



Hastings and Rother Credit Union - Finance Report for the year ended 30th September 2022

The purpose of this document is to provide a review of the year-end accounts as at the 30th September 2022.

The finance period, which runs from 1st October 2021 to 30th September 2022 has been a challenging one. We have continued providing services to members albeit still operating during part of the period under the effects of Covid 19 restrictions.

During the course of the year, we have continued to operate without a Treasurer and an effective Credit Committee due to the challenges of getting individuals with or without the appropriate skills for these roles despite regular advertising of vacancies. This alone impacts the Credit Unions ability to develop and grow its lending book and overall income.

The Year-End Accounts effectively fall into 2 sections, which we will cover below:

- A. Revenue Account
- B. Balance Sheet

Revenue Account

The Revenue account provides details of how we generate income and how this is spent during the financial period from 1st October 2021 to 30th September 2022. Summary details can be seen later in this document.

Our **total income** for the year has fallen 6.25% from £72,269 to £67,753. Our income is generated from 4 specific areas:

1. **Interest Income on Deposits.** This is from Interest received from credit balances the CU holds with banks on behalf of members which has increased during the year. In addition, the Bank of England base rate has risen over the last year or so due to inflationary pressures and so has interest rates on deposit funds. Our income generated in the last year was £1,031 due to increased balances and deposit interest rates compared to £475 in the prior year, an increase of 117.05%.
2. **Interest Income of Lending.** The is interest generated from loans provided to members. This has increased over the period by 16.72% to £7,454 mainly due to increased interest rates charged on new loans provided but within the maximum we are currently allowed of 3% per month. Overall, our loan book has decreased slightly during the year to marginally lower new facilities provided than the previous year.
3. **Fees & Commission Receivable.** This is from Entrance Fees and Service charges for being a member of the Credit Union. This was down 24.09%. Part of this is prepaid card fees being



shown in full for 2021 (£560) but for 2022 the income £737 has been offset against fees 2022 and thereby reflected in fees and commissions payable. In addition, the change in Entrance fees and Service charges is effectively down to fees not taken due to accounts with insufficient funds to be charged. A project to deal with this is currently underway.

- 4. Other Operating Income.** This is generated from principally from 2 sources, Grants and Contract Income. During the year we obtained Grants of £10,134 (£12,719 in 2021) to support operational services for members. The contract income relates to work we undertake collecting funds on behalf of Hastings Borough Council and Rother District Council. For the last year this amounted to £44,791 (£46,873 in 2021), down 7.98% due to reduced work on behalf of the Councils.

Our **total costs** for the year have increased by 22.63% to £87,696 up from £71,511. Costs fall into a numbers or areas:

- 1. Fees & Commissions Payable.** These were £8,016 (£5,680 in 2021) up 41.13% and relate to bank charges and banking service charges, the latter relating to paypoint and prepaid card fees. The treatment by accountants differs for this section. All fees were previously under one line. This time Paypoint card fees is offset by Prepaid card fees received and listed as Banking Service Charges. The Bank charges includes bank fees of £733 plus a debtor written off from prior years (before 2018) that the previous accountants had not resolved.
- 2. Administrative Expenses.** These increased by 10.01% to £67,851 (£61,676 in 2021). There were 3 primary increases impacting this change. Salaries of the 2 paid members of staff, auditor fees and members communicating and advertising. We have changed our auditors from a local firm to Alexander Sloan (AS). AS have an excellent understanding of the Credit Union (CU) sector representing a large proportion of CU clients. These accounts have had a rigorous review and highlighted a few necessary changes that our previous auditors did not adopt/recommend in how some income and costs are treated as well as how we reflect grants within our reserves. In addition to this there was a staff restructure during the period which involved some redundancy costs included to these expenses.
- 3. Other Operating Expenses.** This increased by 13.23% to £5,196 (£4,589 in 2021) primarily due to increased premises costs.
- 4. Depreciation and Amortisation.** This has increased 276.94% to £3,596 (£954 in 2021). The primary increase here relates to amortising new software obtained for £6,000 with a £2,000 amortising charge for the year. Depreciation increased as well due to the purchase of new computers.
- 5. Impairment on Loans for Bad & Doubtful Debts.** This relates to the impairment provision movement of £3,037 for loans considered bad and doubtful. The total impairment for the year end was £13,670, up from £10,633 and represents approximately 34% of the total lending book.

Taking into account the reduced income and higher costs the resulting position is a deficit of £20,139.



Balance Sheet

The Balance Sheet provides an overview of the businesses balances on a specific day, 30th September 2022.

This takes the form of 3 sections, namely Assets, Liabilities and Reserves.

Overall, our **Assets** have increased by 8.33% to £489,960 (£452,282 in 2021).

The Assets section details and include: -

- Credit balances we hold at the banks who look after our funds.
- Loans that we provide to members, after any impairment.
- Tangible assets i.e. physical assets, which are for example computers.
- Intangible assets which could be goodwill or in our case software licences.
- Other debtor funds due to the business.

Overall, our **Liabilities** have increased by 13.76% to £477,955 (£452,282 in 2021).

Reserves have however fallen by £20,139 to £12,005 (£32,144 in 2021) due to the movement of our revenue account.

The Liabilities & Reserves section details and include: -

- Balances relating to our members i.e. Customer Accounts
- Other liabilities, which includes corporation tax, other tax and social security, other creditors funds, we owe as a business and any accruals or deferred income.
- Reserves. Generally, this can be split into areas. Firstly the “General Reserve”, which is the movement of any surplus or deficit the business makes on an annual basis together with any unrestricted grants provided to HRCU. Secondly, “Other Reserves”, which are restricted funds provided to HRCU which we can only use for specific purposes.

Summary Comments

This overall deficit has consequently had a major impact on our reserves. Budgeting for the current 2022/23 period, knowing that we are lending at lower levels and in the absence of knowing exactly what contract income may come in we are looking at the prospect of another deficit.

In addition, our Capital Ratio has fallen below the required levels of 3% as monitored by the Prudential Regulation Authority (part of the Bank of England).

Knowing this the board are looking at how best we can move the business forward for the benefit of current and future members. We have decided that the business needs much investment of additional



staffing to enable increased revenues to be generated. As such the best way forward is to seek a merger with a more established Credit Union. The board are currently taking this forward.

Ultimately all members funds are fully protected by the Financial Services Compensation Scheme (FSCS). The FSCS deposit protection limit is **£85,000** per authorised firm.

Summary of HRCU Year End Accounts as at 30/9/2022

Revenue Statement

	2,022	2,021
	£	£
Loan Interest Income	8,485	6,861
Fees & Commission Receivable	4,343	5,721
Other Operating Income	54,925	59,687
Total Income	67,753	72,269
Fees & Commissions Payable	-8,016	-5,680
Administrative Expenses	-67,851	-61,676
Other Operating Expenses	-5,196	-4,589
Depreciation and Amortisation	-3,596	-954
Impairment on Loans for Bad & Doubtful Debts	-3,037	1,388
Total Costs	-87,696	-71,511
Surplus/(Deficit) before Taxation	-19,943	758
Corporation Tax	-196	-90
Surplus/(Deficit) for the Year	-20,139	668

Balance Sheet

	2,022	2,021
	£	£
Total Assets	489,960	452,281
Total Liabilities	477,955	420,137
Reserves	12,005	32,144
Total Liabilities and Reserves	489,960	452,281