups on the fringes of society.

In 2003, SCU participated in a pilot programme to promote credit unions among tenants of resident social landlords, a significant group in the borough given that social housing counts for 53% of all housing types (this compares with a figure of 26% for London as a whole) (2001 census). As a direct result of the learning about the financial needs of community members, gained on this project, the Benefit Direct Accounts were introduced in 2003 (see Chapter Eight). These allow members to deposit welfare benefits directly into the credit union.

A succession of community outreach projects, that involved adopting different ways of accessing members at the grass roots level, followed this initial pilot as Lucky and the board realised that new initiatives were needed if the community was to be satisfactorily served. Currently, the credit union employs a range of outreach workers to engage with, and listen to the needs of the community.

Through community outreach, the credit union has been able to target groups that it would not have engaged with before 2002, such as young savers. Traditionally, as an employee credit union, SCU did not have junior savers. The transfers of Borough and Bermondsey Credit Union and CCU brought the first junior savers into the credit union. However, junior savings has been rapidly expanded since the launch of the Young Savers Scheme in September 2004, in partnership with Elephant Links. Initially targeting 10 schools in the borough, by 2005, over 900 Young Savers had joined the credit union. Today, in 2007, the credit union has 1,303 junior savers.



Introduction of Young Saver Account.

Reaching out to the community has not meant that SCU has neglected researching the needs and wants of employee groups. On the contrary, the development of SCU as a quality credit union depends on increasingly developing links with employers in the borough. In 2004, with the support of UNISON, SCU finalised arrangements with London Ambulance to offer credit union membership as a staff benefit. Greater London Authority and Family Housing Association quickly followed and now offer credit union membership equally through payroll deduction. SCU now has payroll deduction arrangements with 19 employers in the borough.

Flexible and responsible lending

As outlined above, new model methodology assisted SCU to introduce more flexible and responsive lending procedures, with lending decision being based on capacity to pay rather than on a simple multiplier of savings. The credit committee was abolished in order to introduce efficiency and speed into the credit administration process.

The strengthening of capacity based lending has also promoted responsible lending in the credit union. SCU endeavours not to lend to people who cannot afford to pay back. SCU has developed a series of partner relationships with money and debt advice agencies to support those already overindebted (see Chapter Eight). The introduction of capacity based lending has not only led the credit union to make more use of credit reference agencies but challenged the credit union to invest more resources to work with particular groups of members, such as the unemployed, the financially illiterate or those with little or no savings, to assess their capacity to repay and make sound and responsible lending decisions. In his 2005, pre-budget speech the Chancellor announced that the interest rate cap would be raised from 1% to 2% for credit unions. SCU decided to embrace the flexibility this change afforded in order to be able to serve higher risk borrowers.

Emphasising savings

In the period 2002 to 2007, savings in SCU has risen year on year by 8.1%. Since PEARLS, SCU has endeavoured to increasingly prioritise savings and now offers a range of savings accounts to members. Savings deposited in accounts other than the member's primary share account are now withdrawable even if a member has a loan balance greater than total shareholding in the credit union. This has encouraged members to save more regularly and for particular purposes.

Among low income members, savings are particularly emphasised as a key element in a pathway to financial stability and security (see Chapter 8). The 3,487 Benefit Direct Account members have saved collectively £543,149 in the credit union. This is an average shareholding of £156. Many of these members, all on welfare benefits, have never been able to save successfully in the past.

Introduction of transaction accounts

It was member need that led to the introduction of the Benefit Direct accounts, a limited form for transaction banking. However, it was the importance of transaction banking in new model methodology that led SCU, with a small group of other credit unions, to pioneer and develop in collaboration with The Co-operative Bank, the introduction of fully functional credit union current accounts, with direct debit and standing order functionalities and with cash or debit cards that allow access to the international VISA ATM network. The introduction of current accounts is explored in the following chapter (Chapter Eight).



Prize giving for Young Saver poster competition.

The way forward

In the last three years, 2004-2007, the credit union is beginning to see the benefits of its move to become a quality credit union. Not only has membership growth exceeded the targets set by the credit union in its business plan, the rise in savings and loans has consistently performed well (see Chapter Nine). The next step change for the credit union could be moving from a version 1 to a version 2 credit union. This would enable the credit union to make larger loans, pay differentiated dividends on different accounts and pay dividends out of interim profits more than once a year. It would depend on the credit union, however, maintaining a capital asset ratio of 8%. In September 2007, the unaudited risk adjusted capital ratio was 18.7%. The rise in the capital ratio has been supported by the injection of capital through the Financial Inclusion Growth Fund.

Message from Annie Shepperd, Chief Executive, Southwark Council

Anniversaries provide an opportunity for organisations to celebrate their success and progress. Southwark Credit Union has made considerable progress since it was established as an employee credit union for Southwark Council Employees. The Council is proud of its long association with Southwark Credit Union. As a credit union which now serves all who live or work in our borough, Southwark Credit Union works with the Council on a number of initiatives to tackle financial exclusion and improve the standard of living of the people of Southwark. As Southwark Credit Union celebrates its 25th anniversary I would like to record the appreciation of the Council for the outstanding contribution Southwark Credit Union has made to Southwark. I would like to take this opportunity to congratulate the Board, staff and members of the Credit Union and look forward to working with them in years to come.

Annie Shepperd

Annie Shepperd, Chief Executive, Southwark Council

Chapter Eight

Addressing the financial inclusion agenda

James Plaskitt MP, Parliamentary under Secretary for the Department of Work and Pensions, signing the Financial Inclusion Growth Fund agreement in 2006.



Southwark is currently the 17th (out of 354) most economically deprived boroughs in England and the sixth most deprived in London (ODPM 2004). Poverty and financial exclusion are endemic, the dynamics of which are compounded by the heterogeneous makeup of the population. Close to 40% of Southwark's residents are from a black or ethnic minority community, compared with 29% in London as a whole and, according to the 2001 census, 2% of people in the borough are newly arrived from overseas. Unemployment is well above the London average, with the borough ranking third in London in terms of deprivation in relation to access to employment. A significant number of people in the borough claim welfare benefits, with the largest group of family claimants being lone parents. Children in Southwark are more likely to be experiencing deprivation than elsewhere in the UK (Southwark Council 2007).

Faced with the challenge of serving this large and diverse community, SCU has increasingly strengthened its commitment to serve the financially excluded and those on low incomes. A credit union mission statement on its website reads, " *We believe access to basic financial education and services is essential to building economic self-reliance. By introducing unique products and services and working in partnership with central and local government and community organisations, we support low income and marginalised individuals and communities to gain access to the financial services they need*".

Promoting financial inclusion in partnership



Simon Hughes MP launching Young Saver Scheme in Crampton Primary School.

The acceptance of the transfer of engagements from Camberwell and Borough and Bermondsey Credit Unions, and the development of a network of community outreach services, have moved the credit union increasingly in the direction of serving those on low incomes. This has been strengthened through a range of partnership projects with housing associations, community groups, Sure Start, job centres and others. In 2003, for example, the credit union piloted the Change Project in partnership with the London and Quadrant Family Housing Association in response to the financial exclusion experienced by tenants. In 2004, through Elephant Links, a regeneration partnership, outreach sessions were developed on the Heygate Estate and a school bank project was launched in 2004 to operate savings clubs in Southwark schools. With Southwark Council, in 2005, a project was established to work in job centres and introduce the unemployed to credit union services. The table on page 41 outlines the various financial inclusion community outreach projects that have been or are being delivered by SCU. The cornerstone of all these projects is to work in partnership to reach out to hard-to-reach low income consumers, build relationships and introduce people, otherwise bereft of financial services, to the benefits of credit union membership.

In recent years, Southwark's focus on financial inclusion has been supported and encouraged through the rolling out of the Department of Work and Pension's Financial Inclusion Growth Fund (HMT 2004). Southwark was the first credit union in Britain to sign the DWP contract to deliver Growth Fund loans to some of the most economically disadvantaged groups of people in the country.

