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Creating Affordable Financial Services from the Bottom Up: The Role of Community Finance in Achieving Healthy, Just, and Sustainable Cities

Paul A. Jones

Over the last 20 years, Liverpool has undergone a process of urban regeneration that has facilitated a new waterfront, a growth in the visitor economy, a huge increase in commercial and cultural activity, and in apartment living in the city centre. But on the housing estates that surround the city, poverty, financial exclusion, over-indebtedness, and deprivation persist. Marginalised by the banks and mainstream financial providers, large numbers of people on low-incomes lack access to affordable financial services and are left with little choice but to use high-cost, sub-prime financial providers. The result is greater financial insecurity for many, often with significant detrimental effects on health and well-being. This paper argues that there can be no healthy, just or sustainable city without access to affordable financial services appropriate to the needs of its inhabitants. Yet the for-profit banking sector has shown little interest in serving low-income communities. In Britain, it has often been left to volunteers to come together to respond to the financial needs of their own communities through the creation of self-help financial co-operatives known as credit unions. The paper traces the development of British credit unions and analyses their role within the social economy as community-driven, democratic and mutual financial institutions. It explores their contribution to social, economic, and community development and how they have become regarded by policy makers in national and local government as filling gaps abandoned by the state and by the private financial sector and as key long-term players in serving low-income communities.

Introduction

The English Indices of Deprivation (Department for Communities and Local Government, 2015) are relative measures of deprivation at a local level based on a wide range of factors: health, education, employment, as well as economic and financial indicators. Together with census data (Office of National Statistics, 2011), they combine to provide a demographic profile of local authorities, cities, and regions (in England) and a comparative ranking to inform targeting of resources and funding; strategy; and policy development (Smith et al., 2015). Central to measures of health, stability, social cohesion of communities, and individuals' social and economic participation in those communities is financial inclusion. Financial inclusion is not just access to a basic bank account, but also access to savings accounts, affordable credit and insurance, to money and debt advice and financial capability education (HM Treasury, 2004).

People cannot participate fully in society without a basic bank account and access to affordable financial services (European Commission, 2008). Financial exclusion damages individuals and families, causes stress and isolation and places additional burdens on society. With no access to mainstream financial services, people are faced with higher charges for basic financial transactions and credit. They have no access to certain products and services, face an increased lack of security in holding and storing money, and barriers to employment and housing. The argument of this paper, therefore, is that the creation of a healthy, just, and sustainable city depends on ensuring the financial inclusion, health and stability of all its population. A healthy city cannot be one in which large numbers of its population remain excluded from, or on the margins of the financial system, and left to suffer the mental and physical ill health that can often ensue. A healthy, just, and sustainable city is a financially included city in which all residents have access to financial services appropriate to their needs.

A further argument of this paper is that, in certain circumstances, the community financial sector, or credit unions, offers the best approach to meeting the financial needs of low- and moderate-income communities. According to Fischer (1998) in accessing those segments of the market which are unattractive to mainstream banking institutions, credit unions have a competitive edge insofar as the presence of a common bond or field of membership generates a certain trust between the members of the organisation. This trust means that credit unions can often reach out to people alienated from the banking system and offer a much more efficient service to low income groups than banks or other financial institutions. They can generate a sense of ownership among low-income and financially excluded groups and thus enable them to avail themselves of financial services appropriate to their needs. To illustrate, the article draws on examples from urban communities identified as being in the most deprived ten per cent of areas nationally in the UK (specifically Toxteth in inner city Liverpool, and in the Liverpool city region, the neighbouring urban conurbation of Knowsley). The article traces the development of British credit unions and analyses their role within the social economy as community-driven, democratic and mutual financial institutions. It explores their contribution to social, economic and community development and how they have become regarded by policy makers in national and local government as filling gaps abandoned by the state and by the private financial sector and as key long-term players in serving low-income communities.

