



POLICY AND RESOURCES COMMITTEE

Wednesday, 17 March 2021

REPORT TITLE:	NORTH WEST MUTUAL BANK
REPORT OF:	DIRECTOR OF RESOURCES

REPORT SUMMARY

This report updates Members on the possibility of setting up a North West Mutual Bank which Wirral Council, in conjunction with two partner Councils Liverpool and Preston have been supporting.

This matter affects all Wards within the Borough.

The decisions in this report are key decisions.

RECOMMENDATION/S

The Policy and Resources Committee are recommended to approve the following, subject to a satisfactory due diligence exercise review:

1. Commit to jointly fund the costs/resources as outlined in paragraph 3.61 of the report to take the North West Mutual to the banking licence application stage subject to the outcome of the initial due diligence.
2. Commit to a further joint fund as specified in paragraph 3.63 to buy in to the use of intellectual property developed by other Mutuals.
3. Agree to enter into a cost sharing arrangement with other Councils for the purpose of the above.
4. Request a further report be brought to Policy and Resources Committee once the next stage is completed and prior to any investment decision with the North West Mutual.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATIONS

- 1.1 The Council at its meeting on 5 March 2019 agreed a £5.0m commitment in the capital programme 2019 – 2024 as an investment in the North West Mutual Community Bank. The proposal to create a Mutual aligns with the Community Wealth building Strategy and if successfully implemented would help to retain financial resources within the region, provide social benefits and employment opportunities benefits and help tackle financial exclusion.

2.0 OTHER OPTIONS CONSIDERED

- 2.1 The Council could decide not to proceed with support for this collaborative initiative. However, it is believed there are strong social and economic advantages for proceeding. The level of potential investment could also be varied although this may impact upon the ability of the bank to provide the full range of activity desired.

3.0 BACKGROUND INFORMATION

- 3.1 Since 2019 Wirral Council, in conjunction with Preston City Council and Liverpool City Council, have been exploring the potential for the establishment of a North West Regional Community Bank. Respective reports were considered by Cabinets in 2019. The goal is to support the development of a trustworthy banking institution to support sustainable economic development in the region by improving access to financial services, retain banking profits in the North West and recycle the collective savings of the region into regional based business loans and mortgages.
- 3.1.1 The Council has also been assisted by the Community Savings Bank Association (CSBA), The CSBA is a co-operative society established to rebuild a network of independent, local banks in the UK, which are owned by and answerable to their customers.
- 3.1.2 A report to Cabinet in September 2019 and a member workshop in the same month provided further detail behind the need for such a bank. This is discussed further below but important factors included the need for residents and businesses to have facilities to deposit cash and receive services, the threat of lack to access to monies via withdrawal of branches and Automatic Teller Machines (ATMs) and a poverty premium for those without suitable or no bank accounts - often the most in need - having to pay more for services than those who held bank accounts.
- 3.1.3 It is intended that the bank would be established as a Mutual Bank. The bank would in effect be owned by the members who deposit monies in the bank. The Council alongside the other Council's is assisting to bring the Mutual into existence with the potential (subject to due diligence) of investing with the Mutual bank. The Council will not own or operate the Mutual Bank. The bank will be independent from any Council control. Any influence on activities would be as a member.
- 3.2 Progress to date

- 3.2.1 An Outline Business Plan for the bank has been prepared by Dr Gemma Bone (Commissioned on behalf of the three local authorities) and is attached as an appendix. The business plan is underpinned by a detailed Financial Model. The plan contains sensitive commercial information and the appendix is therefore exempt. The charge for the preparation of the plan is shared equally across all three Councils.
- 3.2.2 A legal entity, Northwest Mutual Limited, has been incorporated as a co-operative society and registered with the Financial Conduct Authority (FCA) on 28 May 2020 (registration number 4705). As an interim measure two individuals from the Community Savings Bank Association have been appointed as Directors and members, with an officer from the Association of Public Sector Excellence (APSE)) being a further member.
- 3.2.3 A basic website is up and running at www.nwmutual.co.uk and potential web names have been registered by CSBA. A current account has been opened with the Co-op Bank. £500 has been deposited by CSBA to open the account.
- 3.2.4 The outline business case recommends a total Capitalisation of £20m. The Council has previously made an in-principle commitment of contributing up to £5m. Any Council commitment would be confirmed in the future and be subject to positive due diligence outcomes. CSBA advice is that investment funding is more likely to be pledged once at licence stage – when there would be less uncertainty for investors. If not reached the regulator would likely add restrictions and further conditions to protect the viability of the bank proposal.
- 3.2.5 Due diligence – Procurement was subject to some delay but a provider has now been selected. There has been some discussion between the local authorities as to the merits of having this undertaken at an early stage of the outline business plan. Feedback from the North East was that it was not necessarily a good use of resources at the outline business plan stage, as it was essentially a financial model audit, providing limited assurance. There is potentially more advantage in it being undertaken after plans are further developed. However, awareness and understanding of key assumptions, sensitivities and risks are important for decision making at this stage. On balance it may be considered better to proceed with a due diligence review as the next step, taking care to ensure that the testing of key sensitivities are included within the scope of the review, and undertake a full due diligence exercise prior to full investment of the funds.
- 3.2.6 Future liaison between the three Councils will be required for member/public reporting.
- 3.3 The Outline Business Plan - Summary
- 3.3.1 The outline business plan for a new regional bank for the North West of England is based on the Community Savings Bank Association (CSBA) model.
- 3.3.2 North West Mutual (the bank's working title is to be confirmed) would seek to provide a customer-owned high street full-service bank to retail customers and small to medium sized enterprises (SMEs) living in or with a connection to Merseyside,

Lancashire and Cumbria (the North West Region). The bank would offer current accounts, savings, overdrafts, unsecured and secured term loans and mortgages. In some locations the bank will offer safe deposit boxes. The bank would be accessible and transparent, combining a mix of physical and digital channels with a branch network comprising staffed and automated branches alongside internet banking and a mobile banking app.

- 3.3.3 North West Mutual would be a business that seeks to generate long-term sustainable financial returns and have a positive impact on its members and in the communities within which it operates. Whilst the bank would be relatively small as banks go, it would be relatively large in terms of the impact that it will have in the region, reaching £600 million of assets by year 9. The bank's focus will be serving the needs of the whole of the North West region, providing a safe, ethical and supportive bank which will lend to businesses that are creating jobs and invest in high quality sustainable homes by driving improvement in housing and home ownership.
- 3.3.4 The bank's vision is of an inclusive and sustainable economy in which individuals, businesses and communities can thrive. Businesses would have access to an ecosystem of support that helps them to grow and flourish, people are able to live in sustainable homes and the environment is respected.
- 3.3.5 The bank's purpose would be to exclusively support the regional economy. It will aim to work for current and future generations through the provision of honest, accessible, ethical and locally rooted banking services. It will support the priorities of the North West by being based in the region, understanding the needs of the region and creating jobs by investing in businesses who are growing and helping ordinary people to own a home. North West Mutual will ensure that customers can make their money work harder for them over time, will help them to achieve their realistic home ownership plans and help them save well for the future and for retirement.
- 3.3.6 The bank would be a mutual organisation, existing to serve its members. An organisational culture built on integrity is crucial in order to create a bank that people can trust. A different kind of bank, one built on a clear set of values that is set up to serve the population of the North West, is what is needed. Its governance, strategy, products, policies, recruitment, training and remuneration would be built upon these values:
 - a. The financial wellbeing of its members and their communities is at the heart of what it will do.
 - b. It will build trust through simplicity, honesty and transparency in all its conversations.
 - c. It will be fair and inclusive in all its actions and relationships.
 - d. It seeks to improve the financial capability of its members and employees and support them to achieve their aims.
 - e. It will leave future generations with a healthier natural environment than the one it has inherited.
 - f. It will deliver reliability and peace of mind for its members and employees.
- 3.3.7 The outline business case identifies an opportunity to create a new bank which is democratic, trustworthy, ethical and deeply rooted in the North West. As it will

operate with a different set of values and on a different scale to the current banking offer, it will be able to provide a more bespoke service tailored to the needs of individuals, businesses and communities in the region. There are eight macro trends that create opportunities for a bank that can both appeal to customers seeking a bank that aligns with their values, and better serve certain segments of the market that are not currently well served. These are:

- a. Loss of trust - People believe that the motivations or values of banks do not align with theirs. The vision set out here is of a bank owned by the people of the North West to support their region so that everybody can be better off.
- b. Values: social and environmental impact - Consumers are placing more emphasis on social and environmental factors in their purchasing decisions. The bank would ensure that our operations do not negatively impact on the environment, and will seek investments that actively improve the social and environmental landscape.
- c. Operational and functional distance: regional impact - How close decision-makers are physically and operationally to the people affected by those decisions has an impact on outcomes. North West Mutual will always be local.
- d. Under-provision: branch users - The North West region has lost over 38% of its branches since 2015 however many customers continue to value branches. There is a market gap for a low-cost branch offer that can meet evolving customer needs. The outline business plan is based on opening seven principal branches, each of which would have three satellite branches.
- e. Under-provision: Small to medium –sized enterprises (SME) finance - SMEs, both registered and unregistered, need access to bank current accounts and the payments system in all of its forms, for example flexible overdraft financing. North West Mutual will be part of a supportive ecosystem for SMEs and will link in with other forms of business support – if it doesn't have a product, service or facility for you, it will introduce you to someone who does.
- f. Under-provision: underbanked - Although some progress has been made, nationally over 1.2 million people still lack a current account, incurring a 'Poverty Premium'. North West Mutual would have a duty to help people access banking with support and guidance. It will seek to work with credit unions and design products that work for the financially excluded and support the existing good work in that sector.
- g. Low carbon transition - There is an anticipated growth in demand for finance for business and households to reduce their carbon footprint. This aligns values with a market opportunity for a bank with an environmental, social and governance (ESG) strategy. In section 4.2 on page 21, it is set out how the North West Mutual's values, structure and products can be designed to meet these needs.
- h. Access to Cash - There is a risk that access to cash may get even worse, as Automatic Teller Machine (ATM) providers consolidate the number of cash

machines and start charging for their services. The North West Mutual would therefore expand access to cash and will take into account local population vulnerability in branch placement decisions.

3.3.8 The outline business case identifies seven categories of potential investor which could take shares in the Bank:

- a. Other local authorities. The bank could receive equity investment from other local authorities in the region as well as long-term investment at a larger scale.
- b. Pension funds. A precedent has been set for this by the investment in Cambridge and Counties Bank by Cambridgeshire Local Government Pension Fund.
- c. Anchor/economic institutions such as Universities and Social Landlords.
- d. Impact investors, including social investment funds and religious organisations.
- e. High net worth / ultra-high net worth individuals and sophisticated investors.
- f. Regional businesses.
- g. Crowdfunding - Under consideration for the final tranche of equity capital prior to exiting mobilisation.

3.3.9 The banking regulations require that all aspects of the Bank's policies/strategies/decisions, including lending criteria etc. would have to be outside the control of the Councils. All decisions would need to be taken on a purely commercial basis, i.e. broader economic and social benefits would not be a relevant consideration. Any perceived Council influence would result in banking regulator intervention and in extreme cases sanctions such as fines and/or withdrawal of a banking license. The commercial approach required for the bank to grow its business whilst keeping default levels low could result in it not serving some businesses.

3.3.10 The financial success of a regulated North West Mutual Bank would be dependent on:

- a. Strong sustained growth in deposits and loans made.
 - b. Attracting a significant regional client base.
 - c. Securing sufficient partner funding for the investment of £20m of initial regulatory capital and the availability of further funds to maintain liquidity ratios.
 - d. Effective management of default rates and impairment losses.
 - e. A controlled cost base whilst attracting the calibre of staff needed to manage and run the bank in a very competitive environment.
- Compliance with banking regulations including the bank being outside the control of the Council and the other Local Authorities

3.3.11 The next stage is to have the resource and personnel in place during 2021. The banking licence process would then follow with the North West Mutual potentially being invited to submit its Regulatory Business plan. The timescale could potentially be shortened if the intellectual property developed by other Mutuals (see below) is bought into consideration and utilised.