Financial Inclusion Community Outreach Projects, 2003-2007

Project	Partners and Funders	Purpose
Change Pilot 2003-2004	London and Quadrant Housing Association, Family Housing Association <i>Funded by: Same as partners</i>	To deliver the credit union services as a response to financial exclusion suffered by housing association tenants and to investigate the suitability of traditional credit union services as a response to the financial exclusion experienced by housing association tenants.
Elephant Links 2004-2005	Elephant Links Partnership Elephant Links <i>Funded by: Single Regeneration Budget</i>	School Bank -To set up collection points for saver schemes in schools through which children would open and operate credit union Young Savers Accounts To provide estate-based outreach and financial information session to residents on the Heygate Housing Estate. To extend opening hours of the Pilgrimage street branch.
Credit Union Outreach 2005-2006	Southwark Council <i>Funded by: Neighbourhood Renewal Fund</i>	To undertake community outreach in all neighbourhood renewal areas in the borough.
Sure Start 2005-2006	Sure Start Offices in Bermondsey and Rotherhithe <i>Funded by: Southwark Education</i>	To undertake community outreach within and establish collection points in the Sure Start offices in Central Bermondsey and Rotherhithe
Money Advice 2005-2006	Blackfriars Advice Centre <i>Funded by: Barclays</i>	To provide money advice to people with debt problems and facilitate cross-referrals between the credit union and the advice centre.
Worklessness 2005-2006	Southwark Council Job Centre Plus Reed, Work Directions, Job Fair, One stop shops <i>Funded by: Southwark Works</i>	To address barriers to sustainable employment by enabling credit union outreach officers to hold sessions at job centres and work more strategically with employment advisers and employment groups.
Sure Start 2006-2007	Southwark Council Sure Start Offices <i>Funded by: Southwark Education</i>	To undertake community outreach from Sure Start offices in four localities throughout the borough – Walworth; Bermondsey and Rotherhithe; Camberwell and Dulwich; and Peckham, Peckham Rye and Nunhead
Southwark Wide project 2006-2007	Southwark Council One stop shops and Job Centre Plus <i>Funded by: Neighbourhood Renewal Fund – Four quadrants</i>	To address barriers to sustainable employment by enabling credit union outreach officers to hold sessions in Peckham; Borough, Bankside and Walworth; Camberwell and Bermondsey and Rotherhithe
Growth Fund Project 2006-2007	Department of Works and Pensions <i>Funded by: DWP Financial Inclusion Growth Fund</i>	Deliver reasonably priced loans to economically disadvantaged people
Rightfully Yours 2006-2008	Southwark Council <i>Funded by: Southwark Customer and Corporate Services</i>	To promote access to banking, affordable credit, and financial education among Southwark residents through Direct Mail Campaigns targeted at benefit recipients in Southwark house holds
SchoolBank 2007-2008	<i>Funded by: Neighbourhood Renewal Fund - North-West /South West neighbourhood renewal area</i> <i>Also funded by: Land Securities Plc.</i>	To set up collection points for saver schemes in schools in the North-West /South West neighbourhood renewal area through which children would open and operate credit union Young Savers Accounts
Financial Management Support 2007-2009	Job Centre Plus, Southwark Works, Work Directions. <i>Funded by: Big Lottery Fund</i>	To support people entering employment, or in work, to develop better financial management skills

However, the prerequisite of the credit union's ability to develop and deliver products and services appropriate to tackling financial exclusion has been its ability to modernise and grow as a quality credit union. Collard and Kempson (2005), Rossiter and Cooper (2005), the National Consumer Council (2005), and McKillop and Wilson (2003) all point out how the needs of the financially excluded are best served within strengthened and professional credit unions. The development and strengthening of the credit union, as illustrated in the previous chapter, has been fundamental to its capacity to tackling financial inclusion. Without economic and organisational strength, credit unions can achieve little within the low income market. This fact has been increasingly recognised by ABCUL and local and central government (LGA 2001, HMT 2004, 2007). Scaling up of the credit union sector, in order to deliver in low income communities, has become a key government strategic goal (HMT 2007), a reality recognised at Southwark for many years.



Community Outreach work.

Rethinking financial inclusion

In general, it was an increased awareness of the link between poverty and financial exclusion that led many credit unions, including Southwark, to rethink the way they operated in low income communities. Traditionally, community credit unions, in a desire to combat poverty, focused their attention on providing affordable loans (Jones 1999). Presented with the reality of many people on low incomes having little option but to borrow from sub-prime lenders, credit unions argued that access to cheaper credit enabled the financially excluded to free themselves from high-cost interest payments which thereby reduced overindebtedness and improved economic status. Overall, credit unions in low income communities focused mainly on enabling the financially excluded to borrow small amounts at interest rates unavailable to them elsewhere.

However, the limitations of tackling poverty through low-cost lending were highlighted in a number of research reports, including a Barclays' report into credit unions and loan guarantee schemes (Jones 2003). This research focused on five credit unions, all in low-income areas, that had established lending programmes, funded through external grants and donations, in order to make debt-redemption loans to people overindebted to high cost lenders. The research findings revealed that such a response to debt was less than successful. Overall, loan default rates were high and few borrowers moved into financial inclusion and stability. This study concluded that if credit unions were to serve the financially excluded effectively they needed to adopt more holistic and strategic approaches.

Access to affordable credit – lending policy reform

Tackling poverty certainly depends on providing access to affordable credit but it has to be integrated into a holistic approach that provides, not just a release from extortionate credit, but a pathway into financial inclusion. This approach has to include, in addition to credit, access to transaction accounts, savings accounts, insurance products and the provision of money and debt advice (HM Treasury 1999b, 2004, 2007). It turns on financial capability education seen as essential to strengthening capacity to make financial decisions.

The change in focus from tackling income poverty through lending to facilitating pathways to financial inclusion has led SCU to offer an increasing range of financial services and products geared to the low income market. The credit union was, for example, through its involvement in the PEARLS project (see Chapter Seven), one of the first credit unions in the country to modernise its lending policies. Despite a focus on lending, traditional credit unions insisted on an obligatory 12 week savings period before any loan application could be made. Loans were then typically limited to twice or three times the amount saved and any savings accrued could not be withdrawn if exceeded by a loan balance. This not only failed to encourage borrowers to save, as their savings became frozen assets, but constrained credit unions that wanted to offer the kinds of products that met the aspirations of their members. This approach to lending had a particular negative impact within the low income market. People in need of an instant loan, or unable to save, could not be served at all. Credit union modernisation begins with changing these outdated lending policies. As Lucky Chandraseka, CEO of SCU, stressed, *"We've been using the system (PEARLS) since 2002 and we have made big changes as a result, particularly in our lending policy. We used to use ratio-based (based on how much someone had saved with the credit union) lending. Now we will lend to anyone who walks through the door, subject to all the right checks to see if they can afford to pay it back"* (ABCUL 2004).

Introduction of transaction banking

However, Southwark's greatest step forward in developing a genuine pathway to financial inclusion for low income members was the introduction of credit union transaction banking. The credit union had already pioneered, since 2003, a form of transaction banking with the creation of its Benefit Direct accounts. Over 3,000 people, the vast majority on low incomes, opened these accounts, which allowed them to deposit welfare benefits directly into the credit union. For many, unable to access bank accounts, or dissatisfied with Post Office Card Accounts, Benefit Direct accounts offered an important first step to transaction banking. Significantly, these accounts offered the opportunity of obtaining affordable loans, as loan repayments were made directly from the account. Many high risk borrowers, who otherwise would have had no choice but to use high-cost sub-prime lenders, were able to borrow at rates they could afford because of the guarantee of repayment that these accounts afforded the credit union. Nevertheless, despite evident advantages, the credit union recognised that overall the functionality of these accounts was too limited to offer members full financial inclusion. The accounts did not offer electronic cash and debit cards for use at ATMs or in retail outlets, neither did they allow for the setting up of direct debits or standing orders.

It was the limited functionality of the Benefit Direct accounts, that led SCU to join a small group of nine ABCUL credit unions that pioneered and developed, in collaboration with The Co-operative Bank but totally at their own expense, the introduction of fully functional credit union current accounts, now recognised as a central pathway to financial inclusion. Not only does having no bank account result in higher transaction charges, it contributes long-term to low income people failing to grow in financial capacity and to gain a positive credit score. Unlike other credit union proposals for banking arrangements, in which credit unions merely offer a high street bank's services to their members, in the arrangement with the Co-operative Bank, Southwark, and the other participating credit unions, can now offer their own transactional banking services and accounts, fully under their own individual control. Simply put, SCU now rents space on The Co-operative Bank's mainframe computer which enables it to offer current accounts, with Visa ATM and debit cards and functionality for direct debits, standing orders and money transfer.

The introduction of current accounts has been a major step forward in Southwark's operations. It has enabled a growing number of people, with little or poor access to transaction banking, to open current accounts and take a positive step into financial inclusion. Over 1,500 had opened current accounts in the first year of operation, 600 have migrated from the Benefit Direct accounts and others from basic bank accounts with high street banks (that often came with high penalty charges), from the post office card account or from being unbanked altogether. SCU now receives over £5 million a year in DWP benefits, paid into current or Benefit Direct Accounts. The bulk of this money is withdrawn by members for living costs, but most leave some money in the account for loan repayments or transfer to a savings account.

The response from the membership to the introduction of current accounts has been very positive. One member, interviewed about the introduction of the current accounts, related how he only had a post office card account in the past and had not had a bank account for years. For him, the credit union provided easy access to cash and a convenient way to save and borrow. *"I was impressed that they (the credit union) took me as a customer. I got a £300 loan as well as the account. They trusted me and I trust them, but I don't trust banks"*. In interview, a group of four women in Bermondsey, all of whom had only had post office card accounts, basic bank accounts or the credit union's benefit direct account in the past, stressed how important the new current accounts were for them. Those with bank accounts in the past had all had difficulties with high penalty charges, which made a significant impact on a low income. For the group, the credit union current account was welcomed because it did not allow them to go overdrawn, offered somewhere to pay money into and importantly, because it gave them access to cash and a way to pay for goods in shops. Significantly, it was seen as giving them greater control over their finances and offering them safety as they did not have to carry cash around as before. None of the four women objected to the weekly charge on the account, as they were reassured that, if they went overdrawn by accident, any penalty would be low and their contact person in the credit union would do all that she could to help.



James Plaskitt MP, Parliamentary Under Secretary for the Department of Work and Pensions, and John Cray, Financial Inclusion Policy Manager, DWP at the credit union in November 2006.

