

Chief Executive's Report 2018/2019

I am delighted to say that Scotwest Credit Union has performed well during 2018/2019, showing a sound increase in assets and a healthy net surplus.

It was a year that saw our members' savings grow by £4m to reach over £65m and our lending book increase by £5.5m to bring it to over £41m. In addition to this, we have seen a steady uplift in our membership base and now have just over 34,000 members, demonstrating a real vote of confidence in our performance and ethos.

I am also pleased to report that we have once again delivered a record breaking Christmas Savings Account pay out of over £2.7m, with some 3,650 members benefiting from saving regularly over the year to ease the financial burden of Christmas.

The team has been kept busy again this year, answering over 100,000 telephone calls and processing a massive 16,600 loan applications, our highest levels to date. We help more and more members every day with the important things in life like buying a car, taking a holiday, improving their home or, indeed, buying their own home through the provision of mortgage lending.

In other news, Scotwest has been working closely this year with a number of credit unions across the sector as well as trades bodies and those in the free advice sector, to highlight to the government the urgent need for reform in the regulation of the Insolvency sector. We have seen a worrying increase in unsuitable advertising and unscrupulous tactics designed to entice people into entering debt relief as an easy way of discharging their debts, even if they are not struggling to manage these.

We do believe that debt relief options are a vital lifeline to those who find themselves in financial hardship, however, due to the actions mentioned above, we have seen a disproportionate increase in the use of Protected Trust Deeds in Scotland. It is obvious to us that this is because Trust Deeds are highly profitable to the Insolvency Practitioners and the firms they work for, due to the massive fees they charge. On average, Scotwest receives only 11% of the debt owed when a Member enters a Protected Trust Deed, yet the Insolvency Practitioners regularly receive over 60% due to the level of fees charged.

I would encourage any Member who is finding it difficult to repay their loan to get in touch with us first, as we will always do everything we can to help members who are struggling with their loans. Please refer to our website for further information.

Looking to the future, there is little doubt that the political events of 2019 will have an impact on the UK economy, the financial services sector and our Members. At Scotwest, our Board is well informed and well prepared and will continue to consider all possible scenarios as events unfold, in order for Scotwest to continue to flourish and provide quality financial services to its members.

Financial Results for the Year Ended 30 September 2019

The audited Financial Statements for 2018/19, which follow, are produced under the FRS 102 accounting standard. This standard requires that all financial services organisations show their “cost of deposits” as Interest Payable at the top of the Statement of Comprehensive Income.

For credit unions, where the cost of deposits is the (retrospective) member dividend, we believe that this disclosure does not show a clear view of how we are performing. As with previous years, we have therefore decided to provide the following alternative presentation in order to help members understand the trading results for 2018/19.

	2018/19 £000	2017/18 £000
OPERATING INCOME		
Loan interest	2,794	2,491
Investment interest (net of fees & tax)	240	243
Other income	102	86
Total Income	3,136	2,820
OPERATING EXPENDITURE		
Staff Costs	1,073	1,051
IT Costs	305	328
Marketing/Communication	168	140
Other Expenditure	298	172
Total Expenditure	1,844	1,691
OPERATING SURPLUS	1,292	1,129
EXCEPTIONAL ITEMS		
Surplus After Exceptional Items	1,292	1,129
MEMBER COSTS, BENEFITS & DISTRIBUTIONS		
Bad Debts	573	444
LP/LS Insurance	243	222
Dividend	143	149
Total Member Costs, Benefits & Distributions	959	815
SURPLUS TRANSFERRED TO GENERAL RESERVES	333	314



Reflecting members' continued desire to save, deposits have risen again (6%); and continuing the trend from last year, our loan book has increased by 15% ,which flows through to an 12% annual increase in income from members' loans.

- Overall income is up 11.2% compared to last year's 9.6%
- Operating expenditure is up 9%
- Operating surplus of £1,292,000 is 14.4% higher than last year

Operating expenditure is 63.3% higher than in the prior year. This is primarily a reflection of the release of accruals of £71,000 in 2017/18.

The 29% increase in bad debt costs is not due to any changes to our lending risk appetite nor in the increased size of the loan book, but is instead driven primarily by the economic environment and the continuing increase in the number of trust deeds entered into by members. We are currently working with other Credit Unions and engaging with both the UK and the Scottish governments to address the issue. As previously observed, given the economic environment and the uncertainty of Brexit, we unfortunately expect bad debt costs to continue to increase.