

Report to: Cabinet

Date of Meeting: 6 February 2019

Public Document: Yes

Exemption: Para 3 Schedule 12A Information relating to the finance or business affairs of any particular person

Review date for release **Appendix B** of this report contain exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972



Agenda item: 25

Subject: Supporting the formation of South West Mutual

Purpose of report:

This report outlines a proposal from South West Mutual to form a regional bank.

Initial funding is being sought of £500,000 through the issuing of Founder Shares, local authorities have been approached to be part of this early investment in order to help set up a regional bank.

This report asks members to consider an investment of £49,995 which purchases 3,333 shares. These shares will receive a dividend of 7.5% once the new bank becomes profitable and this dividend will rise over time if South West Mutual is successful.

Founder Shareholders will also receive an additional 2 shares for every share held. The combination of these two returns generates an estimated internal rate of return of approximately 20% per annum as presented in the proposition.

It needs to be understood that there is a risk that there will be **no financial return and the entire initial investment could be lost** if the plan to launch the mutual is unsuccessful or a banking licence is not granted. Accordingly the report does not recommend investing in the Mutual with the purpose of deriving a financial return as the proposal is deemed too much of a financial risk. Members are asked to consider other benefits to be obtained from supporting a regional bank and if supported it is proposed that the Council sets aside £49,995 from the business rate pilot monies in 2018/19 in a reserve that if necessary this investment can be written off against.

Recommendation:

1. To approve an investment of £49,995 to support the formation of South West Mutual with the equivalent sum to be set aside in a reserve from the 2018/19 business 100% rate pilot gain in order to back the investment risk.
2. *(If 1 approved)* Give delegated authority to the Strategic Lead for Finance to conclude the ordinary share acquisition.

Reason for recommendation:

The reasons and purpose of setting up a South West Mutual Bank meets a number of priorities in the Council's Plan included within

Encouraging communities to be outstanding and developing an outstanding local economy.

Officer:

Simon Davey, Strategic Lead Finance

Financial implications:

These are contained within the report, namely the risk of losing the investment sum of £49,995.

This proposal is consistent with the Council's powers to invest under the Local Government Act 2003 and section 1 Localism Act 2011 (the general power of competence).

Investments made by local authorities can be classified into one of two main categories:

- i) Investments held for treasury management purposes; and
- ii) Other investments

Local Authorities should disclose the contribution that all **other investments** make towards the service delivery objectives and/or place making role of that local authority. Officers are confident that the proposed investment meets this requirement and the formation of such an institution, as described in this report and within Appendix A and B is consistent with the Council Plan priorities and objectives.

There is an overriding duty toward prudent management of risk, and officers, including the Council's section 151 officer, owe a fiduciary duty in relation to given transactions hence the setting up of reserve to back the investment on the worse case that this investment is required to be written off.

The financial liability as shareholders is limited to the value of the share-holding – The Council stands to lose 100% if the venture has debts equal to or greater than its investment. There should be some proportionality if the debts were less than the venture's total share capital.

Legal implications:

As identified in the Financial implications section, the Council can rely on S.12 of the Local Government Act 2003 and / or S.1 of the Localism Act 2011 to invest monies. These powers can be utilised to invest in the South West Mutual scheme as the objectives of the scheme are consistent with the Council's priorities and objectives.

Equalities impact:

Low Impact

Risk:

Medium Risk

The risk relates to the £49,995 investment which is dealt with in the report.