Prioritising saving

The move to developing a pathway to financial inclusion, rather than prioritising lending, has also led SCU to put an increasing focus on encouraging low income members to save. Analysis of the Benefit Direct Account, compared, for example, with the Post Office Card Account, demonstrated that it enabled members to retain as much as 9% of their benefit as savings in the credit union. The accumulation of savings is recognised as directly contributing to moving people out of poverty, both economically and psychologically (Sherraden 1991, Regan and Paxton 2001, Kempson, McKay and Collard 2005). Having savings changes the way people feel about themselves and enables them to be more open about the way they use financial services in the future. It is for this reason that Southwark has emphasised its range of savings products including Christmas and holiday savings accounts, designed with low income members in mind.

Importance of money and debt advice

In addition to financial products and services, Southwark also recognised that money and debt advice were central to any approach to tackling financial exclusion. This is a reality stressed by Citizens Advice, and by Government (HMT 2007), that has urged credit unions to *"work constructively with money advice agencies who are helping people deal with multiple debt problems"* (CA 2001). For some time, the credit union realised that a new approach was required if the increasing number of overindebted people coming to the credit union for help or loans were to be assisted. Unable to help the overindebted with further credit, the credit union needed immediate and regular access to money and debt advice. It approached Blackfriars Advice Centre (BAC), and later the Twinpier Debt Counselling Service, to form, as a partnership, the SCU Money Advice Project. This ran from November 05 to November 06 and was supported financially by Barclays. The overall aim of the three partners was to develop a holistic and strategic financial service for the people of Southwark by linking together access to affordable financial services and the provision of money advice and debt counselling. It enabled SCU to secure a guaranteed number of designated money advice appointments at BAC, which would enable people from the credit union to be seen swiftly and in time to deal with their debt problems. It would also ensure that Twinpier, with whom the credit union already had a long working relationship, could continue to provide a flexible out of hours telephone advice service to those who could not attend a BAC face-to-face appointment or who preferred to use the telephone. The project employed a part-time debt support worker to develop the partnership and to provide an outreach service at the Blackfriars Advice Centre and other community locations, where she provided information to those interested in joining the credit union. The money advice project was the subject of a research project, commissioned by the Friends Provident Foundation, that generated key findings to support the development of partnership working between advice agencies and credit unions nationally (Jones 2007).



Children receive certificate for saving.

Financial inclusion fund – the Growth Fund

The strengthening of the credit union movement, and the development of quality credit unions such as Southwark, has resulted in a resurgence of confidence by Government in the potential of credit unions to achieve financial inclusion within low income communities (see HCTC, 2006 a and b). In October 2005, HM Treasury announced a £120 million Financial Inclusion Fund which included a £36 million Growth Fund for credit unions and other third sector lenders. The purpose of this fund was to expand lending in low income communities and to enable financial excluded borrowers to migrate from sub-prime loan companies into credit union or other third sector membership. 88 credit unions and 12 community development finance initiatives were selected to deliver the Growth Fund and Southwark was awarded one of the highest allocations of funding in the country. The Growth Fund has been a major challenge for Southwark, as for many other credit unions, as it has involved the credit union reaching out to some of the most vulnerable and deeply excluded groups of consumers in the country. It has made demands on policies and processes and even led to the raising of the interest rate on some loans to 18% APR to cover bad debts and increased administration costs. However, the Growth Fund has enabled Southwark to make a real difference in providing affordable credit and accessible savings products to many more low income consumers. As at Sep 2007, SCU had allocated 2475 Growth Fund loans, which are calculated to have saved borrowers £664,476 (from July 06 to Sept 07) on loans they would have otherwise

have taken out with high cost alternative credit providers. This sum has been retained in the community and, most probably spent in local shops contributing to the economic regeneration of the area. Significantly for Southwark, the Growth Fund capital funding will remain with the credit union indefinitely, so long as the credit union continues to use it to serve the financially excluded.

Over the years, the move to prioritising work with the financially excluded has changed the way Southwark operates, its membership composition and its staffing structure. Southwark now employs, for example, more outreach workers than any other group of staff. From two outreach workers in 2003, it has nine today and, until recently, had 16. In 2005, it employed its first Business Development Manager, Tina Barnes, in order to generate funding and organise the rapidly expanding outreach function into some of the hardest to reach estates. A dilemma for any credit union is dependence on external funding, which, as Southwark experiences, is essential to develop effective outreach work among hard to reach and high risk groups. All members of Southwark's outreach teams were funded through external project work. As Tina noted at the time, *"If the credit union did not have the money from the projects to do the outreach work, then we wouldn't be doing what we are currently doing. Funding allows the credit union to work more strategically. It influences the way the work is done and what products and services are offered"*. To some, a dependence on external funding for financial inclusion project work would be inadvisable, but for Southwark it remains a prerequisite of operating effectively in the low income market. It is only with a greater membership and greater operating efficiency that this dependency can reduce in the future.



Brian Pomeroy, CBE - Chairman of the Financial Inclusion Task Force, speaking at credit union current account launch.

However, outreach into the community is already paying dividends in membership recruitment. More members are now recruited from the community than from payroll deduction (employee) organisations, which is a significant change in the profile of the credit union. From October 2006 to September 2007, the credit union recruited 2437 members from community groups and only 164 employees through payroll deduction. This is a ratio of 14:1 in favour of community recruited members. This, itself puts a strain on the physical and human resources of the credit union as it endeavours to maintain a quality personal service to the increasing number of members who look for personal and one-to-one contact with staff members in a building that has long-since outgrown its capacity. The challenge for Southwark will be to balance its development in the low income market, whilst retaining and expanding its middle income, employee membership that undoubtedly brings both stability and income to the organisation.

**Message from Rt Hon John McFall MP,
The Chairman of Treasury Select Committee, House of Commons**

Through the Treasury Committee's work, I have seen first hand the vital role that Credit Unions play in promoting financial inclusion. Credit unions provide people with opportunities to save, to access affordable credit and to obtain budgeting advice. Credit unions have a unique ability to reach communities that other financial institutions cannot reach.

Credit unions have worked hard to enhance their sustainability, broadening the range of services they offer and the range of customers they attract. A step change is needed in the work credit unions can do to attract depositors and lenders. As a legislator, I will do all I can to press for early legislation to revise the outdated Credit Union Act and give credit unions, including Southwark Credit Union, more freedom to grow and flourish.

I support the work done by the credit union industry and Southwark Credit Union's active involvement in promoting financial inclusion. I wish Southwark Credit Union all the best in its future endeavours.

A handwritten signature in black ink that reads 'John McFall'.



From the Parliamentary
Under Secretary of State
for Work and Pensions

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24 October 2007

I have been watching the development of Southwark Credit Union since you became our partner in delivery of the Growth Fund.

From its beginning in 1982, when Southwark Credit Union first began to serve the employees of the London Borough of Southwark, your organisation has become a model for providing the help that financially excluded people need. You now provide an opportunity to all the residents of the borough to save, to obtain affordable loans and insurance and, generally, to understand how to manage their money better.

Earlier this year your Credit Union became one of the first to offer a current account, accessible through the Link ATM system. This offers many benefits to your members, and will clearly help you to develop the balanced membership that is necessary for every credit union to survive.

Working with my Department through the Growth Fund your staff have made over 2000 loans totalling over £1.2 million. This has saved at least £600,000 in interest charges for your financially excluded customers compared to the cost of borrowing from a high cost doorstep lender. This money will have had a positive and lasting effect on the local community and over time must have a positive impact on the local economy.

I note with pleasure the close links you have developed with schools in the area to offer Junior Savers accounts to young people. Links that help to develop financial literacy amongst young people and will help to increase the financial inclusion of future generations.

I send my heartfelt congratulations to you and Southwark Credit Union on reaching this 25 year milestone and wish you continued growth and success in the future.

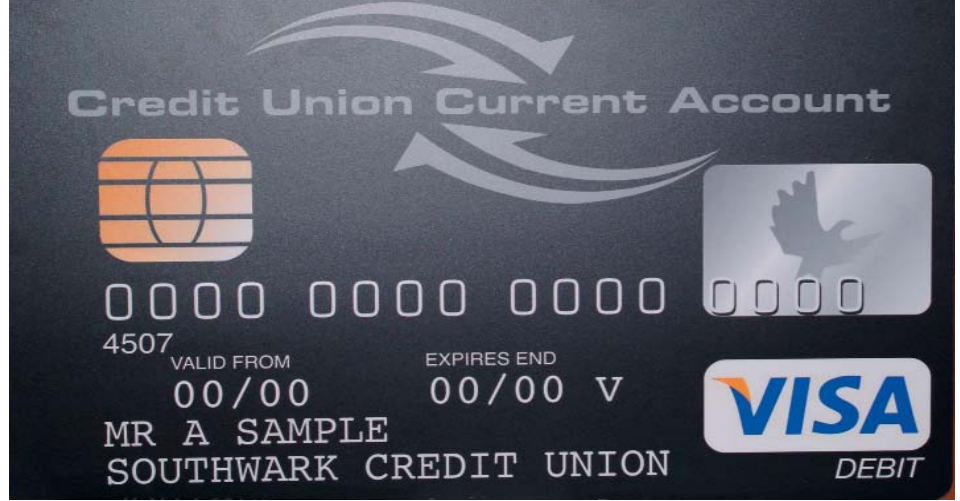
Keep up the good work.