Context

For many, Liverpool — a city in the North-West of England, UK — is a vibrant and modern city in which to live. Over the last 20 years, it has undergone a process of urban regeneration that has facilitated a new waterfront, a growth in the visitor economy and commercial and cultural activity together with an increase in apartment living in the city centre. For others, however, poverty, unemployment, and over-indebtedness are realities of life: Liverpool is one of five local authorities with the largest proportions of highly deprived neighbourhoods in England (Department for Communities and Local Government, 2015). If deprivation were evenly distributed across all English local authorities, each authority would contain just 10 per cent of highly deprived neighbourhoods. In Liverpool, the figure is 45 per cent.

In one such neighbourhood, Princess Park ward in Toxteth, 19.3 per cent of the working age population are unemployed; average household income is 48 per cent lower than the national average; and 58 per cent of children live in households with an income below the poverty line (Liverpool City Council, 2017). The impact on the general health of the population is clear and apparent. In the 2011 national census, nearly twice as many residents of the area rated their health very bad in comparison with the national average, and 51 per cent more people in comparison with the national average rated their health as bad (Office of National Statistics 2011). Statistics held by Liverpool City Council also indicate that the mortality rate in Toxteth is near twice the national average and life expectancy is four years lower than the national average of 81.3 years (Liverpool City Council, 2017). Similarly, while home to Knowsley Hall and Knowsley Safari Park tourist attractions and the associated Stanley Grange Business Village, this Liverpool metropolitan borough (a 1970s-new town), ranks the second most deprived local authority area in England (Liverpool City Council, 2015).

Added to low-income, poverty and unemployment, many people in Toxteth also face the reality of financial exclusion. Like 1.5 million people in Britain (Financial Inclusion Commission, 2015), many people in Toxteth remain unbanked. In fact, about 60 to 67 per cent of those outside the mainstream banking system have been previously banked, but have had accounts closed due to the imposition of penalty charges for failed direct debits and overdraft fees lined to uneven payment patterns associated with those on low incomes (Ellison et al., 2010). Financial exclusion is more than lack of access to a bank account; it is also lack of access to savings accounts, affordable credit and insurance, to money and debt advice, and financial capability education (HM Treasury, 2004). In Toxteth as elsewhere, 64 per cent of low income households have no cash savings, rising to 74 per cent of those in the lowest income quintile (Ellison et al., 2011).

In Britain, there is an extensive and sophisticated high-cost, sub-prime credit market, which targets people on low-incomes excluded from mainstream credit and who already suffer from over-indebtedness and financial detriment. Excluded from banks and mainstream financial providers, many people are left with little choice but to use high-cost, sub-prime financial providers. It is estimated that up to 7 million people use high-cost credit providers. Very popular with the low-income households are weekly-pay retail stores which can be found on most high-streets of major towns throughout Britain. The number of its customers has doubled in size since the onset of the economic crisis, with about 400,000 customers at the end of 2015. Liverpool has some of the largest such stores in the country.

In addition to home credit, payday loans and weekly-pay retail stores, there are other high-costs options targeted at people excluded from mainstream credit, including pawn shops, catalogues and buy-back stores. There are also an estimated 310,000 users of illegal money lending (loan sharking), which represents 2 per cent of the low-income population rising to 6 per cent of people in the most deprived communities (Ellison & Davies, 2008).

For many people, already on low-incomes, financial exclusion has the potential of compounding poverty and leading them though spirals of over-indebtedness into long-term debt traps that they just cannot pay down. All of which causes anxiety, worry and stress, often leading to both physical and mental ill-health, and relationship breakdown (Collard et al., 2016; Kempson, 2002; Money Advice Liaison Group 2015, 2013; Taylor et al., 2011).

