1. Institutions and Finances

Institutions in Northern Ireland

Credit unions were first established in Dublin towards the end of the 1950s. By 1960 a credit union had been established in Northern Ireland, in Derry, and in the same year a League was formed to promote, develop and service credit unions in all Ireland. The movement was supported by the Catholic Church on both sides of the border, and by the mid 1960s there were 300 credit unions. The Dail passed the Credit Union Act to regulate operations in the Republic in 1966. Similar legislation was passed in 1969 in Northern Ireland as a sub-section of the Industrial and Provident Societies Act.

The Irish League of Credit Unions (ILCU) today represents 461 credit unions in both the Republic and Northern Ireland. It acts as the representative body and provides a range of support services to its affiliates. These include a central financial service providing short and long-term loans to affiliated groups; insurance for members and employees; model rules; training publications and courses; stationery and an advice service. It also organises 25 regional groupings or Chapters to give a forum to credit union officers for the exchange of information.

Unions affiliated to the Irish League pay 10 per cent of their income into an insurance scheme, and the profits from this provide the revenue with which the League operates its supporting activities. Its income in 1987 was Ir£1,280,000 (UK£1,160,000). The league employs 27 staff, including five field workers.

Credit unions in Northern Ireland are supervised by the Registry of Friendly Societies in Belfast. The legislation governing their operation has recently been brought into line with that in force in Great

Britain with the Credit Unions (Northern Ireland) Order 1985. It does not differ substantially from that operating in the Republic.

The 564,000 credit union members in the Republic of Ireland represent 30 per cent of the adult population. In Northern Ireland, there are 123,000 members – only 12 per cent of all adults. But almost all credit union members are Catholics, and it is estimated that 29 per cent of Catholics in the North belong to a union. This reflects the activity of the Church in promoting credit unions, and credit unions have, until recently, formed their common bonds almost exclusively within Catholic communities.

There has, however, been a recent growth of interest in credit unions among Protestants in Northern Ireland, and across sectarian boundaries. Several unions have been established, or are in course of formation. Some of these have avoided the all Ireland link with the League by joining the National Federation of Credit Unions based in Great Britain.

Financial structure in Northern Ireland

Membership

Analysis of the 1986 annual returns shows that the smallest credit union in Northern Ireland had only 200 members. The largest had 12,520:

18 had up to 500 members;
42 had between 501 and 1,000 members;
20 had between 1,001 and 2,000 members;
13 had more than 2,000 members.

The average was 1,240 members – four times the size of the average credit union in Great Britain.

The total number of credit union members in Northern Ireland grew from 78,660 in 1976 to 122,860 in 1986. Only a small proportion of this increase occurred through the formation of new unions: nine unions were formed over the period, attracting an average of 330 members each by 1986. But the 90 existing unions increased their membership by half over the ten years (an average of 430 new members each). The growth was across the board: there was no sign that credit unions which were already relatively large in 1976 grew any faster or slower than those starting from a smaller base.

The growth in numbers was the net result of recruitment keeping ahead of wastage over the years. In 1986, for example, 6,690 people in Northern Ireland left their credit union, but 11,790 joined.

Assets

The average Northern Ireland credit union had assets of £532,800 at the end of 1986. This works out at £430 for each member: most unions had between £250 and £500 per member, but five had less than £250 and 17 more than £500. The composition of the average balance sheet is shown in Table 1.1.

Table 1.1 Assets of credit unions in Northern Ireland

	Average per union	Percent of total
Assets		
Loans to members	£428,620	80%
less accumulated provision for bad and doubtful debts	(£12,800)	(2%)
Investments	£41,040	8%
Cash	£34,770	7%
Fixed assets	£30,480	6%
Prepayments	£7,840	1%
Sundry debtors	£2,850	1%
TOTAL	£532,800	100%
Represented by		
Share capital	£454,340	85%
General reserve	£47,850	9%
Unappropriated surplus carried forward	£990	*
Loans due 5+ years	£300	*
Dividends payable	£20,050	4%
Creditors and charges	£2,830	1%
Provision for taxation	£2,000	*
Loans and interest	£1,110	*
Balancing item+	£3,330	1%
TOTAL	£532,800	100%

* = less than 0.5%
+ The balancing item is calculated to ensure that reported assets are all accounted for. It consists of various small items, plus discrepancies in individual unions' accounts.

The great majority of Northern Ireland credit unions' assets were represented by the members' shares built up out of their savings. Credit union legislation sets a general reserve target of 10 per cent of assets, and the figures showed a healthy average of 9 per cent. (There were, however, six credit unions in Northern Ireland whose accounts recorded no general reserve at all; this may have been a mistake in the annual returns.) Most of the assets were in active use in the form of loans to members.