JAMES PLASKITT MP
PARLIAMENTARY UNDER SECRETARY OF STATE

Chapter Nine

25 years of transformation and change, 1982 - 2007

Specimen Credit Union Current Account card.



Over the last 25 years, SCU has faced many challenges and seized multiple opportunities in its quest to transform itself into a professional financial institution with a capacity to deliver quality financial products and services to its members. However, 25 years does not mark the end of the road, SCU still has many miles to travel in its continued endeavour to build a quality organisation and to achieve excellence in the services it offers. Yet, over 25 years much has been achieved. This chapter charts the impact of SCU's transformation and change on growth and illustrates the progress that has been made in building the membership and in growing the savings, loans and assets in the credit union.

Expanding the credit union's reach

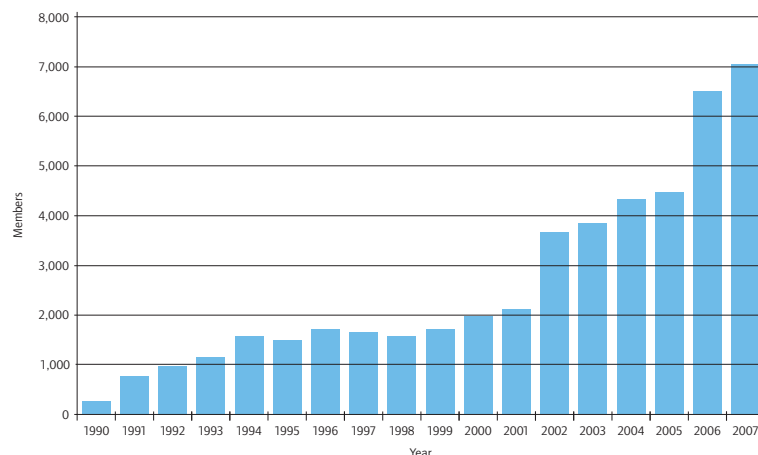
In membership terms, SCU is today, in 2007, the largest credit union with a live or work open common bond in London. In 2006, it was ranked by ABCUL as the twelfth largest credit union nationally in terms of membership. This is a remarkable achievement given the fact that in the 1980s, SCU was less than half of the size (40%) of the average employee credit union. In 1986, when the average employee credit union had 570 members, SCECU only had 230 (Berthoud and Hinton 1989).

Figure 9.1 illustrates the adult membership between 1990 and 2007. There are currently 7,029 members, representing an annual compound average growth rate of 13.9% since 1984. The credit union also has 1,303 young savers under 16 years which brings the total people served to 8,332. However, the pattern of membership growth in SCU has been uneven. The rate of growth between 1990 and 1994, in the SCUDA years, is unparalleled in the credit union's history. Annual growth in the period between 1990 -1994 ranged from 21% to over 100%. This was in spite of the fact that the credit union's common bond was shrinking year on year due to job losses in the council. It was always unlikely that this type of growth could be sustained, given the decline in the council's workforce, and not surprisingly, the pace of growth slowed down after 1995. The credit union registered a decrease in membership in 1997 and 1998.

Since 1999, the credit union has grown year on year, although this growth has not always been stable and has not been at the rate witnessed in the SCUDA years. Several factors explain the pattern of growth since 1999. These are the impact of transfers of engagement from BBCU and

Fig 9.1

SCU Membership Numbers 1990 - 2007



CCU, the delivery of a significant number of community outreach projects, the introduction of new products and services and the introduction of lending policies that allow the credit union to meet the needs of many more people. The number of non-qualifying members currently being retained by the credit union is also increasing.

The timely decision to open, in 1999, the common bond to all who live or work in Southwark also stemmed the decline in the credit union's membership. Growth in the period between 1999 and 2002 was dominated by acquiring members through the transfer of engagements from BBCU and CCU. Although BBCU was a relatively small credit union when it merged with SCU, this was not the case with CCU. CCU had a membership that exceeded that of SCU. This explains the 93% increase in membership recorded in 2002, representing the second highest increase in the credit union's history. Another outcome of transfers from community credit unions was that junior savers joined the credit union for the first time and in 2002, when over 100 junior savers were recorded.

In 2003, SCU embarked on its first outreach project, adopted a new loans policy and introduced Benefit Direct Accounts. In 2004, consequent to these actions, membership increased by 13%. In 2006, when the credit union delivered a record number of outreach projects, 2,053 new members were recruited, which amounted to a 46% increase in membership.

The credit union's outreach programme also targeted young people in schools. Largely due to the School Bank Young Savers Scheme, junior savers grew faster than the adult membership between 2002 and 2007, at an annual average growth rate of 61.66%, compared to a 11.41% growth rate for adults during the same five year period.

The pattern of membership growth in SCU shows that a combination of the delivery of quality products and services and rigorous outreach and marketing strategies are key factors in increasing membership growth in credit unions.

Membership profile

The membership profile of the credit union has changed significantly in recent years, mainly due to common bond changes and the role the credit union has played in working, in partnership with other agencies, to tackle financial exclusion. Recent years have seen much stronger recruitment from community members rather than from the traditional employee groups. As was noted in Chapter Eight, from October 2006 to September 2007, the credit union recruited 2,437 members from community groups and only 164 employees through payroll deduction. Among these community members, there is also an increasing number of low income members, including many on welfare benefits and facing financial exclusion. There are, in 2007, 3,487 members who have welfare benefits paid directly into a Benefit Direct Account and 2,475 Growth Fund loans were made, mostly to new members facing financial exclusion.

Figure 9.2 shows a breakdown of some 2000 recent members in terms of ethnicity based on data collected by the credit union since June 2006. Data on the ethnicity of the entire membership before this date does not currently exist. However, this recent data reveals that the majority of

Fig 9.2

SCU Membership Ethnic Origins

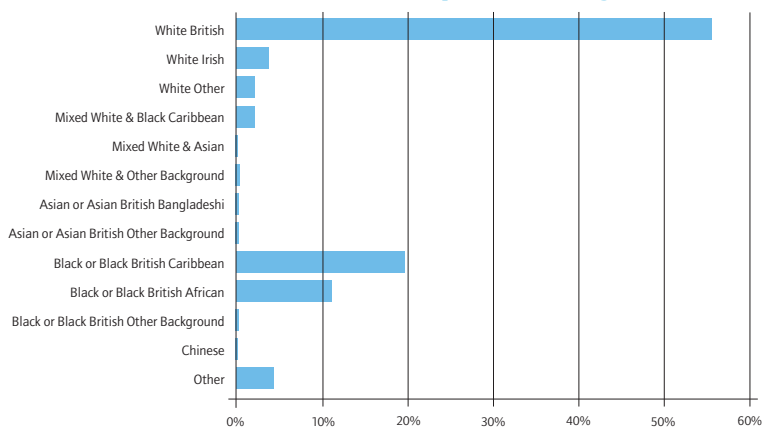
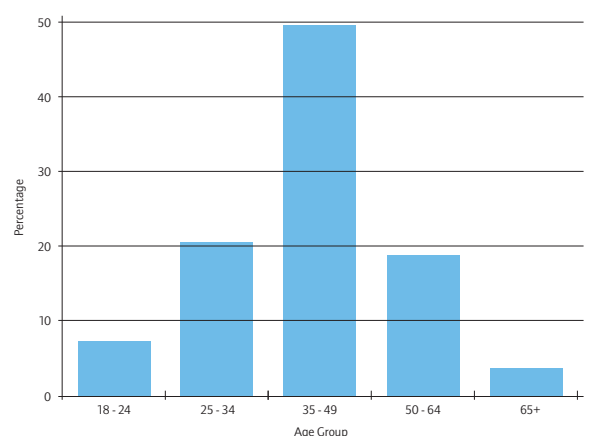


Fig 9.3

SCU Membership over 18 years of age



new members since 2006 are white, accounting for 61.51% of all members recruited since June 2006. Black people form the second largest group accounting for 33.29% of all new members, of which Caribbeans number 65% and Africans 33%. Documentation of the ethnicity of the membership during the SCUDA period indicated that Black and Irish people were the largest group using credit union services in the borough generally (SCUDA calculated that 70% of all credit union members were of Black or other ethnic origins). There is some evidence that recent outreach programmes have raised the awareness of the credit union among the white population, which has resulted in the increasing growth in membership among the white community.

Figure 9.3 reveals that most of the credit union's adult members are between 35 - 49 years of age, which represents nearly 50% of the total adult membership over 18. Young adults, 18 - 34 years, account for 28% of the credit union's membership. The fact that over a quarter of the adult membership is under 35 years of age bodes well for the future of the credit union. Older people over the age of 50 account for more than 22% of the membership.

Young savers become members of the credit union at 16 years of age but cannot become officers or borrow until they are 18 years. Young people under 18 account for 17.42% of the people served by the credit union. The size of this group, which only came into existence five years ago, is attributable to the success of the credit union's school bank project. This is encouraging as it suggests there is potential for the credit union to develop a loyal member base in the future.