It is hard to see, therefore, how any city could be regarded as healthy if large numbers of its low-income inhabitants suffer stress, depression and ill-health because of not being able to access and use financial services appropriate to their needs and which enable them to engage fully in society as social and economic citizens. The question and focus of this paper is how can such a healthy, just and sustainable city be achieved? In a recent financial inclusion strategy, Knowsley Metropolitan Borough clearly articulate the causes of financial exclusion:

> The causes of financial exclusion are driven by both **institutional** factors such as the design and delivery of financial products and services and **individual** factors such as the choices, behaviours and circumstances of consumers. We recognise that at a local level, there is more that we can realistically achieve by tackling the individual factors that contribute to financial exclusion and this is where most of our actions will be focused. But, where there is potential to change institutional factors, perhaps through lobbying for improvements to the way the financial services market works or by enhancing the supply of financial services through credit unions, we will incorporate these into our approach (Knowsley Metropolitan Borough Council, 2012, p. 17 — bold in original).

Can Banks and Mainstream Financial Providers Deliver Financial Inclusion?

Banks certainly have a responsibility to deliver on financial inclusion, a responsibility both recognised by the European Commission and the UK Government. It was through Government pressure that banks introduced a basic bank account around 2004 and more recently, following the European Directive, new fee-free ‘no frills’ bank accounts which have been available from January 2016. How effective and accessible these new accounts will be to people on low-incomes is yet to be seen (Hopkins, 2015). There were multiple problems with the former basic bank account which resulted in around 25 per cent of people opening accounts becoming worse off financially (Ellison et al., 2010).

For many people on low incomes, however, banks have traditionally been part of the problem rather than part of the solution. Given the difficulties of managing a household budget on a low income, it is often people on low incomes or in financially unstable situations who pay the most in bank charges through overdraft and missed payments. In fact, overdrafts are used by 3.3 million people on low-incomes as an ongoing credit facility, with a further 1 million becoming overdrawn inadvertently while using a bank account (Ellison et al., 2011). Penalties associated with over-limit fees, bounced direct debits and penalty charges increasingly shape the actual

cost of credit for many on low incomes. Such charges can often result in higher overall indebtedness for people on low-incomes than does the use of short term high-cost lending. It has been the impact of such behavioural charges that has resulted in large numbers of people who had a bank account exiting banking.

It is perhaps fair to say that banks in general find it difficult to serve low-income financially excluded people, and indeed many state that the low-income market is not one that they want to serve. As well as the difficulties in providing a transaction account to people on low incomes who need to flex direct debits and standing orders, banks are not geared to serve low-income small savers and people who wish to take out low-value loans. The means of delivery, too, are often not suitable for people on low-incomes who often look for a face-to-face personal service or are digitally as well as financially excluded. Moreover, sophisticated methods of risk assessment and market segmentation can result in low-income, higher-risk individuals often not being served with the products and services they need.

In Toxteth, the prioritisation of serving just profitable customers, has resulted in banks no longer finding it economically viable to preserve a local service. Three banks closed their Toxteth branches in the 1990s, and the one remaining NatWest branch closed its doors in March 2013 despite a long campaign by the local community to save it (Forrester, 2013) and has since been converted into a funeral parlour. For the local community, this was just more proof that banks were neither interested in them nor appropriate to their needs.

It was because the for-profit banking sector demonstrated little interest in serving low-income communities and because people in those communities had concluded that the banks were not for them that another solution to the provision of financial services was sought. Volunteers in those communities started to come together to respond to their own financial needs by creating self-help community finance institutions known as credit unions.

The Emergence of Community Finance — Financial Services from the Bottom Up

Credit unions are not-for-profit financial co-operatives that are owned and democratically controlled by their members. Unlike banks, they are limited to serving just their members and are not open to the general public. Eligibility for membership is defined by a ‘common bond’ or field of membership, which may be living or working in the same locality, being a member of an association or organisation, or being employed in a specific sector, profession or company. Unlike banks, credit unions do not seek wholesale funds to finance operations and to build capital; they depend mostly on attracting savings deposits from members to finance lending to members. They do sometimes, however, receive grants or capital investments from Government, local municipalities, private or voluntary organisations to support lending particularly to low-income groups.