Table 1.2 Assets of Northern Ireland credit unions, by number of members

Number of members	Less than 500	500 to 749	750 to 999	1000 to 1999	2000 or more
Mean assets per member	£370	£410	£420	£390	£470
Principal items as percentage of total					
Due from members	76%	68%	69%	79%	87%
Investments	5%	12%	16%	7%	5%
Cash	11%	13%	10%	5%	4%
Fixed assets	9%	8%	5%	9%	4%
Share capital	84%	84%	84%	84%	87%
General reserve	11%	10%	10%	9%	8%
(No. of unions)	(21)	(27)	(16)	(22)	(13)

Table 1.2 compares the assets of large and relatively small credit unions in Northern Ireland. It is more interesting for the consistency between categories than for any differences of detail. The largest unions commanded considerable assets: those with 2,000 members or more reported an average of nearly £2 million each. They were also rather wealthier in terms of assets per member than the smallest unions, but there was not a very clear link between size and wealth. Nor were there clear variations in the make-up of total assets: the large unions had naturally devoted larger absolute sums to fixed assets like property or furniture, but this had not eaten into a larger proportion of their capital. Nor had the smaller unions been forced to stretch their

resources at the expense of a healthy general reserve. The table shows a stable pattern which does not suggest that the financial structure of credit unions is crucially affected by their size.

Since assets are accumulated from the regular savings of members, one would expect them to grow over time. Although the figures are broadly consistent with this idea, the pattern of growth is not as strong as might have been expected. The nine unions set up within the last ten years averaged £380 of assets per member, compared with £440 per member among the 90 unions already in existence ten years ago. The ten-year-old unions nearly quadrupled their nominal assets in the period 1976 to 1986; but this growth can be explained entirely in terms of an increase in membership and of inflation. Assets per member were £430 in 1976 (at 1986 prices) and £410 in 1981, compared with £430 in 1986.

Income and expenditure

The average Northern Ireland credit union had an income of nearly £60,000 in 1986 – £50 per member. Almost the whole of the income was derived from interest, mostly from the members in return for their loans:

Since credit unions' income is derived almost entirely from their assets, and assets depend mainly on membership, it follows that income was closely related to membership, with a fairly constant income of about £50 per head for all sizes of union.

Table 1.3 Income of credit unions in Northern Ireland

	Average per union	Percent of total
Income		
Interest from loans to members	£50,430	85%
Investment interest	£4,090	7%
Bank interest	£2,410	4%
Bad debts recovered	£1,300	2%
Other income	£1,320	2%
TOTAL	£59,560	100%

About half of the average union's income was spent on running costs of one kind or another; the other half was an operating surplus available for distribution or contribution to reserves (Table 1.4).

Table 1.4 Expenditure of credit unions in Northern Ireland

	Average per union	Percent of total income
Expenditure		
Salaries	£7,780	13%
Loan insurance	£4,250	7%
Accommodation	£2,860	5%
Postage, printing, travel etc	£1,810	3%
Audit and accountancy charges	£1,190	2%
Other management expenses	£2,630	4%
Total management expenses	£20,520	34%
Provision for bad and doubtful debts	£6,380	11%
Taxation	£1,730	3%
Depreciation	£1,700	3%
Other outgoings	£810	1%
TOTAL EXPENDITURE	£31,140	52%
Application of surplus		
Dividend on shares	£19,820	33%
Rebate of loan interest	£760	1%
Transfer to reserve (net)	£7,220	12%
Balancing item+	£620	1%
TOTAL SURPLUS	£28,420	48%
TOTAL INCOME	£59,560	100%

+ The balancing item is calculated to ensure that reported income was all accounted for. It consists of various small allocations of the surplus, and also some discrepancies in individual unions' accounts.

As one would expect, the larger unions tended to hire staff to cope with the volume of business: expenditure per member on salaries therefore increased from £1 per head in the smaller unions to £8 per head in the largest. On the other hand expenditure on accommodation was about £2 per person for both large and small unions.

The dividends paid represented 4.4 per cent of the members' shareholdings.*

6 NI unions paid no dividend in 1986;
14 paid less than 3 per cent;
17 paid 3 per cent;
39 paid 4 per cent
18 paid 5 per cent;
3 paid 6 per cent or more.

There was no systematic variation in the rates of dividend paid by large and small unions. But unions with a high level of assets (more than £450 per head) were able to pay dividends averaging 4.9 per cent; relatively poor unions (up to £350 assets per head) had low dividends averaging 3.0 per cent. This suggests a virtuous/vicious circle: successful unions could offer a higher dividend with which to attract in even more savings; but relatively poor unions could not offer the dividend with which to encourage the investments they needed.

Loans

The analysis of assets showed that the average Northern Ireland credit union had advanced £428,620 to members. That is the amount outstanding at the end of 1986. The amount advanced in the course of the year averaged £374,130 – comparison between the two figures suggests that the average loan was repaid over fourteen months.

The amount loaned in the year was enough to allow each member an advance of £300. In practice, of course, each member did not get one loan: a few may have taken out two or three; many did not have a loan at all in the course of the accounting year. The number of loans issued was 0.73 per member (that is, 73 loans for every hundred members); the average loan was £412. Most Northern Ireland unions were averaging between £300 per loan and £750 per loan, though these averages could conceal a wide range of different sizes within each credit union.

It is interesting, however, to see how unions in different size brackets distributed their money. Table 1.5 shows that those with more

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* These figures are based on the actual amounts paid in dividends as recorded in the accounts, as a percentage of shares held at the end of the year, rather than on the declared dividend rate. '3 per cent' means 'between 3.00 and 3.99 per cent'.

than 1,000 members had rather more available to advance than the smaller unions. But instead of offering their members larger sums, they actually made smaller loans, thus enabling more people to take

Table 1.5 Loans advanced by Northern Ireland credit unions, by number of members

Number of members	Less than 1000	1000 to 1999	2000 or more
Average amount advanced per *member*	£250	£290	£340
Loans per member	0.48	0.63	0.92
Average per *loan*	£520	£460	£370
(No. of unions)	(64)	(22)	(13)

advantage of their service.

Thus the smallest unions were offering relatively few loans – perhaps because of the administrative costs of advancing and collecting them. Northern Ireland credit unions with less than 500 members averaged only 160 loans per year. The larger unions were offering more loans, often for smaller amounts: those with more than 2,000 members averaged 3,910 transactions per year – twice as many every month as the smaller unions' annual total.

The standard rate of interest on loans is 1 per cent per month, which comes to 12.7 per cent per annum compound. The income from interest on loans was 11.8 per cent of the loans due from members at the end of the year. But if the rate of return is adjusted for the change in the amount outstanding in the course of the year, it comes to 12.7 per cent, and it appears that credit unions in Northern Ireland were fully successful in obtaining their intended rate of interest.

Institutions in Great Britain

The first credit union in Great Britain was established in a London suburb in 1964. The numbers grew to 27 in 1974 and 40 in 1977 with a total membership of about 7,500. They had already attracted official interest. The Crowther Committee on consumer credit (1971)1 recognised the difficulties faced by people without bank accounts in obtaining credit at reasonable rates. And it saw the potential of credit unions for filling this gap:

> There is a prima facie case for encouraging the credit union movement and for taking steps to make its existence, its aims and methods widely known in the hope that it may take root here and more credit unions may be formed in Britain.

But before 1979, the legal framework gave credit unions three options, all of which presented obstacles to their development. First, they could register with the Registrar of Friendly Societies under the Industrial and Provident Societies Act. This was designed to regulate small cooperative ventures, but it prohibited lending except on ‘the security of real or personal property’. Its effect was to silt up lending channels. Members were unable to borrow above the level of their own savings, unless another member could be found to guarantee the loan on the security of his or her savings. The level of lending was limited by the number of guarantors who were prepared both to put their own savings at risk and to forego the opportunity to take out a loan themselves.

Second, credit unions could set up as a limited company. This imposed few controls to ensure that members’ savings were properly administered, but a union had to have permanent officials who would be liable for the debt of the company. The registration fees were large in relation to the turnover of these cooperative ventures. None of these requirements were compatible with a voluntary organisation.

A third option was for a credit union to remain unincorporated. This left it in a legal limbo, unable to sue or be sued. Lack of any safeguards or supervision did little to promote confidence among potential members.

The Credit Union Act was introduced in 1979. It followed the pattern set in Northern Ireland by regulating the size of loans and shareholdings, the rate of interest payable on loans and the dividend payable on shares. No member could hold more than £2,000 in shares. The maximum dividend was set at 8 per cent. No more than 1 per cent per month could be charged in interest on loans. A credit union could ask for 60 days notice before shares could be withdrawn.

A group could no longer call itself a credit union nor operate as one unless it was registered with the Registry of Friendly Societies. Qualifying for registration involved demonstrating an appropriate common bond, the usual objects of a credit union and a set of acceptable rules. The Registry was empowered to monitor credit unions by requiring an annual return from each. It could appoint an inspector to investigate the affairs of a credit union or suspend it from accepting savings or making loans. It could cancel a credit union's registration or wind it up by court order.