Links to background information:

- [Appendix A - Presentation by Tony Greenham from South West Mutual](#)

Link to Council Plan:

Encouraging communities to be outstanding and developing an outstanding local economy

1. Supporting the formation of South West Mutual Bank

- 1.1 In December Tony Greenham of the South West Mutual presented to the Strategic Management Team and members of Cabinet on the formation of a regional bank. A copy of the presentation has been linked to this report. Also attached is a copy of the Founder Share Offer Document which contains significant background information, members should note that this document is classified as Exempt Information.
- 1.2 The Mutual is seeking an initial investment of £500,000 in order to progress its banking licence application. It will then need to find an estimated £2.5m in 2019 to set up operations and complete the banking authorisation process and finally secure a further investment of £17.5m in 2020 to capitalise the bank and enable it to commence trading.
- 1.3 It is envisaged that local authorities within the South West, who believe in the ethos behind the Mutual and the benefits this will bring to the local economy, may wish to participate in all stages of investment including capitalising the bank once a provisional banking licence has been granted and the investment carries a much lower risk.
- 1.4 South West Mutual launched its initial fundraising in November 2018 seeking investment from private and institutional investors within the region to meet the initial investment required of £500,000, the offer closes the end of March (not 18th January as stated in the offer document). It is considered that the commitment of local authorities to invest in the initial Founder Share Offer will reinforce the confidence of private sector investors, make a significant statement of support for the social and economic mission of South West Mutual and potentially shorten the timetable to opening branches and commencing trading within the South West region. These shares will receive a dividend of 7.5% once the new bank becomes profitable and this dividend will rise over time if South West Mutual is successful. A sum of £49,995 would purchase 3,333 shares and represents 10% of the initial sum required. To date West Devon Borough Council and South Hams District Council have both committed to £49,995 each.
- 1.5 In view of the higher risk of investment at this early stage, if a banking licence is obtained and the bank starts trading, Founder Shareholders will also receive an additional 2 shares for every share held. The combination of these two returns generates an estimated 'internal rate of return' of approximately 20% per annum.
- 1.6 It must be understood that there is a risk that there will be no financial return and the entire initial investment could be lost if the plan to launch the mutual is unsuccessful or a banking licence is not granted. It is therefore not recommend investing in the mutual with the purpose of deriving a financial return as it is deemed too much of a financial risk and this would not meet the Council's investment criteria.
- 1.7 Instead it is proposed that members should consider such an investment on the grounds of Economic and Social & Environment benefits, highlighted in the presentation as:
 - **Economic** – Supporting local enterprises, business rates and employment. Boosting economic resilience during recessions, protecting jobs and incomes. Inclusive growth: spreading opportunities for locally driven business and employment. Recycling more spending and savings back into the Devon economy.

- **Social & Environmental** – Tackling financial exclusion and problem debt, improving financial capability and wellbeing, restoring trust and building civic participation, improved environmental and social performance.

1.8 A further extract from the presentation emphasis this by outlining the purpose of the bank which will form its legal constitution:

Mission-led business promoting sustainable and equitable prosperity
for the South West

- First **customer-owned** full service bank
- **Financial inclusion** in the rules
- **SME and social enterprise** focus
- Multi-channel, committed to **branches** and **relationship banking**
- **Scale and efficiency** – part of the CSBA network
- **Financial strength**: Profits £15m pa / loan book £380m by year 9

1.9 The presentation and Offer Document explain how the new mutual would help support the local economy and promote inclusive growth. In particular, it will help make banking more local, provide branch facilities in rural locations, recycle the savings of local people and businesses back into the regional economy, promote financial inclusion and improve access to credit for small and medium sized business. The ethos behind the new mutual is consistent with many aspects of the Council Plan including an important promise that any individual in the District can have an account, currently some individuals are excluded by the high street banks for differing factors which can make life extremely difficult for those individuals.

1.10 As stated there is a risk that there will be no financial return and the entire initial investment could be lost if the plan to launch the mutual is unsuccessful or a banking licence is not granted. Accordingly it is not recommend investing in the mutual with the primary purpose of deriving a financial return as that is deemed too much of a financial risk. Instead, it is proposed that the Council sets aside £49,995 from the business rate pilot monies from 2018/19 in a reserve that if necessary this investment can be written off against. This money has been deemed by the Council to be used on the promotion of financial sustainability across the economic area and for the investment in encouraging further growth. The Council still has an uncommitted sum available of £0.5m to £0.6m (depending on final year calculation).