In nineteenth century Europe, the first credit unions were created to alleviate the hardships associated with the growth of modern capitalist economies. In the early twentieth century, credit unions in the United States were pioneered very much as a grass-roots social movement aimed at enabling working people to obtain credit at reasonable rates. The ideology and rhetoric of the early US movement was often a crusade against loan sharks and moneylenders. Similarly, the development of Irish credit unions was as a direct response to the high unemployment, the high interest rates, and the growth of illegal money-lenders.

It was in the 1960s that the first credit unions in Britain were established by immigrants to London who found it difficult, if not impossible, to obtain credit from banks and mainstream financial providers. Familiar with credit unions in their home countries, they came together to create these self-help financial co-operatives to serve the needs of their families, friends and people in the community (Jones & Ellison, 2011). It was not long before credit unions soon began to open in other communities in London and then in other British cities. At the same time,

credit unions were also being established in Scotland, through contact with the Irish credit union sector.

These early credit unions were small, local, self-help savings and loans organisations established and run by volunteers inspired by a sense of social purpose. There was a strong focus on serving people on lower incomes through the provision of low-cost loans to small savers who had little or no access to other financial institutions. Most credit unions were run from community or church halls, or even from members' own homes, and high priority was given to community involvement, democratic member participation and the personal development of volunteers. These credit unions served often small local neighbourhoods where volunteer staff knew and understood the members (Jones, 1999).

The social and economic deprivation faced by many communities in the 1980s and 1990s encouraged the development of community-based credit unions, often supported by local authorities as part of their fight against poverty and the regeneration of deprived local communities. In a similar manner, employee credit unions were supported by employers in order to assist their staff to achieve financial stability through difficult economic times. With the support of publicly funded grants and resources, and the intervention of local authority development staff, the number of credit unions started to expand rapidly. In 1986, there were just 94 British credit unions, but by 2001, there were almost 700, most of which were community credit unions serving low-income neighbourhoods.

By the end of the 1990s however, despite the rapid growth in the numbers of credit unions, it was clear that British credit unions were not expanding at a rate seen in other parts of the world. Most community credit unions serving low income communities were financially weak, and served less than 200 members. The development of employee credit unions was stronger but still relatively modest, most having less than 1,000 members (Jones, 1999).

In response to poor credit union growth, it was recognised that credit unions had to adopt a more professional and business-like approach if they were to succeed (Jones, 1999). Credit unions began to promote a more business-focused approach to development based on robust business planning, suitable premises, the introduction of computerised accounting systems, and the employment of staff to eliminate dependence upon volunteer labour. This resulted in the strengthening of several credit unions and in an increase in the number of mergers as credit unions endeavoured to benefit from economies of scale.

From 2001 onwards, even though new credit unions continued to be registered, an increasing number of mergers (or more precisely, transfers of engagement) resulted in the number of credit unions starting to decline (see Table 1). Over the period 2001 to 2016, the number of British credit unions has declined by 56 per cent, whilst overall membership increased by 238 per cent. Around the same time, international research undertaken by the World Council of Credit Unions (Arbuckle & Adams, 2000; Branch & Cifuentes, 2001) led many British credit unions to recognise that to make a significant impact within low-income communities, a greater reform would be required than the adoption of basic business practices.

The transformation of credit unions demanded a radical financial, organisational and operational restructuring, known as the 'new model' of credit union development. New model reform was based on seven key elements, regarded by Richardson (2000) as *doctrines of success*, all of which would present significant challenges to the operation of traditional British credit unions. The first element was to serve the financial needs of a wider population, rather than focusing entirely on low-income and financially-excluded communities. The second element was the maximisation of savings: traditional credit unions had often concentrated primarily on offering low-cost loans, and only marginally promoted member saving. Without generating the savings of members however, funds for on-lending would remain limited as would the income necessary to build credit union strength. The third element of new model reform was product diversification, or offering a range of financial products and services in response to people's needs and wants. This was a major challenge for many credit unions, as most had offered a single identical

savings and loan product to all. The next three elements of success were operating efficiency, financial discipline and effective self-governance, all of which would demand major reviews of operating practices in credit unions.

