

CABINET

7 MARCH 2019

SUPPORTING THE FORMATION OF SOUTH WEST MUTUAL

Cabinet Member	Councillor Clive Eginton (Leader)
Responsible Officer	Stephen Walford, Chief Executive

Reason for Report: To seek approval to invest £49,995 to support the next stage in the setting up of South West Mutual as detailed in Section 3 and Appendix A, and confidential Appendices B and C (exempt information) to this report.

RECOMMENDATION: That the Cabinet recommend to Full Council:

1. To approve the investment of £49,995 in South West Mutual for the reasons set out in this report, the investment to be funded from the additional funds received from the 100% Business Rates Pilot Scheme.
2. Delegate authority to the Deputy Chief Executive (S151) to conclude the ordinary share acquisition.

Financial Implications: These are outlined throughout the report.

Legal Implications: If the investment is not covered by the Council's current investment strategy, it is outside the Policy Framework and therefore requires a recommendation to Council.

The proposal is consistent with the Council's powers to invest under the Local Government Act 2003 and the Localism Act 2011.

South West Mutual is a co-operative society registered with the Financial Conduct Authority, but yet to commence trading. The rules have been examined. If the Society is wound up, the members of the Society have no liability to contribute to its assets and no personal responsibility for settling its debts and liabilities. The liability of a shareholder is limited to the value of its shareholding i.e. it stands to lose out on its investment. A shareholder is not automatically a member of the Society – an application has to be made. The Board of the Society has the right to cancel any shares held by non-members without repaying the principal amount. The shares are non-withdrawable – this means that the Council cannot withdraw its share capital from the Society.

There are no state aid implications from the proposed investment. It is not aid, because it is not assistance which confers an advantage from the state – it is an investment being offered on the same terms to all with the share price fixed in the Society's rules. It is therefore a financial relationship in the normal course of business.

Members should note that there are two appendices which are classified as exempt information under paragraph 3 of Schedule 12A to the Local Government Act 1972 (Access to information: exempt information). Accordingly, if they wish to discuss this information in Cabinet (and/or subsequently at Full Council), it will be necessary to pass a resolution to move into Part II business for that part of the discussion.

Risk Assessment: [start text here and continue without indenting]

Equality Impact Assessment: No equality issues identified for this report. The project could provide a positive contribution by making banking services more readily available in the district.

Relationship to Corporate Plan: The proposal supports the Corporate Plan priority of Economy, encouraging business development and growth and also Community by helping the local community to access banking services, which are disappearing from the high streets across the District.

1.0 **Introduction/Background**

- 1.1 On 19 December 2018 Tony Greenham, of South West Mutual, delivered a presentation to Mid Devon District Council Cabinet Members and Leadership Team about the proposal to form South West Mutual – a regional bank for inclusive growth. A copy of the presentation can be found at Appendix A.
- 1.2 It is envisaged that this economic grant would align with the Corporate Plan priorities. See Appendix A, Page 15.
- 1.3 A series of questions have been answered by the Mutual as part of the Council's due diligence. The responses can be found at Confidential Appendix C. Members should note that this contains exempt information and is not for disclosure.

2.0 **Proposals**

- 2.1 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 a further investment of £17.5m in 2020 to capitalise the bank and enable it to commence trading.
- 2.2 It is envisaged that local authorities within the South West, who believe in the ethos behind the mutual and the benefits this could 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 lower risk.
- 2.3 South West Mutual launched its initial fundraising on 19 November 2018 seeking investment from private and institutional investors within the region. It is considered that the commitment of local authorities to invest in the initial Founder Share Offer will reinforce the confidence of private sector investor, 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 Mid Devon and the wider South West region.
- 2.4 The issue of retail banking disappearing from local communities across the district is one that has been highlighted at various council committees, with a

strong view that this disproportionately hits rural communities and rural businesses who need access to banking facilities. It is considered that supporting the formation of a new mutual bank would provide an opportunity to see new banking options come to fruition for local communities that might see branches of the big retail banks disappearing.

- 2.5 It is proposed that the Council uses funds from the predicted business rate pilot dividend to invest in the Mutual. In return for this investment of £49,995, the Council will receive 3,333 ordinary shares. Members will recognise that the investment may not necessarily be returned to the Council. This should not be viewed as a normal investment made for purely financial return but one which supports the local economy. Hence, at this stage, officers **do not recommend investing in the mutual explicitly to derive a financial return** as this is deemed too much of a financial risk.
- 2.6 These shares will receive a dividend of 7.5% if the new bank becomes profitable and this dividend will rise over time if South West Mutual is successful. 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” (being a measure of investment returns widely used within business and finance) of approximately 20% per annum.
- 2.7 Members will appreciate that this investment is risky, but without the funding, the proposed benefits to the local economy may never be realised.
- 2.8 It is envisaged that the Council would be one of the first to provide support to the mutual. At the time of writing this report three other authorities have signed up for Founder shares.

3.0 Conclusion and Recommendations

- 3.1 There are risks that should not be discounted. Members will need to be satisfied that the investment of £49,995 to South West Mutual, in return for 3,333 ordinary founder shares is consistent with the Council’s corporate strategy.
- 3.2 As the Council will receive ordinary shares, over the long term this initiative could be considered as an investment. However, this transaction should be viewed in the short term as akin to an economic grant.
- 3.3 Members recognise that this transaction is not without risk and therefore do not expect to re-coup the grant, nor a profit on any shares acquired. Confidential Appendix B contains the detailed Founder Share Offer document – members are to note that this document is exempt information and not for disclosure.
- 2.4 By making this “investment”, the Council will be forgoing potential return on the business rate pilot gain monies. The current investment return achieved by the Council is circa. 0.8% per annum. This equates to forgoing £400 per annum, if interest rates and returns were to remain the same.

- 2.5 The **recommendations** are therefore to approve the investment of £49,995 to support the further establishment of South West Mutual as a founder shareholder and to fund this through the use of the “dividend” from being a Business Rates Pilot Authority in 2018/19. We estimate this Business Rates dividend to be in the region of £330k.
- 2.6 The second recommendation is to delegate authority to the Deputy Chief Executive (S151) to complete the documentation associated with the share acquisition. The form is shown at Confidential Appendix B which is exempt information.

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Circulation of the Report: Cabinet Member, Leadership Team

List of Background Papers: