

CABINET

26 OCTOBER 2021

UPDATE ON THE FORMATION OF SOUTH WEST MUTUAL

Cabinet Member Cllr Andrew Moore, Cabinet Member for Finance
Responsible Officer Andrew Jarrett, Deputy Chief Executive (S151)

Reason for Report: To provide an update on the formation of South West Mutual.

RECOMMENDATION: That the Cabinet note the update.

Financial Implications: The £50,000 invested in this project to support the local economy bought 3,333 £15 ordinary shares. Should it succeed, the community should benefit and the Council may benefit financially through dividends. Should it fail, this will be a sunk cost.

Legal Implications: No equality issues identified for this report

Risk Assessment: Regular updates will be brought to Members to keep them informed of progress.

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 7 March 2019, Cabinet agreed to grant £50,000 towards the creation of the South West Mutual– a regional bank for inclusive growth.

1.2 The mutual sought initial investment in order to progress its Banking Licence application. It will then need to find an estimated £2.5m to set up operations and complete the banking authorisation process, and finally a further investment of £17.5m to capitalise the bank and enable it to commence trading.

2.0 The Market Context

2.1 Cabinet has not received an update on the South West Mutual for a while. This is largely due to Covid-19 which has impacted on the planned timetable for securing the Banking Licence. Members of the South West Mutual team have been furloughed during March - July 2020, December 2020 - January 2021 and June - September 2021.

- 2.2 Alongside, economic conditions have been less favourable, with interest rates at historic low levels and pressure on savings meant less funds were available to be invested; therefore attracting further funding to support the project has proven difficult.
- 2.3 This may also hamper gaining the investment to capitalise the bank, which also needs to increase as profitability assumptions have tightened to reflect the economic conditions and the costs of entry to banking are now significantly higher than originally forecast.
- 2.4 Another potential long term implication is the accelerated shift to online banking, which could have a knock-on effect on the future business operating model. The costs associated with cyber security and mitigating banking fraud have increased.
- 2.5 Despite the above issues, a further £125,000 investment was secured during the last financial year. At the same time, costs were reduced due to the furlough scheme and other scaling back leading to less of the up-front investment being required.
- 2.6 The Mutual has also increased its membership. At incorporation, the Society had 26 individual members and at 31 March 2021 the Society had 110 members comprising 12 corporate and 98 individual members.
- 2.7 The Mutual were still able to submit the draft regulatory business plan and meet with regulators before the end of 2020 with most of the feedback points already addressed.

3.0 **Change in Directors**

- 3.1 Roger Cawse (Non-Executive Director) resigned in November 2020, following a leave of absence due to ill health. The Board sought to replace him with another senior banker and was delighted to appoint Robin Foale, former Managing Director of Santander Business Banking and a Non-Executive Director of Reliance Bank in February 2021. Robin brings considerable banking and leadership skills and experience to the Board.
- 3.2 David Thomas (Chair of the Board) did not seek re-election to the Board at the 2021 AGM for health reasons. In the interim, Robin Foale took over duties as Chair of the Board.

4.0 **Regulations**

- 4.1 Another challenge that the Mutual has been grappling with is the regulations. As a co-operative society, the key piece of legislation is the Co-operative and Community Benefit Societies Act 2014. However, in May 2021 the Mutual received an unfavourable ruling from the FCA Mutuals Register on its ability to make capital gains on shares. Therefore the legal structure of the Mutual is being reviewed and may ultimately be amended before completing the application for the Banking Licence.

- 4.2 After considering the implications of competition law on the basis of expert legal advice, the Directors have concluded that the regional focus of the Society's banking activities will be better managed through applying geographical criteria to each product, where relevant, rather than to the location of the customer at the time at which they first become a member. This should improve commercial viability and member benefit.
- 4.3 Therefore the Mutual is examining how it can strike the right balance between the advantages of big (in regulation, compliance, technology costs and access to capital) and the advantages of being small (better customer service, local knowledge and lending quality).
- 4.4 The latest estimate on the time being taken to review licence applications is a maximum 12 months for the licence application, with a further 12 months provisional licence period required before trading can commence fully. This would mean mid-2024 before the first product openings. Any further update will be brought back to Cabinet.
- 4.5 As outlined in the original report to Cabinet, the risks remain that without successfully obtaining the Banking Licence, or failing to secure sufficient capital investment, the Mutual will be wound up and the South West will not have its own regional bank.

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Circulation of the Report: Cabinet Member - Leadership Team

List of Background Papers: