



Derbyshire Community Bank
where **local** really counts

13th
Annual General Meeting
27th February 2019



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where **local** really counts

(Trading name for Erewash Credit Union)

Notice of the 13th Annual General Meeting

To be held:
Wednesday 11th February 2019
1.30pm to 3.00pm
Derby Cathedral,
DERBY

Agenda

- Welcome & Introductions
- Apologies
- Minutes of 2018 AGM
- Chair's report
- Treasurer's report
- Supervisory Committee report
- Receive audited accounts to September 2018
- Resolutions on dividend to Members & re-appointment of Auditors
- Election of Directors & Supervisory Committee
- Any other business

Minutes of last years meeting:

DERBYSHIRE COMMUNITY BANK

AGM

TUESDAY 20th February 2017 at 6.00pm
Derby Cathedral

AGENDA ITEM	RESOLUTIONS/ACTIONS
<p>1) Welcome, Introductions & Apologies</p> <p>Warm welcome from Simon Taylor on behalf of the Cathedral Chapter, which is very proud to be supporter of Derbyshire Community Bank.</p> <p>Welcome from Mick Brown, Chair of the Board and thanks to Simon for allowing us to again use the Cathedral for our annual AGM.</p> <p>Introductions for the top table included Donald Craig (Auditor), Pat Butler (Treasurer), Sara Dinsdale (CEO), Adele Atkinson (Vice Chair), Andrew Simpson (Supervisory Committee (SC))</p> <p>Attendees:</p> <p>Georgina Bingham, Member Jon Leigh, Member Sara Dinsdale, CEO & Member Mick Brown, Director & Member Adele Atkinson, Director & Member Pat Butler, Director & Member Simon Taylor, Director & Member Keith Donald, Director & Member Phil Fee, Director & Member Andrew Simpson, SC & Member Carole Sherwood, Member Amie Ellis, Member Paul Taylor, Member M.A Kaminski, Member E. Kollowski, Member P. Hartshorn, Member Peter Drew, Member Val Grahl, Member</p> <p>Andy McBean, Auditor</p>	

<p>2] Minutes of 2016 AGM</p> <p>Minutes approved.</p>	
<p>3] Chairs Report for the financial year ending 30th September 2016</p> <p>The Chair presented his report in line with submitted papers picking out the key points from the year.</p> <p>Q. What regulatory assets are you required to have by FCA? A. Based on our size we are required to hold 3% capital to assets, but because we offer ISA's we need to hold 5%. Currently hold about 14%. Auditor confirmed at time of audit we had capital to assets of 14.9%.</p>	
<p>4] Treasurer's Report</p> <p>The Treasurer presented her report in line with submitted papers.</p> <p>No questions.</p>	
<p>5] Supervisory Committee Report</p> <p>The Chair of the Supervisory Committee (SC) presented his report in line with submitted papers.</p> <p>Currently only one SC member. Request for new members to join SC.</p> <p>Thanks to Georgina, Compliance Officer and Carole, Finance Officer for all support and information supplied.</p> <p>No questions.</p>	
<p>6] Receive the annual audited accounts</p> <p>Presented in line with submitted papers.</p> <p>Andy McBean retires from Alexandra Sloan Accountants and sends his best wishes.</p> <p>CU did make a loss – principle reasons have already been explained.</p> <p>£311,000 net reserves – taking into account projections sufficient to cover projected losses.</p> <p>Auditors role is to give a 'true and fair view'. Can advise no material errors; accounts prepared in accordance with regulatory requirements; satisfied proper accounts kept and systems of control in place.</p> <p>Board required to report to auditors 'going concern' for 12</p>	

<p>months from date of prepared reports.</p> <p>Unqualified, clean audit report.</p>	
<p>7] Resolution on dividend</p> <p>Motion to pass a resolution to award no dividend</p>	<p>Resolution to award no dividend was agreed by the floor.</p>
<p>8] Appointment of auditors</p> <p>Motion to appoint Alexandra Sloan Accountants as auditors for next Financial year.</p>	<p>Resolution to appoint Alexandra Sloan Accountancy was agreed by the floor.</p>
<p>9] To elect and endorse Board Directors</p> <p>Steve Bean, Paul Whittingham & Howard Forster all retire in accordance with our rules. None to re-stand.</p> <p>No board members were co-opted during year.</p> <p>Motion to re-elect all remaining Directors and Supervisory Committee Members.</p>	<p>Duly elected.</p>
<p>10] AOB</p> <p>Q. What is the arrears process? A. Sara explained the arrears process which is robust from initial letters all the way through to court action or direct deductions from benefits depending on the members' circumstances.</p> <p>Q. How do we compare with competitors in terms of arrears level? A. Sara advised that she has information to compare with other credit unions but not with other competitors, however, a lot of the competitors don't carry out credit checks hence they mitigate the risk with high interest rates so I would hazard a guess that their arrears level won't be great.</p>	
<p>Meeting closed at 6.40 pm</p> <p>Keith Donald thanked Mick Brown for his continued contributions as Chair for the organisation.</p>	

