

**Wiltshire Council**

**Full Council**

**9 July 2019**

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**Subject: Avon Mutual Bank – Development of a Regional Mutual Bank**

**Cabinet Member: Cllr Philip Whitehead - Cabinet Member for Finance, Procurement, ICT and Operational Assets**

**Key Decision: Key**

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**Executive Summary**

Local authorities have a role to play in shaping regional financial services as part of their policies and partnerships to support residents, develop local economies and meet their strategic policy objectives of promoting economic development, supporting small and medium-sized enterprises' (SMEs) business growth and improving financial inclusion. A growing number of local authorities are now investing in community banks, challenger banks and supporting microfinance and other initiatives outside the mainstream financial services sector to help meet their local priorities.

Wiltshire now has the opportunity to support the setting up of a regional bank for the wider Avon region, alongside the other local authorities in the region. Avon Mutual estimates that it needs to raise around £2million and it is asking Local Authorities across the region to support its establishment with capital funding before it applies for a banking license from the Financial Conduct Authority (FCA).

The Community Savings Bank Association (CSBA) was established in 2015 to apply international best practice to creating a network of 18 co-operative regional banks in the UK. The CSBA has invested in creating the IT, regulatory and operating infrastructure necessary to start a bank. Supplier agreements are in place for core banking, ATM and payments systems, accounting, regulatory and card services significantly reducing the risk and investment required to establish a regional bank.

This report was considered by Cabinet on 2 July 2019 and its decision will be reported in the Council Supplement.

**Proposal**

**To consider the giving of a grant of £0.050m to support the funding of the initial process to accreditation by the FCA.**

### **Reasons for Proposal**

In general, the operation of Avon Mutual Bank in the County would align with strategic priorities and support the local authority's existing policy objectives with regard to social mobility, supporting vulnerable people and supporting the growth of businesses across the County. The operation of a mutually owned bank would be a means to reduce the problems of financial exclusion for households and extend the availability of loans and finance to small and micro-companies which presently struggle to access sufficient finance from mainstream banks. In addition, an initial analysis suggests that there would be social and fiscal benefits.

One of the main characteristics of financial exclusion is having no bank account and no access to the financial services which are provided through it. It should also be noted that not having a bank account will affect a person's ability to get a job, arrange accommodation, pay bills and prove their identity. In particular, those claiming Universal Credit will need to have a bank account. A consequence of not having a bank account and financial exclusion is that those households could pay a 'poverty premium' because they have to pay more for accessing basic financial products and services as well as higher costs for paying for energy and insurance. The most recent research estimates that the average cost which poor families bear in acquiring cash and credit, and in purchasing goods and services, can amount to a 'poverty premium' of around £490 a year with the most affected experiencing a poverty premium of £750 a year. To poor households these are significant sums. People on low incomes must often rely on 'sub-prime' credit or high-cost mail order at higher rates of interest because they cannot access mainstream financial services.

In terms of the impact of SMEs and the economy, only 2-3% of total bank lending in the UK goes to SMEs despite SMEs accounting for 99.9% of all businesses, 60% of employment, and 40% of annual GDP in the UK. Lower rates of SME lending correlate with higher rates of SME failure. Local regional banks with decision making autonomy and local knowledge have an advantage and thus are able to lend far more to SMEs.

Restoration of the trust in banks since the financial crisis is key to ensuring that businesses and consumers have the confidence to seek access to finance that they require to make the most of economic opportunities. The Avon Mutual Bank's model redresses this as the customers are also the shareholders thus the Board is directly accountable to the customers.

**Alistair Cunningham – Executive Director, Growth, Investment and Place**

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### **Purpose of Report**

1. Local authorities have a role to play in shaping regional financial services as part of their policies and partnerships to support residents, develop local economies and meet their strategic policy objectives of promoting economic development, supporting small and medium-sized enterprises' (SMEs) business growth and improving financial inclusion. A growing number of local authorities are now investing in community banks, challenger banks and supporting microfinance and other initiatives outside the mainstream financial services sector to help meet their local priorities.
2. Wiltshire now has the opportunity to support the setting up of a regional bank for the wider Avon region, alongside the other local authorities in the region. Avon Mutual estimates that it needs to raise around £2million and it is asking Local Authorities across the region to support its establishment with capital funding before it applies for a banking license from the Financial Conduct Authority (FCA).

### **Background**

3. Until recently it has been complex to set up a regional mutual bank. The Community Savings Bank Association (CSBA) was established in 2015 to apply international best practice to creating a network of 18 co-operative regional banks in the UK. The CSBA has invested in creating the IT, regulatory and operating infrastructure necessary to start a bank. Supplier agreements are in place for core banking, ATM and payments systems, accounting, regulatory and card services significantly reducing the risk and investment required to establish a regional bank.
4. The Avon Mutual Bank is a mission led community wealth building institution promoting sustainable and equitable prosperity for the West of England. The bank will be the first customer owned regionally focussed full service bank serving people of ordinary means, community groups, SMEs and social enterprises.
5. The business model will be based upon 9 main branches and 21 satellite branches, employing 92 FTE staff. A full range of services will be offered competing with high street banks, the main branches will act as sub regional hubs, with Branch Directors having autonomy over lending and being the anchor for local relationships and knowledge. The 21 high tech satellite branches give access to all the same services

as the main branches and operate on a 24/7 basis. It is intended that the satellite branches will be co located with community facilities. Multi-channel access to products and services by web online banking and banking app for mobile and tablet devices will be available.

### **Personal Banking**

6. The current account offer will be fixed and transparent with a simple membership fee with no further bank charges being applied, interest will be paid to customers on whole combined balances across accounts, including the current accounts. To support more disadvantaged customers, budgeting tools will be available including analysis of expenditure and visualisations and “jam jar” functionality to improve control over finances.
7. The Bank can offer a current account without requiring a minimum income or a credit check, those customers currently excluded from current accounts with the high street banks will have access to bank accounts thus avoiding the high poverty premium as a result.

### **SMEs**

8. Small and medium businesses deposit more than they borrow, a key advantage of Avon Mutual bank is that it pays interest on current account balances with a transparent monthly fee of £10. There are no complex additional charges such as paying in of cash and the monthly fee funds the provision of branch services which many SMEs rely upon for cash banking facilities.
9. For SMEs the ability to offer loans is important, the business model for the bank offers relationship banking and a local branch model which gives competitive advantage and development of local knowledge. It is important to note that the main credit facility for SMEs is an overdraft facility which can only be provided directly by banks rather than credit unions or loan funds.

### **Social Impact**

10. Avon Mutual is a mission led bank with financial inclusion built into its structure and constitution, part of the bank’s ethos is to identify, target and report on their economic, social and environmental impacts. The bank will work with stakeholders to understand strategic priorities and how they can contribute to their targets and develop measures that are specific and appropriate for the needs of the region.
11. For individuals these may include reduced poverty premium, improved budgeting ability, lower debt costs and active savings.
12. In terms of SMEs these may include increased local spending, employment growth, wage growth and increased access to branches.

### **Safeguarding Implications**

13. None

### **Public Health Implications**

14. None

### **Corporate Procurement Implications**

15. None

### **Equalities Impact of the Proposal (detailing conclusions identified from Equality Analysis, sections 4 and 5)**

16. There are positive equality impacts from this initiative as this promotes financial inclusion for residents who currently do not have access to bank accounts

### **Environmental and Climate Change Considerations**

17. None

### **Risk Assessment**

18. There is a risk that the Mutual Bank will not achieve FCA accreditation, however this is not considered a high risk as there are already a number of successful Mutual Banks that are already in operation and the CBSA has put in place the mechanics for setting up Mutual banks.

19. As this is a grant rather than an investment there are none of the risks associated with securitisation of such investments.

### **Risks that may arise if the proposed decision and related work is not taken**

20. Residents will continue to be disadvantaged where they are unable to access bank accounts with national banks

21. SMEs will not be able to access funding from national banks which will increase the failure rate of such organisations

### **Risks that may arise if the proposed decision is taken and actions that will be taken to manage these risks**

22. There is a risk that the Mutual Bank will not achieve FCA accreditation, however this is not considered a high risk as there are already a number of successful Mutual Banks that are already in operation and the CBSA has put in place the mechanics for setting up Mutual banks.

23. As this is a grant rather than an investment there are none of the risks associated with securitisation of such investments.

### **Financial Implications**

24. The grant of £0.050m is a one-off payment which is to be funded from the Revenue Grant Reserve.

## **Legal Implications**

25. The local authority has the power under the 2000 Local Government Act to promote the economic and social wellbeing of the borough, enabling it to support initiatives which support economic regeneration and development.

## **Workforce Implications**

26. There are no workforce implications

## **Options Considered**

27. The following options have been considered:

1. No grant funding – this would risk the ability of the Mutual Bank to achieve FCA accreditation
2. Grant funding – the proposed £0.50m is in line with other Local Authorities in the region and supports the development of the Bank to FCA accredited status
3. Investment funding – this would take the form of a share purchase which would attract a financial return of 7.5%. This is not proposed as the new government regulations require securitization of any such investment of public monies which is not possible at this stage as there is no asset to securitise the investment on. This could be a consideration once FCA accreditation is successfully achieved by the Mutual Bank.

## **Conclusions**

28. Grant funding is the appropriate type of funding at this stage to support the development of the Mutual Bank to achieve FCA accreditation

## **Proposals**

29. To consider the giving of a grant of £0.050m to support the funding of the initial process to accreditation by the FCA.

## **Reasons for Proposals**

30. In general, the operation of Avon Mutual Bank in the County would align with strategic priorities and support the local authority's existing policy objectives with regard to social mobility, supporting vulnerable people and supporting the growth of businesses across the County. The operation of a mutually owned bank would be a means to reduce the problems of financial exclusion for households and extend the availability of loans and finance to small and micro-companies which presently struggle to access sufficient finance from mainstream banks. In addition, an initial analysis suggests that there would be social and fiscal benefits.
31. One of the main characteristics of financial exclusion is having no bank account and no access to the financial services which are provided through it. It should also be noted that not having a bank account will affect a person's ability to get a job, arrange accommodation, pay bills and prove their identity. In particular, those claiming Universal Credit will need to have a bank account. A consequence of not having a bank account and financial exclusion is that those households could pay a 'poverty premium'

because they have to pay more for accessing basic financial products and services as well as higher costs for paying for energy and insurance. The most recent research estimates that the average cost which poor families bear in acquiring cash and credit, and in purchasing goods and services, can amount to a 'poverty premium' of around £490 a year with the most affected experiencing a poverty premium of £750 a year. To poor households these are significant sums. People on low incomes must often rely on 'sub-prime' credit or high-cost mail order at higher rates of interest because they cannot access mainstream financial services.

32. In terms of the impact of SMEs and the economy, only 2-3% of total bank lending in the UK goes to SMEs despite SMEs accounting for 99.9% of all businesses, 60% of employment, and 40% of annual GDP in the UK. Lower rates of SME lending correlate with higher rates of SME failure. Local regional banks with decision making autonomy and local knowledge have an advantage and thus are able to lend far more to SMEs.
33. Restoration of the trust in banks since the financial crisis is key to ensuring that businesses and consumers have the confidence to seek access to finance that they require to make the most of economic opportunities. The Avon Mutual Bank's model redresses this as the customers are also the shareholders thus the Board is directly accountable to the customers.

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