3.4 Key considerations

- Due diligence
- Funding and resourcing

- The regulatory journey
- Governance and partnership arrangements

3.5 Due diligence

3.5.1 In addition to confirming the timing of the due diligence review, the scope of this work will also require careful specification. Some of the key financial risk factors which need to be considered in the feasibility decision include the possibility of significant financial losses arising from:

- lower than expected business growth (demand);
- inability to secure partner funding for regulatory capital;
- higher than expected impairment losses on defaulting loans;
- higher than expected set-up and operating costs; or
- a combination thereof.

3.6 Funding and resourcing

3.6.1 Should Members wish to take the North West Mutual Bank forward from this point to the Pre-Application stage (either before or after the due diligence review) approval would be required for funding of costs estimated at £350,000 by CSBA. Cost sharing arrangements would need to be agreed by the three Councils.

3.6.2 At least two key people will need to be appointed (initially on a fixed term basis) to lead the North West Mutual to the banking application stage:

- Chief Executive
- Non-Executive Chairman

A part time Chief Financial Officer (CFO) is also expected to be required. Specialist roles and skilled head-hunters will need engaging to identify and help recruit these. All key personnel will be required to have both necessary and suitable experience to drive through the various steps required to get the licence.

3.6.3 There is an opportunity for the North West Mutual to use intellectual property already developed by Avon mutual and the South West mutual. This includes business plans, governance arrangements and the ability to learn from their experience. There is a cost estimated at up to £200,000 (split between the 3 Councils) associated with acquiring the intellectual property which would reduce if more Mutuals subsequently bought in to share the costs already expended. This would achieve a quicker and smoother timeframe and facilitate the application process.

3.7 The regulatory journey

3.7.1 The banking licence application form is around 800 pages covering full range of policies and procedures, systems descriptions, risk analysis and mitigation plans. A full Regulatory Business Plan is required which is far more detailed and will be approved by the Bank of England (BoE), the Prudential Regulation Authority and the Financial Conduct Authority. This would include details of:

- i. Locations
- ii. Products
- iii. Local research on acceptability of products, services and likely take up.

3.7.2 The BoE will also need to approve bank Directors before licence/mobilisation. The bank Directors who will be appointed to operate the bank will need to be experienced, skilled in the banking field and will need to meet the criteria to show competence to undertake such a role and be fit and proper. Prior to the licence stage the appointment of Directors will be more flexible however moving forward they will need to satisfy the criteria set out by the BoE criteria. The Directors appointed at the pre licence application stage will undertake a key role in progressing the application to the banking licence stage.

3.7.3 CBSA estimates an 18 month process to get to banking licence stage and a cost of £350,000 for salaries and other costs of pre- application preparations. Approximately £3m would then be required for other costs such as banking software/IT and set up before the bank becomes operational.

3.8 Governance & partnership arrangements

3.8.1 The three councils would join the North West Mutual as members, appointing individuals to represent them.

4.0 FINANCIAL IMPLICATIONS

4.1 Members have previously agreed at the March 2019 Budget Council meeting a £5m contribution towards the establishment of a North West Mutual Bank. A contribution was also agreed towards the cost of the initial due diligence. Wirral's share of the costs outlined above in the report if split equally would be approximately £210,000. These would be funded from the aforementioned capital programme contribution.

4.2 The North West Mutual Bank will be classed as a separate entity and therefore the Council's liability will be limited to the amount of contribution paid. Therefore the maximum financial risk for the Council is £5m contribution should the full amount eventually be invested. The Council will have no control of the Mutual Bank however it will play a joint key role in establishing the bank and ensuring experienced Directors are selected in order to progress to the banking licence.

4.3 It is proposed that a cost sharing agreement is entered into between the three authorities to enable the sharing of costs as per the recommendations. The proportion share of the costs is still to be agreed.

4.4 It is recommended that further due diligence carried out at a later stage prior to the full investment being made.

4.5 Members should be aware that the business case sets out a capital investment requirement of £20m. Investors will be required to reach the full investment requirement. If the investment sum is not reached the regulator would likely add restrictions and further conditions to protect the viability of the bank.