Report from the Chair

As Chair of the Board of Directors, I am pleased to present my report covering the financial year October 2017 to September 2018. Although this report is concerned with the previous financial year, there are some areas where important developments are continuing into the current year, and where that is the case, I have decided to bring members fully up-to-date rather than wait for next years report.

Location and Identity

In previous reports, I have referred at length to the move of our main office from Ilkeston to Derby, and the consequent impact upon costs and membership.

Now that we are better known locally, and have established some encouraging links with the City Council, I no longer intend to devote much space to this matter. I would like to re-iterate however, as I have done in previous years, that although now based in Derby, we are committed to continue to provide services elsewhere in Derbyshire other than just in the City. In this respect, our customers based in Ilkeston, Ripley, and other towns of the Erewash/Amber valley sub-region, and within Derbyshire generally, remain very important to us.

Strategic Planning

Our annual planning event was held on 17th September last year, at the premises in Cornmarket. The main purpose of the event was to review our strategic objectives for the year and we focussed on three main areas:

- **Financial Strategy**
- **Growth and Expansion**
- **Regulation and Compliance**

The remainder of this report will consider these key themes.

1. GROWTH AND EXPANSION

Membership

Changes in our active membership over the year, in comparison with previous years, are shown below:

	2014	2015	2016	2017	2018	
Ilkeston	1256	1247	1074	1182	1209	+27
Amber Valley	916	981	800	823	832	+9
Long Eaton	691	674	587	609	596	-13
Derby City	113	245	219	308	396	+88
Derbyshire Dales	28	54	69	78	112	+34

Total 3004 3201 2749 3000 3145 +145

There has been a modest increase in total membership (145) and the strongest area for growth has been the Derby postcode (+88) with Amber Valley being the weakest (+9). Numbers declined in Long Eaton, in line with a trend previously identified. I should point out that these figures are for 'net' growth - overall growth less dormant accounts that we have closed.

Until this year, our strongest growth has consistently been in Ilkeston. However, it is very pleasing to see that Derby City now exhibits by far the strongest growth of any of our areas, and I don't doubt that this has been, in part at least, to the many activities we have engaged in this year with the local community. For example, in October we took the show 'on the road' for a day, visiting: Chaddesden; Sinfin; Allenton; Alvaston; Chellaston and Sussex Circus with our display boards, and leaflets, looking to raise awareness amongst local people out and about on a Saturday. This was a really positive event, where we were able to engage in discussion about DCB and make new contacts. At each of the locations we were joined by local councillors, and we are grateful to the City Councils Community Development Manager, Carl Willis, and also to Councillor Jonathan Smale for their proactive role in helping organise this.

The increased use of ATM's and internet banking that I noted last year, has continued. Close to 100% of new members now join online, and over 85% of members are now registered for online banking. It is also interesting to note that, at the last count, around 75% of activity on our website was via a mobile device, with mobile phones accounting for 77% of that usage, tablets accounting for 4% and desktop computers making up the remaining 19%.

I have taken some time in previous reports to describe the changing strategy with respect to the structuring of our loan book, differential interest rates, and the nature of our lending. Members may recall our move away from higher value loans (where the impact of default was high) to lower-value lending, where the increased number of loans effectively spread the risk of default over a larger number of borrowers. The overall picture is summarised below:

	Value of loans (£) income (£)	Number of loans	Av. loan size	Annual loan
2015-16	1,503,049	2050	684	276,217
2016-17	1,211,360	1770	641	304,148
2017-18	1,164,313	2033	576	350,532

It is interesting to note that, a £340,736 reduction in the overall value of loans over the 2016-18 figure, has yielded a £74,315 increase in loan income.