The underlying aim of the legislation was to protect the interests of the individual consumer – the saver and the borrower. The Registry has placed an increasing emphasis on the nature and viability of the common bond and its own powers to monitor and intervene in groups which appear to be falling short of required standards. It shares with the credit union national organisations an interest in protecting members, but it does not directly sponsor their development.

By the end of 1980, 57 credit unions had registered under the Act. Most were existing credit unions but a few, particularly among the West Indian population, had previously been more informal extended family groups who had clubbed together to save and to give each other loans. These informal loan clubs became illegal under the Act, and they were obliged to organise around an acceptable common bond such as a local club or a postal district.

A further 24 had registered by 1982. But expansion still fell short of the hopes of those who had supported the legislation. Difficulties began to appear. The redefinition of common bonds for initial registration had led to the creation of wide membership fields (for instance the use of postal districts in the London area). The large number of people in these areas did not necessarily feel a strong 'actual' common bond, and this led to increased risks of default on debts. Smaller credit unions now found it a burden to pay the registration fees and this prevented many of them from offering dividends to their members. The need to produce an annual return and the requirement for a professional audit caused problems for smaller community based groups. It was often difficult for the volunteer managers to upgrade their standards to a professional level.

During 1982 the Registry began to investigate inadequate administration and accounting systems in some credit unions who had submitted annual returns late or badly completed. It reported:

> Some credit unions were formed and registered in a spirit of optimism engendered by the provision of a specific statutory framework. Inevitably, in some cases, the euphoria present at the launching of a new enterprise has given way to the more sober

> realisation that the day-to-day responsibility of running the enterprise effectively and prudently involves a great deal of commitment and voluntary effort by individuals. Regrettably, not all of those involved had appreciated the scope and depth of their responsibilities to take care of the funds their members placed with them, or the time necessary to discharge them adequately2.

Between 1983 and 1985, only seven credit unions were started, and six were closed. These difficulties led the Registry to impose some new requirements on credit unions. In particular:

- The completion of a quarterly return (in addition to the annual return) to provide an early warning system for credit unions in difficulties.
- A requirement to provide sufficient information prior to registration to satisfy the Registrar of an adequate basic management capability and a system of control. This was to include assurances as to elected officers' access to training and the likelihood of successors to the present office-holders being found if necessary.

The Registry was also concerned to establish the 'reality' of the proposed common bond:

> Some common bonds, while qualifying in a technical sense, lacked the real community of interest which lies or should lie at the heart of the common bond if it is to fulfil one of its main functions of reducing the risk of financial failure or management collapse3.

In deciding the adequacy of common bonds, the Registry now considers: the cohesiveness of its membership and the extent to which one member is known to the others; the sense of commitment or obligation of the members; the frequency of contact between members; the ability of a member in difficulty with repaying a loan to opt out or walk away; the existence of backing from an employer; the geographical spread of the organisation and the expected significance of the credit union to the organisation or community from which its members are drawn. But the critical test for registration remains whether:

> the particular features of the proposed union (are) such that there is a reasonable expectation that it will be able and willing to safeguard properly the money of members placed with it4.

After the pause in growth between 1982 and 1985, there has been a big increase in the number of credit unions: from 82 at the end of

1985 to 94 in 1986, and a 108 in 1987. Membership had reached 27,000 by the end of 1987. The Registry reports that another 41 unions had been formed by November 1988. But seven older unions had failed during the year. The number of unions at the most recent count was therefore 142 – a growth of 72 per cent over three years. The number of members must have reached about 35,000 by the end of 1988.

Credit unions in Great Britain have to choose which of two umbrella groups they should join. The Association of British Credit Unions (ABCUL, previously the Credit Union League) represents 109 credit unions in England, Scotland and Wales. ABCUL, which is the direct equivalent of the Irish League, is affiliated to the World Council of Credit Unions, backed by the major American association. ABCUL employs ten staff, and its head office has recently been transferred from Lancashire to London. It currently receives a grant of about £260,000 per year from the World Council. In addition local authorities support three of its development workers.

The National Federation of Credit Unions is the smaller group. Until 1986 it had only ten members in Great Britain, plus two recent recruits in Northern Ireland. But the Federation has been successful during the recent expansion in credit union numbers, and now has 27 British members. Its headquarters in Bradford are supported in part by a grant from the local council to cover development work in the area.

The rival organisations trace their histories back to founders who took different positions in the debate between the *instrumental* and the *idealistic* approaches to credit unions, and they retain these differences in emphasis. The Association (ABCUL) favours the *instrumental* view, and focusses on structures, organisation and growth. The Federation (NFCU) takes a more *idealistic* line, and concentrates on community development, self-help and small units.