Table 1. British Credit Union Statistics 1994–2015

Year	Number of credit unions	Total Assets (£000s)	Savings (£000s)	Loans (£000s)	Members
1994	475	60,742	53,706	49,590	138,582
1995	530	79,945	70,012	64,710	161,502
1996	550	100,348	87,686	81,242	190,825
1997	596	123,979	107,394	98,811	224,674
1998	630	147,940	126,721	121,813	255,596
1999	666	180,633	153,850	147,781	295,826
2000	687	214,977	182,771	174,667	325,058
2001	698	263,404	223,847	205,046	365,934
2002	686	318,877	272,491	246,138	406,564
2003	665	388,872	338,006	284,905	451,819
2004	594	432,031	381,495	314,418	496,254
2005	569	466,728	410,248	341,152	529,521
2006	554	505,034	438,680	363,335	553,892
2007	532	548,034	456,326	403,671	604,945
2008	508	595,142	489,537	441,694	659,281
2009	454	674,152	581,729	464,186	718,322
2010	436	751,483	648,606	506,364	777,454
2011	412	857,918	717,129	575,990	842,209
2012	389	956,614	807,377	605,787	917,544
2013	382	1,086,361	909,633	639,939	948,330
2014	371	1,237,979	1,048,532	687,783	1,046,623
2015	341	1,346,582	1,142,867	733,831	1,231,570
2016	293	1,424,729	1,207,534	780,036	1,238,368

Source: ABCUL based on annual statistics from the regulator www.bankofengland.co.uk

The seventh and final element, stressed by Richardson (2000) was assimilation. By this he meant the process of bringing the poor and the financially excluded into the mainstream economy by providing them with comparable financial products and services to those found in conventional financial institutions. This final element challenged many credit unions to rethink the way in which they could offer members pathways to long-term financial inclusion. It resulted in credit unions seeing their future in terms of becoming modern and professional financial co-operatives, offering the kinds of service available from banks including current accounts, insurance, money transmission services as well as a range of accessible savings and loan products.

UK Government Support for Credit Unions

Local government support for credit unions was high during the 1980s and 1990s when credit unions often formed part of local strategies to tackle poverty and disadvantage. It was with the support of publicly funded grants and resources and the intervention of local authority development staff that credit unions expanded rapidly during this period (Jones, 1999).

Such support had positive and negative effects. It certainly supported the growth in the number of credit unions and assisted their development in the early days. However, as local authorities

ultimately recognised, it did not lead to the longer-term strengthening of credit unions. External subsidies to cover costs often created a culture of grant dependency and confirmed an image of credit unions as welfare institutions funded to provide financial services to the poor. Grant funding could often compromise the spirit of enterprise and leadership necessary to build an economically diverse membership.

But it would be untrue to say that all external financial support undermined the development of credit unions. When properly targeted with defined measurable targets; such support could facilitate the strengthening of credit unions and their capacity to serve financially excluded and vulnerable groups. It was such success that encouraged the UK Government to grow in confidence in the ability of credit unions to serve low-income communities.

From 2006 to 2011, as part of a strategy to fight financial exclusion, the Labour Government created the Financial Inclusion Growth Fund to expand the availability of affordable credit to low-income individuals primarily through credit unions. The aim was to support people to avoid borrowing from sub-prime, high-cost loan companies and to move into credit union membership. Nearly £100 million was invested into the Growth Fund which provided credit unions with capital for on-lending and revenue to cover administrative costs. Through the Growth Fund, 405,134 loans to low-income members were made, to a total value of over £175 million (Department for Work and Pensions, 2011). Around 90 per cent of Growth Fund loans were through the 100 credit unions or so contracted to deliver the programme.

Unlike some previous public subsidies, the Growth Fund was restricted to credit unions meeting defined targets and robust operating standards. Contracts were awarded to credit unions that were assessed to have the capacity to deliver affordable credit to large numbers of low-income people. Through compliance with these demands, the Growth Fund also had a strengthening effect on participating credit unions (Collard et al., 2010).