Credit Union Expansion Programme (CUEP)

I have described in previous reports the tortuously slow 'roll-out' of this £38 million government funded programme to modernise the sector, and our questioning as to whether the supposed benefits would ever be realised. We expected to be on the new banking platform in June 2016. That date was missed, and we were given a new 'go live' date of June 2017, which also slipped. In last years report, given the difficulties of the project, and its failure to deliver, I anticipated that we would shortly withdraw from it - which we did.

Shortly afterwards however, the patience of the DWP ran out, and it pulled the plug on continued funding of the project on 16th February 2018. This was a major embarrassment for ABCUL (which held the contract for the roll out through its subsidiary 'Cornerstone') but the overall impact on the sector was small. Many other credit unions had, by this time, taken our approach, and begun to explore other solutions to providing a modernised service

The failure of this project has been a major embarrassment for ABCUL. The Chief Executive, Mark Lyonette, left his post in May, to become CEO of the National Pharmacy Association, and has subsequently been replaced by Robert Kelly, CEO of the NHS Credit Union. I will be attending the ABCUL conference next month, at which I expect to learn much more about the current state and future prospects, for ABCUL.

2. FINANCIAL STRATEGY AND PERFORMANCE

Our financial performance over recent years is shown below:

Year	Forecast	Out-turn
2013-14	-£58,588	-£39,767
2014-15	-£46,000	-£7,060
2015-16	-£22,000	-£32,815
2016-17	-£49,950	-£119,367
2017-18	-£37,561	-£66,590

Although the final picture is better than this time last year, a loss £29,000 greater than projected is not where we would want to be.

Last year, I reported that the increase in our trading deficit was almost all due to the additional infrastructure costs involved in moving to the new office, but added that: *'we are anticipating an additional £30,000 from loan income for 2017-18, and finally, although we have increased our bad debt 'write-offs' by £15,000, we are hopeful that the measures we have undertaken will bring debt delinquency under control'*.

Loan income in fact exceeded the previous years total by £46,000, and having kept employee costs £12,000 below budget, our fundamental trading position was sound.

However, loan defaults soared. Our budget for bad debt write-offs was £85,000, yet the eventual figure was £115,000 - some £30,000 above target. Additionally, although we increased our provision for bad debts to £15,000,

this reached £24,000 - some £9,000 above target. These numbers completely wiped out our income increases and reductions in employee costs, and, combined with our depreciation charge of £14,000, led to a loss for the year of £66,590.

The severe problems associated with loan arrears and bad debts are by no means unique to ourselves - they are being experienced across the credit union movement.

Personal insolvencies nationally reached a record high in the three months to June 2018, and The Insolvency Service (a government agency) recorded that the upswing was largely driven by individuals taking out Individual Voluntary Arrangements (IVA's) - 62% of personal insolvencies in the second quarter of 2018 were IVA's. Under these arrangements, individuals, under guidance, draw up a plan for the repayment of their debts. Unfortunately, the resultant regular payments are usually well below the scheduled debt repayments: typically, someone scheduled to repay a loan at £30 per week, will end up, under this arrangement, making payments of around £5 per week - which is nice for the debtor, but a major problem for us. One of the agencies that draw up these arrangements has a compelling heading on its website: "Wipe out 85% of your debt". It is finally interesting to note that, according to the Office for National Statistics (ONS), British households spent, on average, £900 more than they earned in 2017 - the first time expenditures have exceeded earnings since 1988.

Coupled with this, we have seen the continued introduction of 'Universal Credit', which has impacted significantly in our area over the period in question.

In order to attempt to assess the impact of this and other changes on our rising arrears, we carried out an analysis in May 2018, of members (83) with arrears beyond 3 months. Their reasons for non-payment are in the table below:

Benefit Issues (UC/sanctions/stopped/delayed)	32	39%
IVA and similar arrangements (eg DRO)	16	19%
No contact	14	17%
Lost job	10	12%
Financial difficulties	5	6%
Ill health/death	5	6%
Gambling problems	1	1%

The significance of benefit issues generally, and Universal Credit in particular, is obvious from the table.

We have undertaken a number of measures to mitigate the bad debt problem:

1. Textual changes to correspondence to members, making repayment options clearer
2. Reviewing current income and expenditure checks procedures.
3. Most re-financing arrangements are successful, but, following review, it is clear that re-financing arrangements for members on UC appeal are failing. Consequently, there will be no UC re-financing until the appeal has been resolved.
4. New products:
 - Family loans
 - Revolving Credit

These measures follow on from, and add to, the procedures we have previously developed to mitigate the impact of bad debts. Initial signs are that this issue has been stabilized, and is being ameliorated.