These differences in philosophy lead to three differences in practice. First, in the organisational structure of individual credit unions. ABCUL member-unions adopt a standard constitution involving a Board of Directors in charge of policy, a Loans Committee responsible for assessing credit applications, and a small Supervisory Committee to ensure that the other two bodies keep within the rules. NFCU member-unions, in contrast, have a single Committee responsible for all aspects of the the credit union's operation. It can be seen that the first style may be overelaborate for a very small credit union, while the second may be insufficiently sophisticated for a very large one.

The second difference between the two groups is in their perception of the role of a national organisation. The National Federation provides a meeting point for its members, a voice in national debates, and support for community groups thinking of setting up a union. This is a low profile organisation, in keeping with the idealistic preference for grass-roots over hierarchy. The Association, in contrast, sees itself as the arm of a worldwide movement aiming to promote the credit union ideal in this country. As well as providing services to members and candidates it actively develops new credit unions through field staff and has established standard systems and training procedures. On a regional level it organises Chapters to facilitate training and the exchange of experiences between union officers. And it has a policing function, with a programme of regular monitoring and inspections to ensure that member-unions meet the legal requirements.

The third important difference between the members of the two organisations is in their view of growth. The Association sees it as important that existing credit unions should build up their membership and their assets to reach a sounder financial footing and take a larger share of the savings and credit market. And it wants to expand the number of new credit unions, not only in order to bring the benefits of membership to a wider population, but also to strengthen the movement as a whole. The aim is to build up a self-sufficient movement, independent of American resources. In view of the difficulties experienced by small credit unions in the early 1980s, and the drain on the Association's own funds, it decided to

> focus resources on those results that create the greatest contribution to its own financial independence and self-sufficiency5.

In practice, this *instrumental* approach meant emphasising large workplace based credit unions in preference to smaller groups in residential communities.

For some years the Association took what many members of the movement considered to be an extreme position on this issue. In the last year or two, however, it has adopted a broader strategy, recognising the need for growth, but not at the expense of existing small community credit unions or newly developing community groups.

The members of the Federation, in contrast, have placed more emphasis on meeting the needs of people suffering economic disadvantage, and see the value of credit unions at least as much in terms of self-help and community development as in providing financial services. The Federation prefers credit unions not to exceed a few hundred members, in order to retain their voluntary style of management and close contact with the membership. Expansion ought to concentrate on the development of new small unions in more communities, rather than on the growth of existing groups. The benefits of voluntary action in fostering the self-help ethos, empowerment and personal development of the individual are seen to outweigh those of increasing business efficiency and the economies of scale which would come from a larger, professionally run organisation.

If the aim of legislation is to protect the individual consumer, then the objectives of umbrella organisations have been to develop and support a self-sufficient, autonomous credit union movement capable of supervising its own membership and providing for all its needs. Yet the strength of the national credit union organisation has a bearing on the extent to which the Registry performs policing and monitoring functions. In Ireland the success of the movement as a whole has fostered the development of a strong and well-resourced League, and the public authorities on both sides of the border have assigned much of the responsibility for routine monitoring to the representative organisation. In Great Britain, on the other hand, under-resourced and split national organisations have not been able to provide sufficient support to affiliated credit unions in difficulties. The Registrar has therefore been much more directly involved in the supervision of individual unions.

In some parts of the country the credit union umbrella groups and/or local authorities have employed development workers to promote and assist credit unions in the area. Many of these initiatives rely on short-term grant aid, and the pattern is therefore subject to fluctuation. There were thirteen at the beginning of 1988, and proposals for several more posts have been put forward in the course of the year.

These development posts have often been set up in partnership between local authorities and the representatives of the existing credit union movement. But they have set up tensions which reflect some of the problems in the American movement described in the Introduction. Credit unions have an appeal to local authorities which spans the political spectrum: to notions of thrift and self-help and to a desire for increasing citizen participation and empowerment. Development workers have often been appointed as part of an authority's anti-poverty strategy, as a means of alleviating the financial hardship and debt problems of low income families. It has also been hoped that credit unions would improve the economic infrastructure, decreasing the outflow of money from local areas and offering support to small businesses. Hence most development workers are expected to concentrate their time and expertise on setting up credit unions, particularly community based credit unions, in areas of greatest need.

This focus on disadvantaged areas contrasts with the broader strategy of also developing more commercially attractive, workplace based credit unions. As far as ABCUL is concerned the latter are essential to a viable and self-sufficient movement and to a well-resourced national organisation. There has also been dispute about development workers' setting up new credit unions rather than supporting those already in existence. Credit unions not only need help during the starting up process but also continuing technical assistance during their first few years, until they can achieve stability and financial self-sufficiency. It is feared that overenthusiastic development may create a short-lived blossoming of unions in areas where they cannot survive without a disproportionate input of resources and support. There might be serious consequences for already under-resourced national organisations and for the general reputation of credit unions. These arguments can put development workers employed by the Association with local authority funding in a difficult position.