Overall, the delivery of the Growth Fund was seen to be a success. As a result, and to build on this success, in March 2013, Government announced the creation of a new credit union modernisation and expansion fund to replace the Financial Inclusion Growth Fund. The new fund would not provide further capital for on-lending but rather would aim to transform the credit union business model and to modernise operating and delivery systems so that credit unions could extend products and services to many more people on lower incomes.

Before committing to establishing this new fund, the Government commissioned a study to explore the feasibility of modernising credit unions that had an appetite to expand (DWP CUEP, 2011). The study confirmed that a market existed among over 7 million people on lower incomes for locally provided banking, savings, and loan services from trusted providers such as credit unions. Based on the study, the Government committed to make an investment of up to £38 million over the three years 2012–2015. In April 2013, the Association of British Credit Unions Ltd (ABCUL) was awarded the Credit Union Expansion Project (CUEP) contract to develop a collaborative business model and operating system to enable credit unions to transform into modern financial co-operatives with the capacity to offer a modernised service consistently across the country.

Credit Union Expansion Project (CUEP)

Following its launch on 1 May 2013, 82 credit unions signed up to be part of CUEP. Around 30 of these 82 credit unions participated in the first phase of the project. They were required to define their business and financial plans for increasing growth, improving efficiency and profitability, and ensuring that they are no longer dependent on any external publically-funded subsidy. The project aimed to significantly increase the membership of the British credit unions and, ultimately, to ensure the stability and sustainability of the sector.

The project was structured as a programme of interrelated interventions based on the promotion of collaboration among participating credit unions and founded on the development

of a shared business operating model. These interventions include a marketing strategy, new centralised products and services, the development of automated account services, new electronic channels for credit union members (including a new automated membership and product on-boarding portal), along with centralised business support, back-office services and training for credit unions. These necessitated the development and implementation of a new IT infrastructure. In 2014, the CUEP team decided that the new IT platform would be hosted on Fiserv Agiliti, a service retail bank technology solution.

CUEP presented a major opportunity to the British credit union sector. The move to greater collaboration and shared back-office systems held a real possibility of modernising and professionalising the sector, driving down individual credit union costs and ensuring that credit union products and services were attractive and accessible to many more people on low and moderate incomes. It held out the possibility of significantly transforming credit unions into full-service financial co-operatives with the modern digital technology necessary to compete with other providers.

Due to the complexity of the project and a range of organisational difficulties, CUEP was unfortunately due to be suspended early in 2018 with only three credit unions having migrated to the Fiserve Agiliti platform (Andreasyan, 2017). Research into the experience of credit unions participating in CUEP (Jones et al., 2017) indicated the extent of management and technical problems in adapting a retail banking platform and ensuring that it fitted the needs of the credit union sector. These problems eventually led to the demise of the project with the future of the three credit unions now on the new platform left uncertain. The uncertainty arose not only from continuing operational difficulties but from the fact that the financial viability of the project depended on a significant number of credit unions transforming on the Fiserv Agiliti platform.

The need for such a project, however, in the credit union sector remains as important now as it did before the creation of CUEP. Only by significantly improving their product offer and delivery capacity through modern digital channels will credit unions be able to assure their long-term future. A number of credit unions, such as London Mutual Credit Union, have been able to ensure their transformation through other providers.

Legislation, Regulation, and the Move to Enterprise Lending

The business of community credit unions in Britain is primarily, if not exclusively in many cases, the provision of personal financial services to individuals on low and moderate incomes. They offer the opportunity particularly to people excluding from mainstream banks and financial providers to obtain affordable financial services and achieve financial health and stability. The Credit Unions Act, passed in 1979 gave credit unions, for the first time, a legal identity and the means to become secure and safer financial institutions. But, at the time, credit unions were regarded by government as small community enterprises and not as co-operative financial institutions that could grow to compete with other financial service providers. The new Act had such a strong focus on mitigating risk that it resulted in legislation that itself restricted and limited growth. From the mid-1990s onwards therefore, British legislation began to be modified and, in some respects, relaxed.

