

Wiltshire Council

Full Council

9 July 2019

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

Extract from the cabinet minutes for the meeting held on 12 July 2019.

Minute 91

91 Avon Mutual - The Development of a Regional Mutual Bank

Cllr Philip Whitehead presented a report recommending Wiltshire Council support the setting up of a regional bank for the wider Avon region, alongside other local authorities in the region.

Cllr Whitehead explained that the Community Savings Bank Association was established in 2015 to apply international best practice to creating a network of 18 co-operative regional banks in the UK, Avon Mutual being one of the regional banks for the South West area. Funding of £2m would be required to support the establishment of the bank prior to it applying for a banking licence from the Financial Conduct Authority. Wiltshire Council's contribution would amount to £50,000.

The Cabinet noted that the Mutual Bank would help to support residents, develop local economies and promoting economic development, supporting small and medium sized enterprises business growth and improving financial inclusion.

In response to a question from Cllr Thorn, Chair of the Financial Planning Task Group, about the proposal for a grant to the mutual bank in preference to an investment, Cllr Whitehead explained that the Council was limited to providing grants at this stage in the process as the Bank was not at the stage of applying for a banking licence. Once the licence was granted the Council would be able to review additional investments.

In response to additional questions from (i) Cllr Church about the funds currently raised by the Bank; (ii) Cllr Mayes about previously unsuccessful attempts to establish similar banks in the UK; (iii) Cllr Clewer about how the Bank would market its operation to those who struggle to acquire credit; (iv) Cllr Thomson about the range of funds managed by the Local Authority for residents, under the Mental Health

Act, that could be transferred to the Bank; Cllr Whitehead explained that (i) the Bank had received 95% of its estimated requirement of £2m; (ii) was confident that the Banks would succeed on this occasion as the Banks infrastructure, both in IT and operationally, has received appropriate investment from the Community Savings Bank Association, with the potential for banks to be located in campus hubs, and remain as retail banks that would be stabilised in the market place;

The Leader requested that future discussions with the Bank should include the services to be delivered to Wiltshire residents and businesses, including pop-up banks in leisure centres and community hubs and offering advice to those struggling with financial issues.

Resolved: To approve a grant of £0.050m to support the funding of the initial process to accreditation by the Financial Conduct Authority.

Reason for Decision:

- 1. 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.*
- 2. 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.*
- 3. 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.*

4. *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.*