Financial Structure - Savings, Loans, Assets

Table 1 tracks changes in key variables over five year periods and illustrates the growth in savings, loans and assets. Figure 9.4 illustrates the growth in savings since 1990. Figures 9.5 and 9.6 show the growth in loans and assets over the same period. Between 1984 and 2007, savings grew at an average annual rate of 19.75% and loans by 19.3%, both being much higher than the membership growth rate for the same period. However, as was the case with membership, the

Table 1. The Changing Profile of Southwark Credit Union

	1987	1992	1997	2002	2007
Membership					
Number of adult members	237	977	1649	4095	7029
% growth		312%	68.78%	148.33%	71.64%
Number of Junior Savers	0	0	0	118	1,303
Total Members and Junior Savers	237	977	1,649	4,213	8,332
Services					
Number of Benefit Account Holders	0	0	0	0	3,487
Number of current account holders	0	0	0	0	950
Number of members using internet banking facility	0	0	0	introduced	708
Financial Structure					
Total Savings	£116,982	£467,999	£1,556,557	£3,124,736	£4,608,978
% increase	60.22*	300.06	232.59	100.74	47.49
Total Loans	£108,517	£422,514	£1,532,681	£2,854,431	4,560,128**
% increase	40.32*	289.35	262.75	86.23	59.75
Total Assets	£126,775	£506,311	£1,863,550	£3,438,511	£6,816,222
% increase	66.95*	299.37	268.06	84.51	98.23
Reserves	£3,938	£22,673	£64,952	£60,104	£1,275,063
Capital asset ratio	3.11	4.48	3.49	1.78	18.70***
Average savings per member	£493	£479	£944	£763	£656

* Percentage increase from 1984

** This includes Growth Fund Loans

*** 2007, Risk adjusted capital ratio (strengthened through Growth Fund capital injection)

SCUDA years saw the strongest consecutive growth in savings, loans and assets. In 1991, savings increased by 57%, loans by 97% and assets by 54%. Although the rates of growth of all three slowed after 1991 these peaked again in 1994, just after the PEACE project was launched which resulted in savings, loans and assets all exceeding £1 million in that year. After 1994, growth though not as strong as in the SCUDA years, remained in double-digit figures for all years up to 1999 except for 1997. This temporary decline in 1997 occurred in a turbulent period, when with the winding down of the SCUDA project, SCECU faced a steep learning curve as it moved out of 221 Rye Lane, which it had shared with SCUDA and CCU, into its own premises on Denmark Hill.

Growth picked up again after 1997 even though the credit union did not have any form of external support, as the SCUDA project had come to an end. In the two years following the transfer of engagements from Camberwell Health Authority Credit Union (Kings CU) in 1997, growth in savings and loans was very strong, fuelling the credit union's progress to another milestone as savings, loans and assets all passed the £2 million mark in 1999.

The beginning of the new millennium saw a decline in the rate of the credit union's growth, to single digit figures, with loan growth slowing the most and even decreasing marginally in 2001.

Fig 9.4

Savings Deposits of Southwark Credit Union Ltd

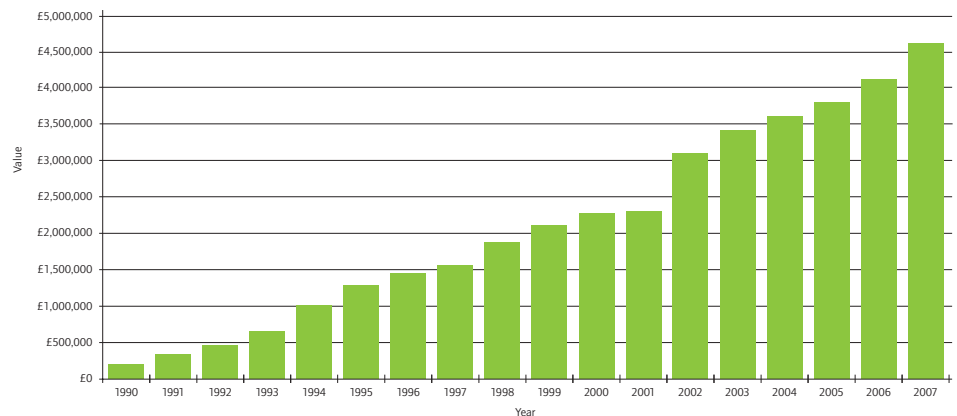


Fig 9.5

Loans of Southwark Credit Union Ltd

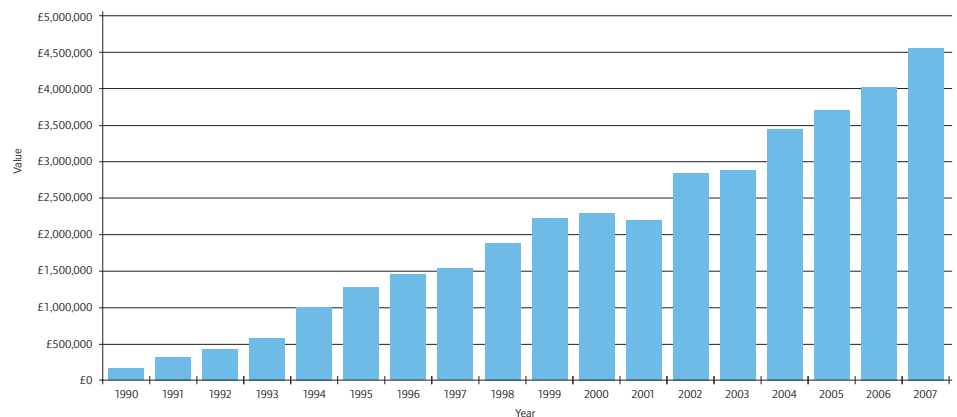
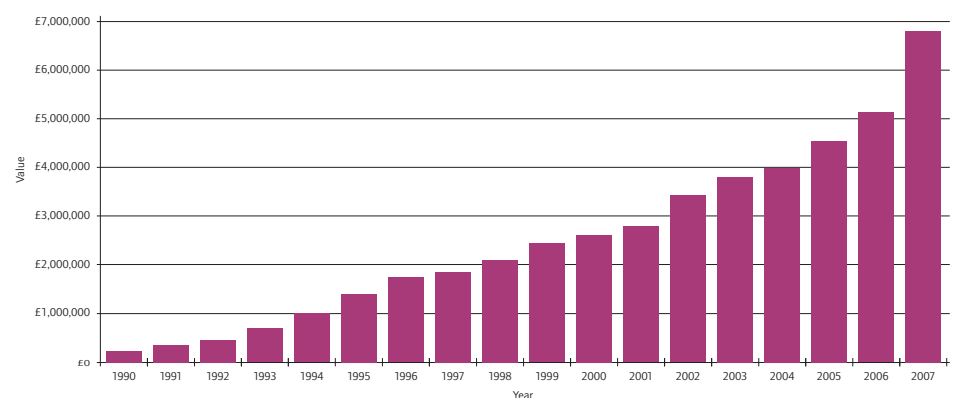


Fig 9.6

Assets of Southwark Credit Union Ltd



However, savings and assets continued to increase with the first transfer of engagements from a community credit union, BBCU, contributing to the 8% increase in savings in 2000. Again as the credit union went through a period of adjustment, savings remained relatively stable whilst loans fell by 3.35% from the previous year.

In 2002 with the transfer of engagements from Camberwell Credit Union, savings received an exceptional boost with an increase of 35%. Unlike membership and loans, the level of savings in SCU has never declined. Albeit at a variable rate, members' savings have increased every year since the credit union was established.

Savings mobilisation is a key determinant of sustainability. The level of savings growth indicates the willingness and ability of members to save and of the attractiveness of saving with the credit union. Today, the level of savings stands at £4.6 million, with savings increasing by 11.75% in 2007. In the last 4 years, the annual rate of growth in savings has increased steadily. These recent growth rates reflect, in part, the introduction of new savings products such as Benefit Direct Accounts, an increasing number of young savers and the results of outreach efforts which have broadened the credit union's appeal and its ability to meet the needs of a wider membership.



Sharing PEARLS with other credit union.

Growth in savings drives growth in loans and assets. Loan growth reflects the credit union's success in attracting borrowers and in providing a source of low cost credit to the membership it serves. Although the compound annual growth rate in loans since 1984 of 19.3%, has lagged behind the savings equivalent, it is much stronger than the rate of growth in membership. These figures indicate that even though membership growth may have stagnated at certain times in the credit union's history, the credit union has generally maintained a vibrant and viable level of activity in terms of lending. Although as in the case of savings, the rate of growth was strongest in 1991, in excess of 96%, the pattern of loan growth cannot be directly compared to that of savings growth as they are affected by different factors. While the percentage increase in savings exceeded that in loans in the period between 1987 - 1992, this trend was reversed in the following five year period when the growth in loans was much stronger, probably due to the intensive marketing efforts of SCUDA. Table 1 shows that between 1984 and 1987, the growth in loans lagged behind the growth in savings by approximately 20%. When loans are not growing as quickly as savings in a credit union, this could result in high liquidity and low earnings. This margin has considerably reduced since the days of SCUDA, when this trend reversed between 1992 and 1997 as the demand for loans grew.

Since 1992, even though loan growth has sometimes remained static or even declined from one year to the next as in 2001, the demand for loans has generally kept pace with the growth in savings. Since 2002, the growth in loans has been stronger than the growth in savings, with loans recording a 57% increase and savings an increase of 47.49% over this period. The significant growth in loans in 2007 is due, in part, to the delivery of the Financial Inclusion Growth Fund.

