

Swan Credit Union
Business Plan
October 2016 - September 2019

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The Plan:

As required by the regulators and in line with best business practice, Swan Credit Union maintains a rolling Business Plan, which is updated and agreed by the Board every year.

The Business Plan is founded on and must be consistent with the agreed aims and objectives of the Credit Union as set out in our Rules and our Policy and Procedures manual.

The Business Plan is underpinned by detailed financial projections for each of the next three years. These projections are built up on the basis of the Assumptions. A summary of the projections is included in this document. The full set of projections and assumptions have been made available to the Board.

The regulators also require the Credit Union to regularly review the risks it faces in conducting its business. We have chosen to make this an integral part of our business plan. The outcome of this years' review of risks is shown at Annex 1.

The overall business aims over the next three years are: to continue to grow our membership; to become financially self-sufficient; to be able to pay dividends to our members; while continuing to provide safe savings and affordable credit.

This Plan addresses our regulatory obligations, and speaks both to our existing members and to the public at large.

Who we are:

Swan Credit Union trades as a group of local community banks. It is member-owned and run, providing ethical and affordable savings and loans in North Buckinghamshire, Milton Keynes and South Oxfordshire. The four community banks: Milton Keynes, Aylesbury Vale, Thame and Didcot are branches of Swan Credit Union, which offers saving and loan services to our members that are a real alternative to High Street banks and to internet and doorstep lenders.

In company law, credit unions are financial cooperatives, which operate on a not-for-profit basis and are authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority and the PRA (FRN417717).

Our purpose:

We exist to provide caring, community banking, offering safe savings and ethical loans.

What this means is:

Caring: We are an organisation that recognises that you have good and hard times. We are an organisation for all our members, and there are no barriers or fees to join us. We provide safe, reliable and affordable savings and loans to all, and in hard times such as loss of a job or income we can provide more affordable loans than most other financial organisations to help you get by without incurring high levels of debt. We are there to help you, help with maybe a deposit account to help you save, a loan to help you secure accommodation or to buy something you need, or advice to help you manage your money more effectively.

We will do this in a way that recognises who you are and treats you as an individual.

Community: We are run by our members, people who live or work in the areas we serve, for the benefit of you and all our members and the neighbourhoods where you and we live. We want you to feel that you genuinely belong and can talk to us.

Banking: Our business is your money. Looking after it carefully, and making it work hard for you and all our members.

Our values:

These values are foundational principles which underpin everything we do, and which are a reference for everything we aspire to do. They lead our vision and guide our strategy. These are:

Openness
Trust
Fairness
Mutuality

- Openness** We will be totally transparent with you in what we do. We'll tell you our running costs, what we are doing with your savings, why we have made the decisions we have, what the regulators think of us, and more. Obviously we can't tell you about another member, nor would we tell anyone about you, but if you want to know anything else - just ask.
- Trust** We will do four things to help build the trust between us:
- We will say what we mean and mean what we say;
We will do what we say we are going to do;
We will ensure we know what we are doing, and if we aren't sure we will find out and learn: and
We will care for you as individuals and work with you to build a sustainable and successful Community Bank.
- We would ask you do the same.
- Fairness** Different people mean different things by fairness; some believe it means treating everybody the same and others think it means treating people according to their particular personal circumstances.
We will do both. We will give everyone the opportunity to talk to us about their personal needs and will seek to come up with a solution that balances your needs and the needs of all our members and the communities we serve.
- Mutuality** Swan and our Community Banks are run by members for the benefit of the members. There is no them. We are you.

Our vision:

Looking ahead, it is essential to have a picture in mind of what we want to be in five or ten years' time. This helps us to imagine a future reality that we can work towards. Our vision is this:

“By 2020 we want to be known in the communities we serve to be financially viable, and to be seen as a genuine alternative to commercial lenders.”

For years, credit unions have been sustained by grant funding, principally from local Councils and some other community support agencies. With the squeeze on the public finances certain to last for some years, and as a matter of principle as well, it is vital for us to become self-sufficient. Essentially this means that we have to set goals and strategies that will increase our membership, extend the services we offer, and control our costs.