Finally, in terms of maintaining our overall financial discipline, we have tightened up on expenditure, particularly staffing, via full-time and part-time vacancy control. This has produced some significant savings, but reduced staffing also carries with it some negative aspects in terms of capacity, and we are keeping this under review.

We do have to consider all of the above in terms of our dividend position, and I regret to have to record that once again, **In the light of the current financial position, the board is not recommending the payment of a dividend for the 2017-18 financial year.**

We understand that members will be disappointed by this, but we believe it is the only responsible option, and we hope to be in a position to make a more positive determination next year.

2. REGULATION AND COMPLIANCE (GDPR)

Derbyshire Community Bank has a duty to comply with a range of regulatory and legislative requirements as we are regulated by the Prudential Regulation Authority and the Financial Conduct Authority.

In recent months we have seen a growing demand in compliance. One of which is the recent changes to the General Data Protection Regulation, protecting individuals and increasing their rights. In connection with this, we have undertaken a considerable exercise in destroying personal and confidential information covered by the regulations (particularly in respect of obsolete members) - including manual interventions for data not currently dealt with by our software.

All these details, along with our revised Privacy statement, can be located on our website.

And finally...

Our ability to maintain our operations in 2017-18 would have been seriously restricted without the help of a number of partners, in particular: Derbyshire County Council (who continue to provide valuable promotional assistance), Derby Homes, Derbyshire Dales District Council, Amber Valley Borough Council, and, in particular, Derby City Council, whose enthusiasm for promoting our services has been very welcome.

On a sadder note, one of the founding members, and guiding lights of the Erewash Credit Union, Howard Forster, passed away this year. Howard, a former Chair, remained a diligent and energetic worker for us right up to his death, and his knowledge and experience was an invaluable resource, both for the board and the management. He has been greatly missed.

The comments I made last year, about the world of the Credit Union movement becoming increasingly challenging and complex still apply. The struggle to secure profitability, along with the widespread problem of debt delinquency and the significant competition from other financial institutions such as 'payday' lenders is a familiar backdrop. With this in mind, I would convey my appreciation of the professional and dedicated approach taken by our Chief Executive Officer and her team, in continuing to develop and modernise the operations of the Credit Union, along with my sincere gratitude to my colleagues on the Board of Directors, and the Supervisory Committee, who meet regularly to steer us in the right direction, and also, of course, to our members, without whom none of this would exist for the local community.

Mick Brown
February 2019

Treasurer's Report

We faced another challenging year in 2017/18, which saw an overall audited loss of £67,927 which was a significant reduction on the previous year.

Income

This year our income met 86% of our expenditure compared to 75% last year and 91% the year before that. Whilst our income grew, our overall loss was greater than budgeted which was in the main down to our move to high street premises in the Cornmarket, Derby.

Expenditure

Whilst the team continued to tackle bad debt, the main areas of expenditure were around employment costs, bad debt write off and provisions for bad debt.

We spent £35,231 of grant money during 2017/18 on various projects including advertising & marketing and project staff to raise the awareness of the bank.

Balance Sheet

Member savings have remained static but the loan book has reduced by around 14%. Loan income has continued to grow, this year by 12% due to the interest rate rise in October 2016.

	2017	2018	% difference
Total Assets	£2,090,807	£1,972,911	-5.7%
Member's Shares	£1,688,852	£1,672,491	-1%
Total Loans to Members	£1,300,891	£1,122,531	-14%
Interest on loans	£309,522	£350,531	+12%
Surplus before Tax	-£111,412	-£65,298	+42%
General Reserves	£311,561	£243,634	-20.5%

Budget & Business Plan

A new three year business plan and annual budget were agreed by the Board in 2017. Progress against both of these is monitored by the Board at our monthly meetings.

Compliance (as at Sept 18)

The CU remains in a strong position moving forward maintaining in line with regulation a general reserve equal to/or greater than 10% of total assets.

In addition our capital to asset ratio requirement of 5% is exceeded at 12.35% and liquidity is 55%.

Dividend

In light of the losses highlighted in my report I recommend that no dividend is paid this year.