Figure 9.6 shows the credit union's assets between 1990 and 2007. Today's asset value of £6.8 million exceeds the board's goal, set in 2003, to increase assets to £6m by October 2007. Since 1984, the credit union's assets have grown at a compound annual average growth rate of 21.6% which exceeds the growth rate of both of savings and loans. Over the 25 year period, the level of assets has grown year on year, and the rate of asset growth, which has been above inflation, has not been as variable as the change in savings and loans. Assets clearly experienced strong consecutive growth during the SCUDA period and up to 1996, when the Denmark Hill property, which the credit union has wholly owned since 2000, was purchased. In 1991 and again in 1994, the credit union recorded annual growth in assets of 54% and 53% respectively, reflecting not just loan growth but investments in assets as well. In the period between 1996 and 2001 the growth rate declined, averaging about 7% annually in three of the five years, except in years when an inflow of assets from other credit unions with whom SCU had merged led to higher growth. Following the merger with CCU in 2001, SCU recorded a 24% increase in assets. Between 2005 and 2007, SCU's assets have increased by 98.2%. Strong loan growth and further acquisition of assets aside, a significant increase in the value of the Denmark Hill premises has contributed to the asset growth that SCU has enjoyed in recent years. In 2006/7 alone, assets increased by 33% largely due to the Growth Fund.

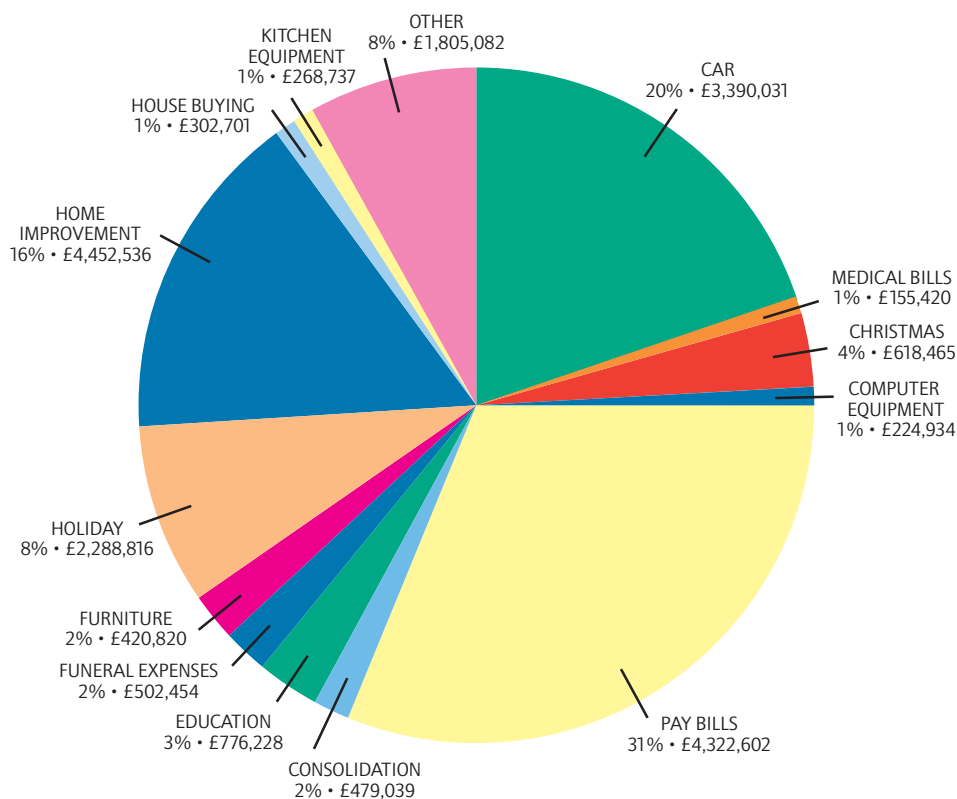
Members' use of credit

Figure 9.7 shows the total amount borrowed in the period between 2002 and 2007 and the various purposes of the loans granted to members. In the early days of SCECU, credit was extended for a limited number of purposes, mostly for meeting emergency expenditure caused by sickness or death and for bill payments. For example, most loans in 1985 were for small amounts, with 171 out of 279 loans being for sums of between £100 and £250 and 86 for sums between £251 and £500. Although loans were also extended for travel, furniture and home improvement, these were not in the majority. However, the reasons for using credit union loans has widened considerably over the years, indicating that the credit union may provide an additional as opposed to an alternative source of credit for many people.

Figure 9.7 also shows that of the 20,603 loans granted in the period, 2002 - 2007, borrowing to pay bills still accounts for close to a third of all loans made, with car loans in second place accounting for 20% of loans granted. Together these two purposes account for over half of all the loans made in the credit union. Home improvements and holidays together make 24% of all loans add up.

In the last five years, the credit union has lent out over £20 million for an increasing number of purposes but with bill payments, home improvement and car loans accounting for 61% of all lending. £8.8 million has been lent to assist people pay bills, which undoubtedly reflects the number of people on low incomes who use the credit union. However, only 2% of lending was for loan consolidation purposes.

Fig 9.7



Conclusion

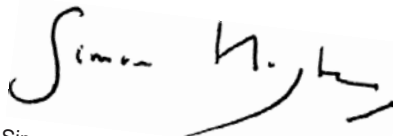
A 25 year analysis of the financial structure of the credit union and its membership growth illustrates the extent of the change that SCU has undergone over the years. SCU is clearly a much stronger financial institution, with a capital ratio now of over 18% and it serves a much wider and more diverse membership than it ever did in the past. As we can see from the changing nature of the loan portfolio, this diverse membership is beginning to make different and perhaps more challenging demands of the credit union as it endeavours to operate in a number of different markets simultaneously.

SCU faces its next 25 years, as do many British credit unions, with the challenge of scaling up its operations to develop the business in an increasingly complex and diverse financial market. In 1982, the credit union's market was limited and contained. SCECU offered a simple savings and loan product in exactly the same way to everyone in council employment. Today, SCU's market is radically different. To respond to this market, it has to expand its organisational capacity, develop the attractiveness of its products and services to different market segments and to strengthen its business model so that it becomes the quality financial organisation people want and expect.

**Message from Simon Hughes MP,
Member of Parliament for North Southwark and Bermondsey**

I have great pleasure in wishing the Southwark Credit Union warm congratulations on their 25 year anniversary. Over the past 25 years the financial inclusion work of the Credit Union has been hugely successful and has benefited the whole of the borough, including many of my constituents.

On behalf of all the community, I sincerely thank everyone involved in the organisation for their dedication and commitment to helping Southwark residents. My constituents and I greatly appreciate how much excellent, innovative and really valuable work has been done over the past 25 years and we wish you all the very best for the next 25 years.



Simon Hughes MP,
Member of Parliament for North Southwark and Bermondsey

Chapter Ten

Building the credit union business



SCU has grown into one of the most vibrant and professional community credit unions in Britain. Its membership exceeds 7,000 adults, it has over 1,300 junior savers and has assets exceeding £6.8 million. The credit union offers a range of modern financial products and services to its members and, importantly, takes a lead in serving those on low incomes and in promoting financial inclusion. Its achievements, by both social and financial measures, are impressive. As of September 07, for example, SCU had granted £1.2 million in Growth Fund

loans and £1.3 million in benefit direct account loans, all to low income members. If these members had borrowed from home credit companies, often one of the few choices otherwise available to them, they would have paid over £1.6 million pounds in additional interest payments, over and above the interest they paid to the credit union. This £1.6 million, potentially saved on interest charges by members, would in part have been saved or spent within the local economy.

However, as this research study illustrates, building the credit union business over 25 years has not been easy. It has taken many years of commitment and hard work by directors, staff members and volunteers. They have had to recognise and understand that, if the credit union was to achieve its social goals, it had to first attain its economic ones. To do this, the credit union has had to take many difficult decisions, including, on occasion as following the CCU transfer, forgoing the payment of dividend on savings in order to build reserves and the financial strength of the credit union.

The process of development of SCU has mirrored that of many British credit unions. SCU began as a traditional, volunteer-run, small financial co-operative that, given the development models current at the time and the legislation of the period, would always struggle to grow. But the vision of growth pushed people forward, and with the introduction of stronger business and marketing models in the SCUDA period and the support of the church and the local authority, the credit union, against the odds, more than trebled its membership in a three year period. The transfers of credit unions into SCU membership and the opening of the common bond in the period 1997 - 2001 enabled the credit union to consolidate growth and build for the future. It was the same vision of growth that led the board and staff to promote SCU's next, and major, leap forward in the adoption of new model methodology and the PEARLS financial monitoring system. In recent years, credit union vision and growth has led to SCU becoming a major player in the delivery of the Financial Inclusion Fund Growth Fund, an action that has both increased capital reserves and fuelled expansion.

Learning lessons from the SCU story

The story of the history and development of SCU offers many lessons for other credit unions, perhaps at a different stage of development, that are endeavouring to achieve financial and organisational stability in order to serve a growing and diverse membership. The key lesson emerging from the SCU story is that growth and financial stability depend on a number of key factors that can be identified and replicated elsewhere. The key factors that have stimulated growth in SCU include on the following:-

- **A vision and desire for growth**

Growth is dependent on leaders who have the vision and the desire to drive change forward. Where SCU has seen real success has been when the board of directors, together with

management, has recognised the urgency of bringing about change and understood the tactics of making that change happen. This vision for change was particularly seen in the SCUDA period, in the opening the common bond and in accepting three struggling credit unions into membership and, more recently, in driving forward the modernisation of the credit union on the basis of PEARLS and new model methodology.

- **Good governance**

The SCU story has highlighted active board involvement as a critical factor in the development and modernisation of credit unions. SCU moved significantly forward, for example, when the board was reformed in 1992. The new board, with skills and competencies in financial, organisational and strategic management, were able to improve decision-making and the taking of effective action

SCU recognises the importance of a strategic approach to board development if directors are to carry out their decision-making responsibilities effectively. This involves enhancing the skills of the board and board members, ensuring clarity in director and staff roles and responsibilities, developing board and CEO relations, supporting the introduction of ABCUL's code of credit union governance and building a strong team approach to development. SCU has a small but effective board of six, soon to be seven, people in order to ensure maximum participation and effective decision making.

- **Effective strategic management**

SCU's success has depended on using a formal strategic planning process to position the credit union competitively in the market and on having defined strategies for membership and asset growth. SCU's strategic objectives are contained in its business and action plan, which are regularly revisited and redefined in the light of experience.

Strategic decisions have led to such actions as participation in PEARLS, the modernisation of lending policies, the promotion of new savings accounts, the introduction of the current accounts and new online information technology systems.

- **A sustainable business model**

Running through the SCU story has been the challenge of bringing together a business and commercial perspective and traditional credit union values and principles. SCU's model of development has become increasingly business oriented over the years. SCU's success, however, confirms that business perspectives and credit union principles are wholly consistent and compatible. In fact, not only are they compatible, credit union principles of member service and social goals are unobtainable without a good understanding of business and commercial practice. In its marketing strategies, for example, SCU has been able to reach out into the community and research the financial products that people really want and then change policies and procedures to deliver them. This business approach does not undermine credit union objectives, on the contrary it strengthens them.

- **Operational management - modernising processes and procedures**

Developing credit unions as effective financial institutions depends on modernising processes and procedures in order that products and services are perceived as high quality within the market place.

SCU has learnt to present a professional image and to modernise business practices, systems policies and procedures. It now has three professional branches, has introduced electronic transaction accounts and telephone and online enquiry systems. Overall, it has developed more formal approaches to management, teamwork and staff relations. Its introduction of a departmental structure was specifically designed to improve organisational efficiency.

SCU was twice given an Investors in People award for quality in staff management.

- **Quality products and services**

It has been a key learning experience for SCU that effective marketing depends on offering quality products and services that meet or exceed members' expectations. Delivering on the implications of the link between marketing and the availability of products and services for different segments of the market is a continual challenge for SCU directors and staff.

- **Financial discipline**

SCU has demonstrated that long-term sustainability entails a rigorous adherence to financial disciplines in order to generate sufficient income to cover operating expenses and to build capital and loan loss reserves. For SCU, such disciplines include meeting prudential standards, attaining operating efficiency, loan pricing and paying dividends on savings. In order to ensure financial strength, the board decided to increase interest rates on higher risk growth fund loans. Paying dividends on savings has not always been easy and sometimes financial prudence has meant that these have had to be forgone to build capital reserves. Paying dividends remains, however, a priority for SCU.

SCU has been assisted by using the PEARLS financial ratio analysis management tool which has enabled them to assess their performance much more effectively. Using PEARLS, management decisions are now made based on the observation of key performance indicators.

- **Savings mobilisation**

An understanding of the pathway to financial inclusion for many on low incomes has led SCU to put an increasing focus on encouraging low income members to save. Focusing primarily on lending is like putting the cart before the horse. SCU now argues that it is building savings that more directly contributes to moving people out of poverty, both economically and psychologically. Accumulating savings, even small savings, results in a range of positive effects which include planning for the future, health and well-being and increased participation in the community. Having savings changes the way people feel about themselves and enables them to be more open about the way they use financial services in the future. It is for this reason that SCU has introduced a range of savings products including Christmas and holiday savings accounts, aimed at low income members.

But, and this is an important point, savings mobilisation is not targeted at low income members alone. Far from it, promoting savings is a key strategic goal that permeates SCU's activity equally within the more moderate and higher income market. It is, for this reason, that the payment of dividend is a key SCU objective.

- **The power of partnerships**

Since its move into the community, SCU has become increasingly aware of the importance of developing strategic alliances and partnerships with public, private and voluntary sector bodies. Its partnership with the local authority, Southwark Council, has been, in many instances over the years, crucial to the credit union development. On occasion, it has been essential to its survival.

Partnerships with housing associations, advice agencies and community organisations have been particularly important. Through links and connections with a range of agencies and organisations, SCU has been able to permeate a range of social and community networks and access people who otherwise would have remained unaware of the credit union's existence and of the benefits it could bring to them (cf. Barnes and Jones 2005).

- **Appropriate investment**

SCU has managed a range of external subsidies and grants, from the local authority, from government, from charitable trusts, from banks and others. SCU has endeavoured to ensure that external investment was appropriate and promoted, rather than compromised, entrepreneurship and business development. External subsidies and investment can lead, if inappropriate, to dependency and can even direct credit unions away from developing their core business and institutional strength. This has not happened at SCU. Even in the SCUDA period,

when the credit union was heavily dependent on an external agency, the aim was always for autonomous self-development. SCUDA closed in favour of credit union independence.

In recent years, external investment has been experienced very differently with the management of the Growth Fund. Here, SCU has had to deliver on contract a service agreed with the Department of Work and Pensions. The result has been not only over £1 million delivered in small loans to low income borrowers but a significant financial strengthening of the organisation.

Future challenges

After 25 years, SCU has achieved much on its journey of transformation but much has yet to be achieved in the future. Becoming a quality credit union is a long-term project dependent on constant organisational learning, change and development. There will be always challenges to be surmounted. SCU is still facing the challenge of the transition from being an employee based credit union to becoming a community financial organisation, able to serve all sections of the market equally. Balancing products and services for low, moderate and higher income members is not easy but is a financial and organisational reality that the board and management constantly have to face. Ensuring that its new products, such as the current accounts, are taken up by large numbers of people is central to product sustainability.

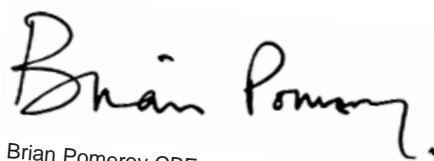
SCU has to face the challenge of increasing its penetration within the borough of Southwark. Over 7,000 members is a remarkable achievement but there are over 200,000 people living in the borough. SCU estimates that, within the low income community, its penetration is around 8.7% (it is estimated that there are 40,000 financially excluded residents, 3,487 of these use Benefit Direct Accounts). This means that 92% of people on low incomes, many facing financial exclusion, are still not accessing the services of the credit union.

Growth has also put a strain on the credit union's head office premises. Board and management now face the challenge of seeking new premises at a price they can afford within London. It was not easy to find Denmark Hill. It will be even harder to find new, modern offices given the high costs of the London property market.

Currently ABCUL, with the support of Barclays and the Department of Work and Pensions, is promoting a major project to scale up the entire credit union sector. SCU is in need of its own scaling up if it is going to achieve greater market penetration and impact within London. SCU still needs enabling legislation and proportionate regulation and, so, proposals for the reform of legislation and regulation are key issues for SCU. It still must prioritise sound governance and strong management and increasingly develop quality products and services if it is to succeed in a competitive financial market. SCU also needs increasing appropriate investment, perhaps to come from organisational deposits and long-term loans, if it is to continue to build the business and to grow into the credit union that Paddy Bailey, of WOCCU, said it could become back in 1982.

Message from Brian Pomeroy CBE, Chairman of Financial Inclusion Taskforce

"I welcome this report on the history of Southwark credit union. The adaptability of its staff and management, and their dedication to tackling financial exclusion in Southwark offer a good example to all third sector lenders. I hope that over the coming months and years many other credit unions will reach this standard, building on the success of the Government's Growth Fund."



Brian Pomeroy CBE, Chairman of Financial Inclusion Taskforce

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Appendices

Reflections of some early members on the 25th anniversary

As part of the research for this publication, some of SCU's oldest members were interviewed and asked to reflect on their experience of being a member of the credit union. These are some of their comments:-

"I had never saved before. I treated it [payroll deduction] like a tax and was able to save".

"When the credit union started we were paid in cash, you gave the packet to the wife and saved nothing, As soon as her indoors got her hand on it that was it.... It was very much like a Christmas Club but only better [because] with the credit union you did not have to take it all out at end and start again [plus] you could borrow whenever you wanted to".

"I could not have survived financially without the credit union. It helped me to bring up my three children. I never borrowed a lot of money, only small loans but I was never able to get a loan from a bank. Also I liked the ethical principles".

"It agrees with my principles about money. I think the ethical principles are really important and the opportunity to borrow money at a low interest. Its more like a coop – members are involved".