After the 1979 Credit Unions Act, the single most important legislative advance for the credit union movement was the passing of the Financial Services and Markets Act (2000). This Act provided the framework for a single regulator for the financial services industry, the Financial Services Authority (FSA) which, in 2002, took over the regulation of credit unions from the Registry of Friendly Societies. A culture of compliance was introduced and credit unions had to meet defined and more rigorous operating standards. The new legislation and regulatory regime brought a range of benefits for credit unions. For the first time, credit unions were no longer restricted to an upper limit on the number of members. The FSA also established the Financial Services Compensation Scheme (FSCS) to provide overall protection for members. Under the FSCS, for the first time, credit union deposits were guaranteed the same level of protection as

the deposits of customers of banks and building societies. This is now 100 per cent of the first £75,000 saved in a credit union.

A further legislative advance took place in 2006. Credit unions are the only credit provider in Britain that has by law an interest rate ceiling. Since the 1979 Act, this ceiling had been set at 12.68 per cent Annual Percentage Rate (APR) (or 1 per cent per month). This posed a problem for many credit unions operating in low-income communities, as their labour-intensive, low-value and often high-risk loans were not economically viable in any numbers at 12.68 per cent APR. New legislation increased the limit on the maximum interest chargeable from 1 per cent to 2 per cent per month (26.8 per cent APR). The cap was increased again in April 2014 from 2% to 3% a month on the reducing balance of the loan (42.6 per cent APR).

In 2007, the opportunity for a further major advance in credit union legislation arose when the Government announced a review of co-operative and credit union legislation in Great Britain. From January 2012, a range of new legislation provisions came into force, two of the most important were:

- The common bond: Credit unions still need to define their common bond or field of membership but they no longer must prove that all the people able to join the credit union have something in common. Credit union membership is more open, accessible and flexible. Credit unions can define multiple common bonds and thus be able to provide products and services to different groups of people within the one credit union. However, credit unions with a geographical common bond are limited to an area of 3 million potential members (changed from 2 million in November 2017).

- Corporate membership: Credit unions are no longer limited to providing services to individuals; they can now choose to offer membership to unincorporated associations and corporate bodies such as companies, partnerships and co-operatives. This means, for the first time, credit unions can hold the accounts of businesses to which they can make loans.

This has led to some credit unions to support local businesses to access enterprise loans. Central Liverpool Credit Union in Toxteth is one such credit union that has pioneered business lending in the local community. In partnership with the local authority and various Government schemes, the credit union is now able to support the development of small and medium enterprises in the neighbourhood. In an area, where nearly 30 per cent of the working age population is unemployed, self-employment through the creation of a small business can be one option for some people.

Central Liverpool Credit Union's business lending is small scale. They consider funding new start-ups as currently too risky given the high rate of new business failure. As a result, most loans are made to existing businesses in the community (sole traders and small businesses) to assist with cash flow or purchase new items of equipment. Typical businesses supported would include local shops, hairdressers, small workshops, garages, delivery companies, taxi drivers, arts and crafts businesses for amounts between £2,000 and £5,000, and the maximum business loan available is just £25,000 (at rates of between 0.5 per cent and 2 per cent per month, which is 6.35 to 26.8 APR; the rate is varied according to the value of the loan and any security offered against the loan amount). But such loans can make a huge difference to businesses struggling to make ends meet and which have little or no access to bank loans, as the manager of one local workshop states:

> I have used many different finance routes during by time in business and I have to say this has been by far the best interest rate and terms I have been offered. I have had loans from Central Liverpool Credit Union for cash flow, purchase of machinery and also to cover tax payments and I feel that having access to their loans has helped me grow my business in the last 2 years.

Credit Unions and the Creation of Healthy, Just, and Sustainable Cities

As community-driven, democratic, and mutual financial institutions, credit unions offer an important opportunity for people to work closely together for their own mutual benefit. There is little evidence that the profit-maximising and investor-owned banking sector has either the long-term interest or capability to respond to the needs of financially excluded and low-income groups within society.