Although credit unions have been set up in most parts of Great Britain, there are few or none in the purely rural regions – the South West of England or East Anglia (Table 1.6). The largest concentrations are in the South East and Scotland. Within each region, the great majority of British credit unions are in urban areas such as London, Birmingham, the Northern conurbations, or Glasgow and its surrounding towns. Credit unions share this urban concentration with

Table 1.6 Regional distribution of credit unions in Great Britain, 1986

	Number of of unions	Number of members	Percentage of adult population
Scotland	15	6330	0.15
North	3	430	0.02
North-west	7	2960	0.06
Yorks and Humberside	9	1170	0.03
West Midlands	5	360	0.01
East Midlands	7	630	0.02
East Anglia	nil	nil	nil
Wales	1	310	0.01
South west	1	450	0.01
South east	27	8640	0.06

Note: Table based on the 75 unions for which full details were recorded.

many other types of community initiative; but the same is not true of Northern Ireland, where more than three-quarters of the unions and of their members are outside the two principal centres of population.

The more striking contrast with Northern Ireland, though, is the relative scarcity of credit unions in all parts of Great Britain. In no region does membership approach one per cent of adults. Members of the Catholic population of Northern Ireland are more than 300 times more likely to belong to a credit union than people in mainland Britain.

Of the 108 British credit unions in existence at the end of 1987:

- 42 formed their common bond among the residents of a particular area; some of these areas are based on church parish boundaries and the common bond is therefore not purely geographical;
- 29 had a common bond based on membership of a ‘bona fide organisation’. We estimate that about half of these were based on a church or group of churches; the majority but not all of these Christian credit unions were Catholic;
- 19 had a dual common bond: members could *either* live in a particular area *or* belong to a particular organisation;
- 16 restricted membership to those who work for a particular employer; a relatively high proportion of these workplace credit unions were based on a local authority, where council members

have sometimes supported the development of cooperative schemes of this sort.

- The final 2 unions based their common bond on membership of a particular occupation and employment in a particular area respectively.

This variety of common bonds also contrasts with Northern Ireland, where almost all credit unions have an official common bond defined in terms of a particular area, and most have an unofficial link with the Catholic Church.

Financial structure in Great Britain

Members

Analysis of the 1986 returns for the 75 established credit unions in Great Britain shows that the average British union was a quarter the size of its Northern Ireland counterpart: 280 members compared with 1240:

21 credit unions in Great Britain had less than 100 members;
27 had between 100 and 199;
11 had between 200 and 299;
8 had between 300 and 499;
12 had 500 members or more.

So the great majority of British unions would be considered small by Northern Irish standards: three-quarters of British unions had fewer than 300 members; only one twelfth of Northern Irish unions were as small as that.

Workplace-based credit unions tended to be relatively large, averaging 570 members; where the common bond was based on a (non-religious) association, membership tended to be low, averaging 140. The average membership of National Federation credit unions was only two-thirds as large as for unions affiliated to the Association, and this accords with the declared preferences of the two organisations which have already been discussed.

British credit unions experienced slightly higher rates both of membership turnover and of growth than were seen in Northern Ireland in recent years. The average union of 280 members reported that about 32 members left each year, but about 60 joined. The typical credit union grew by about 60 per cent between 1981 and 1986.

Assets

British credit unions had an average of £72,260 in assets; £260 per member (Table 1.7). Unions in Great Britain were therefore much poorer than those in Northern Ireland, mainly because they had fewer members, but also partly because of lower assets per member. Three-quarters of British unions had less than £250 per member; hardly any Northern Irish unions (1 out of 20) were as poor as that.

Table 1.7 Assets of credit unions in Great Britain

	Average per union	Percent of total	Compare N.I.
Assets			
Loans to members	£62,870	87%	(80%)
less accumulated provision for bad and doubtful debts	(£1,610)	(2%)	((2%))
Investments	£1,750	2%	(8%)
Cash	£6,930	10%	(7%)
Fixed assets	£1,750	2%	(6%)
Prepayments	£150	*	(1%)
Sundry debtors	£420	1%	(1%)
TOTAL	£72,260	100%	(100%)
Represented by			
Share capital	£61,760	85%	(85%)
Juvenile deposits	£280	*	na
General reserve	£3,720	5%	(9%)
Other reserves	£820	1%	na
Unappropriated surplus carried forward	£590	1%	(*)
Dividends payable	£1,800	2%	(4%)
Creditors and charges	£980	1%	(1%)
Provision for taxation	£160	*	(*)
Loans and interest	£440	1%	(*)
Balancing item+	£1,710	2%	(1%)
TOTAL	£72,260	100%	(100%)

* = less than 0.5%
+ The balancing item is calculated to ensure that reported assets are all accounted for. It consists of various small items, plus discrepancies in individual unions' accounts.

