

Date of Meeting 27 July 2023

Document classification: Part A Public Document

Exemption applied: None

Review date for release N/A

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## South West Mutual Regional Bank

### **Report summary:**

The committee asked for an update to be provided on the South West Regional Bank proposal in which this Council along with a number of other South West Local Authorities provided investment funding in order to set up a regional bank.

### **Is the proposed decision in accordance with:**

Budget Yes  No

Policy Framework Yes  No

### **Recommendation:**

To note the position

### **Reason for recommendation:**

Members of the Audit & Governance Committee requested an update

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### Portfolio(s) (check which apply):

- Climate Action and Emergency Response
- Coast, Country and Environment
- Council and Corporate Co-ordination
- Democracy, Transparency and Communications
- Economy and Assets
- Finance
- Strategic Planning
- Sustainable Homes and Communities
- Tourism, Sports, Leisure and Culture

### **Equalities impact** Low Impact

### **Climate change** Low Impact

**Risk:** High Risk; The Council in agreeing to this proposal understood there was a risk that there would be no financial return and the entire initial investment could be lost. This risk was accepted but Council supported the investment for the prospects of benefits that could be obtained for the region and used the business rate pilot monies to make the investment.

**Links to background information** [Cabinet report 6 February 2019](#) (item 161) recommending to Council to support £49,995 investment in South West Mutual.

[Local Authority update note June 2022](#)

South West Mutual update reports [6<sup>th</sup> February 2023](#) and [4<sup>th</sup> April 2023](#).

### **Link to [Council Plan](#)**

Priorities (check which apply)

- Better homes and communities for all
  - A greener East Devon
  - A resilient economy
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### **South West Mutual Bank**

1. Cabinet received a report 6<sup>th</sup> February 2019 along with a presentation from South West Mutual over a proposal to invest in the formation of a regional bank, this outlined objectives and benefits that would derive for business and the public of the region. The report can be found here [Cabinet report 6 February 2019](#) (item 161). An investment of £49,995 was recommended by Cabinet to Council who adopted the decision. The same level of investment was made by 6 local authorities in Devon.
2. In Accounting terms being prudent we chose to finance the share purchase at the point of acquisition and we wrote the shareholding down to £1 in 2019/20. This did not diminish the fact we still held the shares but in accounting terms if we were to de-recognise the investment at a later date there would be no effect on the Council's cash funds. The reason being the investment risk at the time and the motive for Council's was not an investment return but support more akin to a grant, Council approved funding to cover the investment from the 100% business rate pilot scheme we financial benefited from in the past.
3. Attached is an update report issued specifically to South West Mutual Local Authority Members in June 2022. This document outlines issues encountered and material barriers which have delayed and realistically halted the originally envisaged regional mutual bank. They state progress was hampered by the Pandemic and barriers relating to:
  - Competition law barriers preventing co-operation between regional mutual banks
  - Regulatory barriers to the creation of mutual banking start-ups
  - Lack of patient capital for purpose-led financial institutionsThese issues are explained in the attached update.

4. The update also explains a revised strategy:

*"-In response to these issues, the Board has adopted a revised strategy of introducing banking services in stages, starting with a business loan fund aimed specifically at smaller farms that want to invest in nature friendly farming practices – the South West Agroecology Fund.*

*The overall objective remains to obtain a full banking licence, and to introduce a full range of high street banking services to households and businesses in the region over time. The business model remains closely aligned to that originally presented to investors with modifications to take account of changes in banking technology and consumer trends.*

*The next step is to complete legal and operational preparations and raise finance to launch the South West Agroecology Fund in late 2022 / early 2023.-“*

5. However since this update was issued in June 2022 two further updates have been received in February 2023 and Apr 2023 which are both attached. In summary they state because of the changing economic situation the Board has suspended all current activities and are considering putting South West Mutual into hibernation until political or economic changes present new opportunities. We are awaiting the Boards recommendations to seek approval from members on next steps.

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### **Financial implications:**

The Council entered into this investment with the full knowledge of the risks and made a prudent decision to fund the investment at point of purchase, to de-recognise the investment on the Council's balance sheet will not have any effect on the Council's General Fund or any other cash funds.

### **Legal implications:**

As this is an update report only, there are no substantive legal issues to be added.