Excluded from affordable and responsive financial services, people are left to struggle on low-incomes and with little option but to use high-cost sub-prime lenders to smooth out the ups and downs of income and expenditure. The result, as has been explored above, is that many people suffer poor mental and physical health, stress, and depression because of money worries and over-indebtedness.

Yet, most credit unions in Britain face on-going economic and organisational challenges in developing the business and in expanding their membership and assets. Growth depends ultimately on economic strength, organisational capacity, and operational efficiency. There are major challenges for credit unions in maximising income and in reducing costs, in attracting savings and in ensuring effective lending. Many credit unions are not yet generating sufficient income to sustain and develop the business. Expense-to-asset ratios are high, often exacerbated through the operational demands of serving the low-income market.

Long-term development depends on maximising savings, for it is the savings of members that creates the funds to on-lend and thus to generate income. Maximising savings involves attracting an increasing number of people on more moderate incomes with the capacity to save. But the ability to attract a more economically diverse membership depends on offering quality products and services that people want and on using the kinds of modernised, electronic delivery channels that more moderate-income members find attractive.

Another area of challenge is the need for credit unions to develop effective lending at realistic prices both to attract higher-value borrowers and to meet the cost of serving high-maintenance borrowers with low-value loans. The average loan-to-asset ratio among live-or-work credit unions is around 56 per cent, whereas the World Council of Credit Union recommends that 70 to 80 per cent of assets need to be out on loan in order to achieve financial stability (Jones & Ellison, 2011).

The challenges faced by credit unions are not just economic, but also concern governance and operational management. Jones and Ellison (2011) argue that the expansion of credit union financial services requires significantly higher-level skills and competencies in leadership and strategic planning; organisational management and systems, financial and asset management; credit administration and debt recovery; and human resources. They maintain that a step change in the strategic thinking of boards and in the overall competence of management is needed if credit unions as a whole are to develop as co-operative financial institutions with the capacity to serve large numbers of low- and moderate-income members and tackle effectively the problem of financial exclusion.

The link between ill health and money worries has been recognised by the health authority in Liverpool where every GP practice is to have access to specialist money and debt advisers to whom patients with non-medical problems can be referred. These include problems in relation to debt, job loss and the suspension of benefits. The Liverpool Clinical Commissioning Group is investing over £1m in the Advice on Prescription Programme over the next three years as part of its mental health strategy. This programme was piloted in five GP surgeries in 2012. 95 per cent of the 600 patients referred to Citizens Advice money and debt advisers during the pilot were classified as being from low-income and vulnerable groups. The majority suffered from mental health problems and just over 30 per cent had an average monthly household income under £400 (see www.livewelldirectory.com).

A changing approach to credit union organisation and management, together with the impact of new legislation and regulation and the renewed expectations of government, have already

resulted in the emergence of a new vision of effective credit union development among many within the credit union sector. This vision is based on an understanding of credit unions as co-operative financial institutions having the capacity to offer a range of modern financial products and services to meet the varying needs of different segments of the low- and moderate-income market. Integral to the vision is organisational soundness and stability and an emphasis on operating efficiency, financial discipline, good governance and effective management. It envisages credit unions as serving the financial needs of an economically diverse population, within which a focus on low-income members can be preserved.

In Britain, the potential of credit unions to reach out into communities is recognised by the Government, by local authorities, churches, trade unions, money and debt advice services and by other major agencies. In fact, all these organisations in one way or another work in partnership with credit unions in tackling financial exclusion and ensuring the financial health and stability of local communities. Many local authorities see credit unions as essential contributors to the social and economic regeneration of their communities. In fact, throughout Britain, cities and towns everywhere recognise the strategic role of credit unions in enabling their populations to achieve financial health and stability. The City of Liverpool has had a long-standing relationship with the credit unions in the city, supporting their development and expansion within low- and moderate-income neighbourhoods and Knowsley is one of many local authorities to recognise that financial inclusion is a sine qua non for a healthy, just, and sustainable city, borough, town, or neighbourhood.

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