Annual General Meeting 2020

Member Questions and Responses

Question 1

"I have been an account holder with you for many years. I review with interest the financial report when it comes out each year to check how you are doing and how stable the society is. However, I have been getting increasingly concerned over the continuing significant increases in administrative expenses over the last 4 years at a time when the total net income of the society has been stable and is now falling. As a direct result, the profitability of the society has collapsed and indeed at the current rate could well be loss making by next year. This made all the more likely given the deteriorating financial health of the economy which can only increase loan and advance impairments this year.

The numbers over the last 4 years speak for themselves:

£'000	*2019*	*2018*	*2017*	*2016*
Total net income	*7,067*	*7,339*	*7,287*	*6,875*
Admin expenses	*(6,422)*	*(5,645)*	*(5,127)*	*(4,595)*
Profit before tax	*701*	*1,915*	*2,026*	*2,353*
Admin expenses as % of total net income	*90.9%*	*76.9%*	*70.4%*	*66.8%*
PBT as % of total net income	*9.9%*	*26.1%*	*27.8%*	*34.2%*

As you can see, the expenses have risen by almost 40% since 2016, at a time when total net income has risen 2.8%. As a % of total net income they have risen from a reasonable 66.8% to almost 91%. This is clearly unsustainable. Equally PBT as a % of net income has collapsed from 34.2% to 9.9%.

The explanations are corporate speak and tell me very little about the real reasons for the increases and what benefits the society has received for all this extra expense. This is more made worse when you see the increases in executive pay and bonuses over this time. Clearly these should be aligned to the financial performance much better, so as profit has fallen executive pay (at least bonuses) should fall to reflect this significant fall in performance. I have been a chartered accountant for over 30 years including working for public companies, so have extensive experience in this area. I would welcome more explanation of what an increase of now almost £2m per annum over 2016 is actually delivering, as on the surface there is no evidence of it in the above numbers. There are quotes about strategic consulting advice - really!! I would say scrap all this and make a guaranteed 100% saving.

Equally, if these trends continue, then I have real fears for the future of the society as an independent entity. I have already withdrawn funds given this situation and the relatively poor rates you were offering me. I was able to effectively increase my interest by 100% - something that is really shocking but meant I was missing out on hundreds of pounds of interest each year.

I look forward to hearing from you and to more detail on what has really been achieved for the extra expense and falling profit".

Response

As a Board we have consistently said that we believe that the Society is sustainable and has a long term future. The Society remains financially strong with significant levels of capital and liquidity, particularly during these challenging times.

Our priorities for the Society have been and continue to be:

- Improving the infrastructure of the Society, in particular upgrading its technology to be more protected against Cyber-crime and building resilience to withstand a serious disruption to our services to members (during the current pandemic the Society has been able to provide all key services to our members. We are currently leveraging this investment with over 80% of our people still able to perform their daily role and nearly 2/3rds are doing this remotely).
- Meeting the increased regulatory standards that all Banks and Building Societies (large and small) are now subject to in terms of new key roles which require enhanced specific technical knowledge and skills than in the past in such areas as credit risk, capital, liquidity, operational risk and resilience, and compliance.
- Growing the mortgage book to increase revenue against a backdrop of tightening margins driven by increased competition, to generate adequate levels of profits and add to the society's capital base.

The Society is not immune from changes in market interest rates and it needs to ensure that it balances the competitive landscape with its need for funding, failing to do so would quickly result in losses being incurred.

The recent substantial reductions in the Bank of England Base Rate in March has, inevitably, added further pressure to our funding costs. We know that our recent decision to reduce rates on some of our savings accounts, which start to impact in May, is a difficult message for our saving members and we have delayed taking any steps for as long as possible. However, given the uncertainties in the economy, we considered that it was necessary to take the right steps now to partially reflect the reduction in the Society's income. The rate changes we have made are much less than the overall reduction in base rate and less than the reductions we have seen amongst banks and other building societies.

Executive pay has been considered as part of the combined response to Questions 2 and 3.

Question 2

"I read in the Accounts we have just been sent ahead of the AGM, that the new Chief Executive will receive a package worth £256,000 in total, and the Finance Director around £183,000 this year. As a member, I am very concerned at the way senior management pay has rocketed over the past few years.

The Society's small size and recent performance do not seem to justify these above inflation rises, nor competition for the role (did all the candidates demand higher pay than their predecessors when interviewed?) It also doesn't sit well with the principles underpinning mutuality - that the Society is here to serve its members and the local community- when senior management get such a huge multiple of what the customer- facing staff receive.

Given the serious situation the country now faces with Covid 19, this looks inappropriate and I hope can be reviewed?"

Question 3

"The level of surplus the Society generated as per the Annual Report is now substantially less than the costs of the Board and senior management with or without bonuses. With the current financial situation of an even lower interest rate continuing will the payments be reviewed for the current year?"

Response

Remuneration for all roles within the Society take into account duties, responsibilities, performance and levels for comparable positions in other organisations. Remuneration is overseen by the Remuneration and Nominations Committee. Its remit and policies are set out within the Summary Financial Statement's 'Directors' Remuneration Report'. Further details are also provided within the 'Corporate Governance Report' of the Directors' Report & Accounts.

In terms of Directors' pay, the market for Financial Services executives continues to be very competitive, especially close to London.

It is also worth noting that there have been a number of changes to Executive Directorships since 2018 that, from a statutory reporting perspective, do not easily provide a direct comparison of overall costs.

There was a period of interim CEO cover and other Executive CEO costs incurred during 2018 that are disclosed within the note accompanying the remuneration table that are not included within the total cost for 2018 of £489k.

2018 emoluments and fees include additional costs paid to both C. Astley (c.£94k) and D. Jervis (c.£88k). This increased the overall executive costs for 2018 by a further £182k and so on a like for like basis total emoluments and fees for Directors in 2018 were £671k, compared to a £708k in 2019.

The bonus scheme for executive and staff was driven by a number of performance and personal parameters in 2019. The maximum payment under the scheme is 20%, with the final bonus paid below this level due to profit being lower than budget. Future bonus payments will also reflect actual performance and it is already recognised that 2020 is going to be a challenging year.

Question 4

"Could I express delight that the auditors have been changed? I did ask on more than one previous occasion that use of the Big Four be reconsidered and was told there were no others suitable, this is obviously shown not to be the case. Good decision.

Last year the Chairman did after repeated questioning agree to at least ask the other members of the Building Societies Association if they could form their own auditing company. The Chair suggested they may not, to which I had to suggest "At least put the idea forward" to which he agreed".

Response

This suggestion was discussed on an informal basis with a number of similar sized societies. The societies did not however consider the option viable in terms of the investment required to create an audit firm with the requisite skills, technical support and resources. It was also deemed doubtful that at least in the short term any such firm would meet the requirements of the regulators.

The move to an audit firm outside the "Big 4", which a number of similar sized societies have also taken, was facilitated by representations from the sector through the BSA to the regulators.