Our goals:

To be meaningful, goals must be SMART. This ensures we set objectives that are:

Specific Measurable Achievable Realistic Timelined

These are:

Increase our resources

Become better known

Create communities

Develop profitable products & services

Operate efficiently

Our stakes in the ground:

For each one of these goals, we have a strategy to achieve it (shown in Table 1 below) which collectively forms the nuts and bolts of our Business Plan for at least the next three years, as required by our Regulator. In detailing how we plan to achieve these goals, and in a spirit of openness, we make ourselves accountable to the membership for how the Board of Directors are performing. Our intention is to make this information freely available (subject only to issues of confidentiality).

A: **Increase our resources**

Challenges:

- We're a little short of both management team and volunteers
- We don't have enough of a physical presence in Aylesbury or MK
- We're doubling-up some Board roles & responsibilities
- We're not getting enough payroll deduction business to fund planned growth

At its most basic level, we need to bring in more income from our business in order to fund the growth we want to see, and to cover the costs of ever-increasing regulatory requirements. Currently we are still reliant on grant funding to help us grow, and welcome though this is, we cannot, and do not wish to, assume this source of income will continue indefinitely.

This means we must both increase our number of members, **but more particularly to increase the revenue from offering them financial products and services they want from us.**

We have extended our Bond Area to cover the area administered by South Oxfordshire District Council, and with the launch of Didcot Community Bank in September 2015 we will have Information Points, manned by trained staff, in two locations in Didcot: at the offices of SOHA

(South Oxfordshire Housing Association) and at Didcot CAB (Citizens Advice Bureau). We remain open to seeking opportunities for relevant collaboration (including mergers) with neighbouring Credit Unions, provided there would be a clear benefit to our members.

Alongside this financial need, we also must increase our resource of people. This will predominantly be made up of volunteers - whether as telephone canvassers, Community Bank Information Point staff, Community Bank Management Team members, Board members or in an internal governance role on our Supervisory Committee, for example.

B: Become better known

Challenges:

- We're a virtual operation and we need to be more visible in our local communities
- Although improving, our marketing communications are not adequately managed, and we need to be better represented on social media
- We have a confusion of brands between the Community Banks and the Credit Union, and need to increase public awareness of CU's
- We don't talk enough to our members

We need to become better known both in the localities where we have a Community Bank, and within a competitive financial sector. For Swan Credit Union to succeed, it is important to have differentiated product ranges for it to stand out amongst the well-known corporate banks and building societies.

While a relatively low budget is a challenge for Swan Credit Union, it is prudent to make the most of low cost resources which can ultimately lead to the wide spread of the brand in the communities that we serve. Low cost examples that may benefit Swan Credit Union include:

- Business directories offering free advertisement within local communities
- Presence at high profile community events
- Increase visibility on highly populated social media sites

See Table 1 below for SMART goals.

C: Create Communities

Challenges:

- We are not well-enough known in our local communities, and want to be recognised as part of an interconnected network of service providers.
- We need to continue building a greater understanding of what our members want from us.
- We need to create a sense of belonging among our local communities.

See Table 1 below for SMART goals.

D: Develop profitable products & services

See Table 1 below for SMART goals.

E: Operate efficiently

Financial viability means we need to generate enough from our services to cover the costs of those services and generate a surplus that means we can continue to grow the Credit Union, pay members a dividend, and maintain our capital ratios. Failure to do this will mean the Union would ultimately fail.

Key to this is careful risk management, principally with our lending and our bad debt levels, which have reduced significantly as a result of CUS's good work in making affordable loans available. That said, it is nevertheless important that we can meet our social aims as well as maintain low bad debt levels.

CUS, along with our marketing and business development activities, are also our largest cost. Our fees are calculated based on how successful we are and how large we are compared with the other credit unions serviced by CUS. 2016-7 will see another significant increase in our costs as a result of our success to date.