Patricia Butler
February 2019

Supervisory Committee report to the Erewash Credit Union (trading as Derbyshire Community Bank) AGM 27 February 2019

The 2017/18 financial year saw the Credit Union face significant financial challenges due to the failure of an increasing number of members to repay their loans in accordance with the agreed terms. This resulted in a charge to the accounts of £122,000 and an overall loss in the year of £68,000. The number of salaried staff reduced during the year and has further reduced in the new financial year as staff who have resigned have not been replaced in an effort to control costs. Throughout the year the Committee has monitored the activities of the Board and the staff to ensure that everything is done in the best interest of the members.

The Committee works to a monthly audit programme that has been adapted from the model programme laid out by ABCUL. The Committee submits a report of the work carried out most months to the DCB board. Committee members attend the monthly Board meetings as well as strategy meetings and budget setting meetings.

Internal audit activities have included:-

- Reviewing official, employee and family related accounts to confirm they are run in accordance with DCB rules.
- Conducting surprise cash and teller's till counts to check on the accuracy of procedures and security.
- Reviewing bank reconciliations.
- Verifying the loans procedures are carried out accurately and within the rules of the DCB.
- Monitoring compliance by DCB of its rulebook.
- Monitoring quarterly returns.
- Verifying closed accounts.
- Monitoring compliance with the PRA Single Customer View requirements.
- Verifying that the credit union is maintaining adequate insurance.
- Monitoring whether the credit union is carrying out additional activities and whether they are in compliance with the rules around those activities.
- Review of processes for dealing with delinquent debtors.

The Committee is pleased to report that most of the investigations carried out have found that everything is in order. There have been a few items of concern that have arisen as a result of staff being under time pressure. These have been resolved by giving staff additional training and more practical experience of the tasks which they are required to cover in the event of an absence. By the end of the year the frequency of items of concern was significantly reduced. This has been achieved in spite of the reduction in the number of salaried staff noted earlier.

The Committee is pleased to note that the Board, under the chairmanship of Mick Brown has taken the rising level of non-payment of debts very seriously. The topic is reviewed at every Board meeting and a sub group has been established to look for solutions.

Overall the Committee has been impressed by the work carried out by Sara Osborne and the staff of DCB. They are a hard working professional team that work effectively together in the interest of all the members. The Committee is very grateful for the cooperation and candour of all members of staff in dealing with questions that were raised. As we approach the 2019 AGM it is a concern to the Committee that Sara Osborne has handed in her notice which has left the Board with very little time to find a replacement. Members can be assured that the Supervisory Committee will continue to review all activities by the Board and the Staff on their behalf.

The Supervisory Committee has had just one member for most of the 2017/18 financial year. This is not a sustainable situation for the longer term, and it is important that additional members are found as soon as possible. Following the AGM held in 2018 one prospective new member came forward, but unfortunately he wasn't able to take up the role due to family matters. I was also distracted by family matters during the year and for several months was not able to give the role as much time as I feel that it needs, but by the start of 2019 calendar year that position is largely resolved.

Andrew Simpson

**Detailed Revenue Account for Year
Ended 30th Sept 2018**

Erewash Credit Union Limited

trading as Derbyshire Community Bank

Detailed Revenue Account for the Year Ended 30 September 2018

	Note	2018 £	2017 £
Income			
Interest income on loans		350,531	309,522
Interest income on bank deposits		1,651	351
Interest Received		352,182	309,873
Fees and commissions receivable	5	1,044	1,711
Other operating income	7	35,231	21,128
		<u>388,457</u>	<u>332,712</u>
Expenditure			
Employee benefits expense		173,821	192,549
Other expenses		7,654	6,646
Death benefit costs		-	2,400
Fees and commissions payable		8,357	5,698
Regulatory costs		6,578	5,154
Office costs		49,039	41,635
Other admin costs		11,763	24,816
Member communication and advertising		23,098	31,740
Legal, professional and credit costs		14,902	11,344
Computer costs		22,415	19,719
Depreciation and amortisation		14,012	7,262
Impairment on loans for bad and doubtful debts		122,068	94,827
		<u>453,707</u>	<u>443,790</u>
Operating Deficit		<u>(65,250)</u>	<u>(111,078)</u>
Deficit before tax		(65,250)	(111,078)
Corporation Tax	13	(48)	(334)
Deficit for the financial year before dividend		(65,298)	(111,412)
Distributions		(2,629)	(7,955)
Deficit for the financial year after dividend		<u>(67,927)</u>	<u>(119,367)</u>

This page does not form part of the statutory financial statements.