

EXECUTIVE

LEADER: Cllr Jeremy Christophers

PORTFOLIO HOLDER: Cllr Stuart Barker

DATE: 5 March 2019

REPORT OF: Martin Flitcroft, Interim Head of Corporate Services
and Cllr Stuart Barker Portfolio Holder for Corporate
Resources

SUBJECT: Supporting the formation of South West Mutual Bank

PART I

RECOMMENDATIONS

That the Executive resolve the recommendation to grant £49,995 funded from capital receipts to support the formation of South West Mutual Bank.

That the Chief Finance Officer be delegated responsibility to conclude the acquisition of 3,333 shares in South West Mutual.

1. PURPOSE

The purpose of this report is to agree the support for the formation of the South West Mutual Bank and provide funding to take the proposal to the next stage of the process to ultimately provide cost effective banking for local residents and businesses.

2. BACKGROUND

On 8 January 2019, Tony Greenham of the South West Mutual provided a presentation to members on the idea of regional banking. A copy of the presentation can be found at Appendix A.

To allow this to progress the Mutual requires a total of £500,000 of initial funding which it will create by the issuing of Founder Shares. These shares will receive a dividend of 7.5% once the new bank becomes profitable with the expectation that this will rise if the bank continues to be successful. The prospectus for the founder share offer closes on 31 March 2019.

The early stage of investment recognises a higher risk and as a result if a banking licence is obtained and the bank starts trading then Founder Shareholders will also receive an additional 2 shares for every share held.

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3. PROPOSALS AND TIMELINE

The Mutual is seeking an initial investment of £500,000 to progress its banking licence application. A further estimated £2.5 million will be required in 2019 to complete the banking authorisation process and set up operations. There will then be a requirement to find a further £17.5 million in 2020 to capitalise the bank and commence trading.

It is anticipated that other local authorities in the South West who believe in the principles around setting up the Mutual may also want to participate. We are aware that South Hams, West Devon and East Devon District Councils have signed up to contributing £49,995 each.

There is an assumption that local authorities investment into the Mutual will provide investor confidence for private and institutional investors to also invest and provide a substantial proportion of the remaining funding required to allow the bank to launch and start trading.

Much of the information and reasoning around setting up the Mutual are contained in the presentation in Appendix A but in summary the main reasons are, in a period of bank closures, help make banking more local, provide branch facilities in rural locations, reinvest the savings of local people and businesses back in to the local economy through providing improved access to loan and credit facilities for small and medium size businesses. This will help to assist new businesses with start up funding and existing businesses to grow and ultimately help economic regeneration and business rate growth and retention.

4. MAIN IMPLICATIONS – FINANCE/LEGAL & RISK

It is recognised that the proposal is in its infancy and therefore the investment should be seen at present as a high risk with the assumption that should the bank not get established there is the potential to lose the initial investment provided. If the likelihood is that the proposal and initial research identifies that the bank registration is unlikely then there is a chance that part of the funds may be returned. Long term – should the bank become established there is the potential for some investment return together with the economic benefits it may bring.

Whilst the investment is risky, the potential benefits may not be realised to the local economy if the investment grant funding is not approved.

Funding will not be drawn down unless the Mutual has sufficient funding to meet its requirements for the initial stages.

Liability is limited to the initial funding.

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5. SUMMARY

The investment provides opportunity for greater banking provision in the South West, economic growth, business investment and employment.

In addition there is the potential for an investment return and share price growth over the medium term.

Martin Flitcroft
Chief Finance Officer
Interim Head of Corporate Services

Cllr Stuart Barker
Portfolio Holder Corporate Resources

Wards affected	All
Contact for any more information	Martin Flitcroft
Background Papers (For Part I reports only)	Minutes O&S Committee 4 March 2019
Key Decision	Y
In Forward Plan	N
In O&S Work Programme	N
Community Impact Assessment attached:	N
Appendices attached:	A: SW Mutual presentation