Fifteen credit unions in Great Britain had less than £100 per member, and their viability must be in doubt.

Although British unions were poorer than their Northern Irish counterparts, their financial base was expanding. The 54 unions which returned figures for the complete sequence of years from 1982 to 1986 increased their assets per member from £160 to £260 over that period, at 1986 prices. The rate of growth of was about 13 per cent per year, during a period when the real level of assets per member in Northern Ireland remained stable.

The structure of credit unions' finances was similar on both sides of the water, with the great majority of assets consisting of members' shares, most of it loaned back out to members. But British unions had relatively low levels of investment in outside institutions, and few fixed assets. In contrast, they held relatively high stocks of cash. The level of British unions' reserves ought to cause some concern, given the Credit Union Act's target of 10 per cent of assets. Half of them had a general reserve representing less than 4 per cent of their total assets.

In Northern Ireland, the analysis of assets did not show very consistent differences between the large and (relatively) small groups.

Table 1.8 Assets of British credit unions, by number of members

Number of members	Less than 100	100 to 199	200 to 299	300 to 499	500 or more
Mean assets per member	£130	£160	£240	£310	£290
Principal items as percentage of total					
Due from members	77%	71%	78%	82%	93%
Investments	*	4%	nil	10%	*
Cash	24%	21%	17%	9%	6%
Fixed assets	*	*	8%	*	2%
Share capital	88%	86%	86%	83%	88%
General reserve	5%	4%	4%	9%	5%
(No. of unions)	(21)	(22)	(11)	(8)	(12)

* = less than 0.5%

In Great Britain, on the other hand, the smallest credit unions operated on a significantly narrower financial base than the (relatively) large ones (Table 1.8). Those with less than 200 members had only £150 per person, compared with £275 per person where there were more than 200 members. More detailed analysis (not shown in the table) suggests that those unions which increased the number of their members over the last five years reported about twice the level of assets per head of unions with stable or declining memberships.

The smaller the union, the larger the proportion of all assets which were locked up in cash, and this left the small unions even more short of funds available for loans or other applications. More than half of the smallest British unions reported reserves of less than 2 per cent of their assets, and this must leave them in a risky position.

There were also variations according to the nature of the common bond: unions based on workplaces or on churches were relatively wealthy, averaging £340 per member; those based on residence or (non-church) associations averaged £160 – less than half as much.

Income and expenditure

The income of a credit union is almost entirely derived from its assets, and the pattern of revenue in Great Britain closely follows the analysis of capital in the preceding paragraphs (Table 1.9). The overall average annual income of £27 per member ranged from £32 in the larger groups to only £15 in the smaller groups.

Table 1.9 Income of credit unions in Great Britain

	Average per union	Percent of total	Compare N.I.
Income			
Interest from loans to members	£6,310	85%	(84%)
Investment interest	£220	3%	(7%)
Bank interest	£280	4%	(4%)
Bad debts recovered	£30	*	(2%)
Other income	£610	8%	(2%)
TOTAL	£7,450	100%	100%

* = less than 0.5%

Table 1.10 Expenditure of credit unions in Great Britain

	Average per union	Percent of total income	Compare N.I.
Expenditure			
Salaries	£410	6%	(13%)
Loan insurance	£640	9%	(7%)
Accommodation	£200	3%	(5%)
Postage, printing, travel etc	£150	2%	(3%)
Audit charges	£430	6%	(2%)
Other management expenses	£1,140	15%	(4%)
Total management expenses	£2,970	40%	(34%)
Provision for bad and doubtful debts	£570	8%	(11%)
Taxation	£160	2%	(3%)
Depreciation	£120	2%	(3%)
Other outgoings	£410	6%	(1%)
TOTAL EXPENDITURE	£4,230	57%	(52%)
Application of surplus			
Dividend on shares	£2,190	29%	(33%)
Rebate of loan interest	£60	1%	(1%)
Transfer to reserve (net)	£450	6%	(12%)
Balancing item[+]	£520	7%	(2%)
TOTAL SURPLUS	£3,220	43%	(48%)
TOTAL INCOME	£7,450	100%	(100%)

[+] The balancing item is calculated to ensure that all reported income is accounted for. It consists of various small allocations of the surplus, and also some discrepancies in individual unions' accounts.