5.0 LEGAL IMPLICATIONS

- 5.1 A Local Authority has power under the Local Government Act 2000 to promote the economic and social wellbeing of its area, thus supporting initiatives which enable economic regeneration and development.
- 5.2 As the investment in North West Mutual may be characterised as an activity for a commercial purpose then the Council can undertake that activity providing it is through a permitted structure. The North West Mutual is a registered society and as such satisfies such a requirement.
- 5.3 Before any trading can commence, regulatory consent is required. If this is not forthcoming then the Council will lose any monies it has expended getting the bank to that stage.
- 5.4 If the entity is subsequently wound up, then the Council will have no liability beyond its initial investment.
- 5.5 Shares in the Mutual are non-withdrawable, so the Council will not be able to reclaim its share capital, and can only cease to be a member if the Directors agree to that being the case.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

- 6.1 The Mutual's director and operational staff will be employed by the bank. The Councils will be involved in the initial recruitment process with guidance/input from specialist advisors/consultants.

7.0 RELEVANT RISKS

- 7.1 There are a range of risks associated with the progression of The Bank, however, these will be, in some part, addressed by the further due diligence exercise and the development of the business plan to Bank of England licence application stage. Should the process identify that a Mutual was not a feasible option costs incurred up to that point would not be recoverable. There is upside risk in the opportunities that a Mutual could provide to Wirral and beyond.
- 7.2. Following due diligence and dialogue with HM Treasury there is a potential that the proposal is not progressed, with the maximum exposure being the share of the development costs, further due diligence costs and any additional cost of intellectual rights if these are bought. If split three ways these would equate to approximately £210,000 per Council.
- 7.3. A further risk is that the proposal fails to attract other investors, potentially making the establishment of the bank unaffordable to the Council and partner investors.
- 7.4 The establishment of a Mutual involves a significant due diligence process and regulatory oversight from the Bank of England. The bank could only be established once it passed these stages. An outline business plan has been produced by an independent expert using the CSBA model and provides insight and suggested ways forward for developing the proposal.

- 7.5 Should the bank be established the Council would seek to invest up to £5 million to capitalise the bank. A subsequent bank failure could see all or some of these monies put at risk. Mitigation would be via the processes undertaken for achieving the banking licence which need to demonstrate proper oversight, systems and processes were in place before commencement, the appointment of suitably qualified personnel to run and oversee the bank and the regulatory framework the bank will operate within.
- 7.6 The Covid-19 pandemic may lead to changes in the economy and the way banks, businesses and individuals transact. It is too early to say what the impact this may have on any banking model. This will need to be considered as part of the development work for the business plan.

8.0 ENGAGEMENT/CONSULTATION

- 8.1 Community Bank Training was provided to all members on 10 September 2019. There has been no further consultation regarding this report.

9.0 EQUALITY IMPLICATIONS

- 9.1 The aim in the establishment of a North West Mutual will provide a customer owned high street bank which is accessible to retail customers. Customers will include those who currently lack access to banking services and are therefore often financially disadvantaged through lack of access.
- 9.2 A full equality impact assessment will be undertaken by the North West Mutual once proposals are further developed.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

- 10.1 This report deals with the next stages to take the Mutual to Bank of England application stage. As plans are developed further considerations of environmental implications will be drawn out in more detail. It is intended that the Mutual will provide modern services including some modern local branch local provision which will assist with minimising travel for staff and customers whilst also offering on-line services which will also have environmental benefits. The bank expected values include the aim to leave future generations with a healthier natural environment than the one it has inherited. There is a market opportunity to help create for a bank with a strong environmental, social and governance (ESG) strategy including with a low carbon impact.

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APPENDICES

Appendix 1: Northwest Mutual A Business Plan (Draft) - Exempt

BACKGROUND PAPERS

Background to CSBA and recent history of Regional Mutual Banks
Detailed analysis of Wirral Demographic Financial Inclusion
Northwest Mutual Business Plan Draft
Cabinet reports from Wirral, Liverpool and Preston Councils

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Cabinet: North West Community Mutual Bank	30 th September 2019
Council: Capital Programme	5 th March 2019