As part of our operating review we have undertaken a detailed risk review and agreed strategies to accept, manage or mitigate the risks we have identified (see Annex 1 below).

Critically we will also ensure that throughout all of this we remain compliant and within all regulatory ratios and processes requirements.

See Table 1 below for SMART goals.

Financial Projections:

Key assumptions:

1. Membership and savings grow at the average rate of the past 2 years
2. The loan to share ratio to increase gradually from 52% to 56%
3. Grant income is received to cover the cost of a new South Oxon Development worker
4. Prudent assumptions on future expenditure, including provisions and that VAT continues to be chargeable on CUS payments
5. We reduce our dividend payments to 0.75% from the 2016-17 year (April 2018 payment)
6. On these conservative projections, although we continue to make a surplus, our capital ratio dips just below the PRA preferred level of 5% in 2018-19

	Estimated outturn 2015-16	Projection 2016-17	Projection 2017-18	Projection 2018-19
Members at end year (inc Juniors)	1,337	1,435	1,533	1,631
Members shares (£000)	741	882	1,033	1,194
Loan balance (£000)	388	473	566	669
Grant income (£000)	23	26	22	15
Cash Bank balance (£000)	307	288	271	259
Investments (£000)	150	250	350	450
Income (£000)	76	132	143	160
Expenditure (£000)	61	121	137	150
Net operating Surplus (£000)	15.7	10.9	6.6	10.4
Dividends due (£000)	6.5	6.1	7.2	8.4
Net Assets = Liabilities (£000,s)	809	975	1,151	1,344
Loan to share ratio (CU average = 60%)	52%	54%	55%	56%
Capital as percent of total assets (target 5 to 10%) - includes subordinated debt	7.6%	6.8%	5.7%	4.9%
Liquidity as a percent of relevant liabilities (best practice 10-20%)	58%	45%	36%	30%

Projections by operational areas of Swan CU

	Base Year 2015-16	Projection 2016-17	Projection 2017-18	Projection 2018-19
Members at end year	1,337	1,435	1,533	1,631
MKCB	894	906	918	930
AVCB	316	335	354	373
S. Oxfordshire	50	111	172	233
other postcodes	77	83	89	95
Members shares (£000)	741	882	1,033	1,194
MKCB	545	637	729	823
AVCB	123	156	191	228
S. Oxford	43	52	66	87
other postcodes	30	38	47	56
Loan balance (£000)	388	473	566	669
MKCB	280	335	392	452
AVCB	78	98	119	143
S. Oxford	12	17	26	39
other postcodes	18	23	29	35

Table 1: IMPLEMENTATION PLAN

Goals achieved will remain on the plan for 12 months and then be removed. Rescheduled goals will appear twice: once as the original entry (removed after 12 months) and again with the revised target date.

Plan date	Ref	SMART Goal	Comment
Oct 2015	E	Have set out new budget for 2015-18 and draft budgets for the following 2 yrs	Achieved
Oct 2015	E	Have reviewed our service and its cost from CUS	Periodically reviewed, also done for 2016/17
Mar 2016	A	Recruit 3 more Board Members, incl one for Marketing & 1 SupCom member	Achieved
Mar 2016	B	Have conducted email & phone surveys to gather member perceptions of Swan & CB's	Email survey ongoing as at Nov 16. EDO's to pick up phone feedback
May 2016	B	Have a clear marketing plan, linking with CUS	Have current plan as at Nov 16
Sep 2016	D	Use survey data to review products & services	In progress as at Nov16.
Oct 2016	D	Have researched similar CU's to see what products they are offering which might help us	In progress with above.
Nov 2016	A	Active member target: 1420	Fell short of optimal target by 93
Dec 2016	A	Have functioning Information Points in all areas	Missed. Reschedule to Dec 17
Dec 2016	A	Have functioning CB Management Teams in all areas	Delayed till Jan 17
Dec 2016	B/C	CBMT's to have had min 1 community event for members to meet volunteers, MT & Board members	Rescheduled to Oct 17
Dec 2016	C	Each CB to have an active online community, initial target 10% reach	Swan Facebook & Twitter pages launched autumn 16, will add CB banner Nov 16.
Dec 2016	D	Explore business loans and homeowner loans to increase our loan/share ratio	Homeowner loans in portfolio. Defer business loans to Oct 17.
Dec 2016	E	Have reviewed cost/benefit of services and explored cost savings within CUS group	Ongoing. New joint audit of CUS group will assist in this.
Dec 2016	E	Have a clearly articulated lending policy, balancing risk & social aims, with protocols, key metrics and cost/benefit	Part-way there, and ongoing review.
Jan 2017	A	Recruit full-time Expansion & Development Officer or manager	Plan changed: Interviewing p/t EDO for South Oxon Dec 16
Jan 2017	A	Have a part-time EDO for Aylesbury Vale	In progress
Mar 2017	A	Have a functioning app	Will miss. Review Oct 17
Mar 2017	C	Member survey to show that min 40% of members recognise Swan CU as a community of local banks	In progress
April 2017	A	Recruit another Board member for Aylesbury Vale	In progress

Sep 2017	A	DCB to have reached 200 members	Unlikely, at Sep 16 we have 50 members and cautious financial target is 107
Sep 2017	A	DCB to have brought in 50 loans	Reframed as £19K
Oct 2017	A	Have fulltime Exp & Dev Officer or Manager	Reframed to recruit EDO for S Oxon by Jan 17
Oct 2017	B	CBMT's to be meeting regularly with at least 2 community leaders or stakeholders per month	EDO's doing some of this
Oct 2017	C	Target to double number of 'likes' on Social Media each year	In progress
Oct 2017	D	Be able to offer members a current account/debit card	In progress
Oct 2017	E	Explore capital-guaranteed community investment opportunities for some of Swan's cash reserves.	In progress
Nov 2017	A	Active member target: 1540	Optimal target: fin proj more conservative
Dec 2017	C	At least 30% of members will be accessing Swan on social media sites	Reset target to double number of 'Likes' each year.
Dec 2017	D	Have engaged with min 6 community schemes for other products & services (eg bulk energy)	Reset target to at least 1.
Dec 2017	A	Have functioning Information Points in all areas	In progress
Mar 2018	A	All CBMT's to have local marketing strategies & budgets	Review Nov 17
Sep 2018	A	All Swan operational costs (with the exception of grant-funded EDO's) to be derived from loan business	In progress
Oct 2018	C	CBMT's to have active partnerships with multiple community services	A continuous objective for each CB, which will have SMART objectives

ANNEX 1: 2016 REVIEW OF RISKS

1 = low, 5= high

The agreed key risks identified by the Board	Probab- ility	Impact	Risk Score (P*I)	Risk Mitigation Strategy/ Comment
Strategic Risks				
Failure to find sufficient Board and volunteer resources to implement the strategic objectives of the Business Plan	4	2	8	A realistic implementation plan will be required taking account of limited resources. The impact is scored low on the assumption that we would continue to expand, if more slowly than hoped for.
Failure to meet our financial targets in the business plan, such as growth of loans, financial surplus and capital adequacy ratios.	3	3	9	The figures are reviewed monthly as part of the MI and actions taken when necessary. We are taking steps to make our business plan more rigorous and realistic with specific actions and accountabilities. Loan targets for example have been missed every year
Poor loan decisions, and poor management of bad debts.	2	4	8	We need an implementation strategy that ensures control of bad debts, without compromising our lending targets. The Credit Committee (designated Board member) need more information on lending decisions to assist evaluation.
Over complex range of loan products	2	2	4	These are currently under review and are in any case changed as circumstances and opportunities change
Financial Risks				
Fraud and/or theft of funds from Swan by staff, volunteers and/or members.	1	5	5	Single person use of BACS - we are working with Coop and CUS to change this.
Excessive and poorly managed expenditure - above budget.	1	2	2	Management Information presented monthly and subject to Board scrutiny. Format of MI to be reviewed to ensure budget use is clear.

The agreed key risks identified by the Board	Probability	Impact	Risk Score (P*I)	Risk Mitigation Strategy/ Comment
Use of Swan by members for money laundering purposes.	1	3	3	There are documented manual and automated processes in place which are subject to audit. First line of responsibility rests with CUS and the designated Board member for money laundering.
Erroneous payment out of funds due to clerical errors	3	2	6	This has happened in the past. External payment of funds is subject to a two person process - input and authorisation apart from BACS payments - see above
Grant income falls below business plan expectations	1	2	2	The Business plan does not include any grant income not already promised by grant providers, so this risk is minimal.
Regulatory Risks				
Changes in regulatory requirements	3	4	12	This is happening more frequently. We must maintain awareness of potential and actual changes, and attend ABCUL and regulatory briefings. The three Board members designated as "Senior managers" must take lead responsibility
Failure to meet regulatory requirements, leading to potential censure and or fines.	3	3	9	As these become more complex and multi layered, but chances of a breach are increasing. The secretary, Treasurer and the SC must all be responsible for alerting the Board to actual and potential breaches.
External Risks				
Other Credit Unions start operating in our Common Bond Area	4	2	8	Northampton recently extended their common bond to Milton Keynes and Oxfordshire, but there is no evidence that they are actively recruiting and competing with us. Focus on what we do best.
National or local level rumours about financial/bank stability lead to an excessive level of withdrawals.	1	5	5	We have a policy in place to permit us to hold back on withdrawals for up to 60 days. Half of our 12 month investments roll over every 6 months. This should give us time to liquidate funds to meet demand, but we are considering changing this to a 4 month rolling period.

<u>Operational Risks</u>				
Failure of CUS to maintain operations and records to agreed standards in Service Level Agreement	4	2	8	<p>Frequent departures from SLA by CUS, although mostly on issues of lower priority. Planned expansion and more training of staff should help, but the SLA needs further review as well. CUS need to attend Board meetings at least every 3 months.</p> <p>We need to encourage a more professional and business like approach to their “clients” (and future owners) by CUS.</p>
Poor customer service from our back office service provider CUS.	3	3	9	<p>The limited capacity of the CUS telephone service and difficulties of getting through to staff have become a problem over the past 12 months. CUS have conducted occasional customer satisfaction surveys, the results for which are presented to the Board.</p> <p>We have a documented complaints procedure and only one recent case.</p>
Inadequate supervision of staff and volunteers by the Board	3	2	6	<p>Lack of Board time means we often let this slip. Clear job descriptions and lines of management are being put in place.</p>
Inadequate financial or operational stability of CUS as a company, due to poor management or inadequate resources.	2	5	10	<p>CUS has been very reliant on its CEO, and a deputy CEO has recently been appointed. Swan needs to ensure its back office provision going forward is robust. Regular meetings by the Chair and Treasurer have been put in place to ensure continuity of good service.</p>
<u>Reputational Risks</u>				
Criminal or unethical behaviour by individual Board members or staff.	2	3	6	<p>Policy of letting potential Board members work as volunteers for a period helps to ensure their commitment and suitability. The new regulatory vetting procedure for Board members also helps.</p>

Complaints entering the public domain leading to negative publicity and an adverse impact on our reputation.	1	2	2	We have a Complaints Officer and a documented complaints process, which has an appeals / review system.
Commercial links to an organisation not considered as consistent with our ethical policies.	2	2	4	Suppliers of services and formal partnership agreements are all subject to Board approval.
IT Risks				
Software supplier (Kesho), goes out of business or loses key staff.	2	4	8	Keep alternative software providers under review. 'Curtains' would continue to function for a period of time even without Kesho. However our members area and on-line joining procedure are totally reliant on Kesho.
Inadequate data security leading to breaches of the data protection act and inappropriate identification of member's confidential information.	3	3	9	Review and put extra protections in place to avoid hacking or leaks of e-mails with confidential details.
Inadequate IT systems leading to excessive downtime and inefficiencies in admin procedures.	2	2	4	We need to press Kesho for an upgrade of the Curtains software.