"The key to it was having money stopped at source".

"The trouble with Southwark was [that] it was so big – the Works Department didn't know the Treasury Department. There were posters all around the council and my rep [trade union] came to talk to us about it".

"It has grown very big. I got a letter in the post from them the other day. Its becoming very difficult to borrow money. If you need to borrow money now [from the credit union] you need to produce a bank account and all types of documents. There are more requirements for borrowing and we are just ordinary people".

"I find them really friendly, really helpful".

Historical highlights

1982	<p>The inaugural meeting to establish the credit union project held on 18th February 1982.</p> <p>The first meeting of the organising committee held on 17th March 1982.</p> <p>The Southwark Council Employees Credit Union (SCECU) registered on 29th November 1982. The credit union became a member of The Credit Union League of Great Britain (CULGB) (later to become ABCUL in 1983) on the same date.</p>
1983	<p>The first annual general meeting held on 28th July 1983.</p>
1985	<p>SCECU opens its first office in Gate House at Southwark Council's Neckinger Depot in Spa Road.</p> <p>Catherine Dempsey becomes SCECU's first employee.</p> <p>Barbara Wellington joins SCECU as administrator from ABC Credit Union in Australia.</p> <p>The credit union had 299 members.</p>
1987	<p>The credit union paid its first dividend of 1.5%</p>
1989	<p>Southwark Credit Union Development Agency (SCUDA), funded by Southwark Council, the Church Urban Fund and the Department of the Environment, established in July 1989 and launched on 18th September 1989.</p> <p>SCUDA and SCECU in offices in the same Neckinger Depot building in Spa Road.</p>
1991	<p>SCECU reached 769 members.</p>
1993	<p>The PEACE project is launched by Tessa Jowell, MP for Dulwich, on 14th June 1993 at 221 Rye Lane.</p> <p>SCECU employs two members of staff, Lakshman Chandrasekera (Lucky) and Jacqui Burlace.</p> <p>SCECU becomes the first industrial credit union in Britain to move into high street premises.</p> <p>Membership exceeds the 1000 member mark as the credit union records 1187 members.</p>
1994	<p>Savings, loans and assets all exceed £1 million and membership reaches 1,571.</p> <p>SCECU takes over management of the Council's Hardship Fund.</p>
1996	<p>SCECU purchases its own premises at 79 Denmark Hill, officially opened by the Deputy Mayor of Southwark on 11th July 1996.</p>
1997	<p>Amalgamation between SCECU and Camberwell Health Authority Credit Union, commonly known as Kings Credit Union on 1st October 1997.</p> <p>SCECU is renamed Southwark and Kings Employees Credit Union (SKECU).</p> <p>A 24 hour remote telephone enquiry banking service introduced.</p>
1999	<p>SKECU's common bond changes to a live or work common bond on 23rd September 1999.</p> <p>The credit union changes its name to Southwark Credit Union (SCU) with effect from 1st October 1999.</p> <p>Savings, loans and assets all exceed the £2 million mark.</p>
2000	<p>Amalgamation between SCU and Borough and Bermondsey Credit Union is completed in February 2000.</p> <p>A second branch of SCU is established at 18 Pilgrimage Street.</p>
2001	<p>Following financial difficulties at Camberwell Credit Union, Southwark Credit Union accepts a transfer of engagements on 4th October 2001. Camberwell members become SCU members and nobody loses out financially.</p> <p>A third branch of SCU is established at 221 Rye Lane (the old CCU office).</p> <p>Membership exceeds 2000 at 2116.</p>
2002	<p>The credit union comes under the Financial Services Authority regulatory regime on 2nd July 2002 and is also covered by the Financial Services Compensation Scheme.</p> <p>Savings and assets exceed the £ 3 million mark.</p> <p>Adult membership exceeds 3000 at 3675 and the first juvenile accounts are opened.</p> <p>SCU is one of 9 credit unions that take part in the PEARLS pilot scheme.</p> <p>Internet enquiry line introduced.</p>
2003	<p>SCU embarks on its first community outreach project.</p> <p>Benefit Direct Accounts introduced.</p>
2004	<p>School Bank – a Young Savers' Account Scheme is rolled out in 10 schools in the borough.</p> <p>Adult Membership exceeds 4000 at 4329; Junior Savers exceeds 1000.</p>
2005	<p>SCU develops community outreach projects through working in partnership with Southwark Council, Sure Start, Blackfriars Money Advice Centre and employment agencies.</p>
2006	<p>SCU signs the Department of Work and Pensions contract to deliver the Financial Inclusion Fund Growth Fund loans.</p>
2007	<p>The credit union current account launched on February 2007.</p> <p>Adult membership exceeds 7,000 with assets exceeding £ 6.8 million.</p>

Southwark Credit Union firsts

1982	First employee credit union to offer deductions at source
1985	First credit union to employ paid staff
1995	First high street shop for members of an industrial credit union in mainland Britain established at 221 Rye Lane – shared by Camberwell Credit Union, SCUDA and SECU
1996	First industrial credit union in the UK to buy its own premises
1996	First credit union to offer 24 hour telephone banking
1999	First credit union to get a live or work common bond for the whole borough
2006	The first credit union in Britain to sign the Department of Works and Pensions (DWP) Contract to deliver Growth Fund loans to the economically disadvantaged.
2007	The first credit union in London to offer credit union current accounts

Southwark Credit Union Presidents

1982	Don Sinclair	1995	Richard Blackmore
1983	Don Sinclair	1996	Richard Blackmore
1984	J Michael Franklin	1997	Richard Blackmore
1985	J. Michael Franklin	1998	Horace Edwards
1986	J Michael Franklin	1999	Horace Edwards
1987	J. Michael Franklin	2000	Horace Edwards
1988	Ian G. Williams	2001	Horace Edwards
1989	Ian G Williams	2002	Horace Edwards
1990	Steve Provins	2003	Horace Edwards
1991	Richard Blackmore	2004	Horace Edwards
1992	Richard Blackmore	2005	Horace Edwards
1993	Richard Blackmore	2006	Ann Brewster
1994	Richard Blackmore	2007	Ann Brewster

Administrators, managers and CEO at Southwark Credit Union

Date	Post holder	Role	Employed by
1982 -83	Volunteers		
1985	Cathy Demspey	Administrator – part time	SCECU
1985 - 88	Barbara Wellington	Administrator – part time	SCECU
1988 - 89	Carmen McLeod	Administrator – part time	SCECU
1989 - 93	Andrew Simpson and others	Administrator – seconded	SCUDA
1993 - 96	Roy McLeod	Manager – through SCUDA	SCUDA
1993 - 96	Lucky Chandrasekera	Administrator	SCUDA
1996 - 2004	Lucky Chandrasekera	Manager	SCU
2004 - present	Lucky Chandrasekera	CEO	SCU

**Team of Southwark
Credit Union**

Agnieszka Musial	Credit Control Administrator
Agnieszka Skrodzka	Outreach Worker
Alberto Genzardi	Team Leader, Pilgrimage Street
Ania Swieczkowska	Outreach Internship
Asanga Atapattu	Current Account Administrator
Beata Szejna	Credit Union Administrator
Beverly Pottinger	Credit Union Cleaner
Dimitrina Tishinova	Credit Union Administrator
Gena Gale	Credit Union Administrator
Hassan Deerow	Team Leader, Rye Lane
Helen Nicolaides	Loan Administrator
Ines Elssner	Credit Union Administrator
Jean Bishop	Credit Union Supervisor
Jessica Stoeckl	Current Account Internship
Joan Driscoll	Credit Union Manager
Joanna Hersztek	Outreach Worker
Justyna Svilpaite	Outreach Worker
Katarzyna Sochacka	Accounts Assistant
Lakshman Chandrasekera	Chief Executive Officer
Leanne Perry	Credit Union Administrator
Leanne Phillips	Loan Officer
Marthia Lodge	Credit Union Administrator
Matthew Sweetlove	Loan Department Supervisor
Moji Oludairo	Credit Union Administrator
Monica McLoed	Credit Union Administrator
Monika Rok	Credit Union Administrator
Nasmin Begum	Outreach Worker
Sarah Stoschu	Outreach Worker
Shahin Narouei-Nosrati	Current Account Department Supervisor
Tanya Kupperblatt	Outreach Worker
Valery McAvoy	Credit Union Administrator

Current Board of Directors and Staff Members



Back Row from left to right:
Albert Eze, Louis (Roy) McLeod and Tony Anthrobus.

Front Row from left to right:
Joan Drane, Ann Brewster and Karen Michael.



Front Row from left to right:
Leanne Phillips, Matthew Sweetlove, Joan Driscoll, Lucky Chandrasekera, Alberto Genzardi, Shahin Narouei-Nosrati, Hassan Deerow.

Back Row from left to right:
Monica McLeod, Tanya Kupperblatt, Gena Gale, Agnieszka Musial, Asanga Atapattu, Helen Nicolaides, Beata Szejna, Justyna Svilpaite, Ines Elssner, Monika Rok, Agnieszka Skrodzka, Beverly Pottinger, Joanna Hersztek, Marthia Lodge, Moji Oludairo, Dimitrina Tishinova.

Notes

O. Sallyanne Decker and Paul A. Jones
Research Unit for Financial Inclusion
Liverpool John Moores University
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