The accounts demanded by the Registrars in London and Belfast record expenditure under somewhat different headings, and it is not possible to make exactly reliable comparisons between the two sets of figures. In Great Britain, in particular, a total of 28 per cent of income

* 'Other management expenses', 'other outgoings' and 'balancing item'.

was attributed to various non-specific categories of expenditure*, compared with only 7 per cent in Northern Ireland (Table 1.10).

It can be seen that British unions spent relatively small proportions of their scarce resources on salaries and accommodation; their smaller size allowed most of them to operate without staff and fixed offices.

In spite of lower costs on these activities, British credit unions had to allocate a lower proportion of their income to a dividend, and to general reserves, than their Northern Ireland counterparts could afford. It was found in Northern Ireland that richer unions were able to pay higher dividends than those with lower levels of assets. In Great Britain, dividends were very strongly related both to the size of the union, and to its financial standing. While most of the larger and richer British unions were able to pay a dividend in line with the Northern

Table 1.11 Dividend on shares in Great Britain, by number of members and by assets per head

Number of members	Less than 100	100 to 149	150 to 299	300 more
Proportion paying any dividend	38%	60%	72%	85%
Average dividend (if paid)	6.3%	3.3%	4.3%	4.8%
(No. of unions)	(21)	(15)	(18)	(20)
Assets per head	Less than £100	£100 to £149	£150 to £199	£200 or more
Proportion paying any dividend	20%	65%	69%	91%
Average dividend (if paid)	2.5%	2.5%	3.6%	4.7%
(No. of unions)	(15)	(20)	(16)	(22)

Note: Figures based on the actual amounts recorded as dividends in the annual accounts, as a percentage of shares held at the end of the year, rather than the declared dividend rate.

Ireland rate, few of the smaller and poorer groups could pay any dividend at all (Table 1.11).

Loans

The average British credit union had loans outstanding to members amounting to about £63,000 – about £220 per member. Another way of recording loans is the amount advanced in the course of the year: the average in Great Britain was £72,340. In other words, British unions were loaning out each available pound a bit more often than once a year, and this rapid turnover would stretch the scarce resources further than in Northern Ireland, where it took rather more than a year before a pound could be relent. This means, of course, that British members were expected to repay their loans in a shorter period – 10 months, on average, compared with 14 months in Northern Ireland.

Even at the accelerated turnover, British credit unions had less to loan than their equivalents in Ulster. They might respond either by making fewer loans (in relation to the size of their membership), or by loaning smaller amounts on each occasion. In practice, they tend to have chosen the former. The size of loans advanced in the two sectors was remarkably similar, as Table 1.12 shows. But members in Britain were rather less likely to obtain a loan than those in Northern Ireland.

Table 1.12 Distribution of loans to members: Great Britain and Northern Ireland compared

	Northern Ireland	Great Britain
Loan capital per member	£345	£219
Amount advanced in year, per £ of capital available	0.87	1.17
Loans per member	0.72	0.61
Average amount per loan	£416	£419
Size of loans:		
£1 - £250	54%	54%
£251 - £500	24%	26%
£501 - £1,000	14%	13%
£1,001 - £2,000	7%	6%
More than £2,000	1%	2%

Table 1.13 Loans advanced by credit unions in Great Britain, by number of members

Number of members	Less than 100	100 to 199	200 to 299	300 to 499	500 or more
Average amount advanced per *member*	£120	£150	£170	£290	£310
Loans per member	0.55	0.54	0.45	0.72	0.65
Average per *loan*	£220	£280	£370	£400	£480
(No. of unions)	(21)	(22)	(11)	(8)	(12)

In Northern Ireland, it was found that larger and/or richer credit unions tended to use their funds to increase the number of loans available, rather than to increase their size. In Great Britain, the analysis shows the opposite: bigger and richer unions tended to offer roughly similar numbers of loans to their members, but advanced larger amounts (Table 1.13).

Thus although the overall pattern of loans shown in Table 1.12 was broadly similar, Britain and Northern Ireland were rather different in detail. Another difference was in the degree of consistency. In Northern Ireland, well over half of all unions reported an average per loan within the range £400 to £750; none advanced less than £200 per loan on average; none advanced more than £1,000 on average. In Great Britain, in contrast, there was a much wider range of policies: less than a quarter lay in the range £400 to £750; 14 unions averaged less than £200 per loan; and three averaged more than £1,000 a time.

Interest charged at 1 per cent per month ought to yield 12.7 per cent per year. But a few British unions charge only 9 per cent. In Northern Ireland the income from interest payments exactly equalled 12.7 per cent of the loan fund (averaged over the year). The equivalent calculation in Great Britain showed that income from interest averaged 11.0 per cent of loans.

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