

CABINET**30 SEPTEMBER 2019****NORTH WEST MUTUAL COMMUNITY BANK**

Councillor Janette Williamson, Cabinet Member for Finance and Resources, said:

“I am delighted that Wirral Council is set to join forces with other local authorities in the North West to open a high street bank. The move will see a main branch and a number of “satellite” branches opened at key locations across the borough. The aim is to help the most vulnerable people in Wirral and also small businesses struggling to access the banking services they need.

There is no doubt that it ‘costs more to be poor’ and working with other councils we are determined to do our bit to help those who need it most. Alongside Preston and Liverpool Council we will step in to provide the service the high street banks are failing to provide as they focus on their most valuable customers and shut branches where many of our residents actually need them most.

Branches closing down on the high street mean businesses, such as many small traders around Wirral’s coast who work mainly with cash, struggle to deposit their money. Insurance is expensive if they keep money on their premises and it’s costly for them to travel a lengthy distance to main branches every night to put their money somewhere safe every night.

It’s not just local businesses who will benefit from this. Older people who get a pension regularly use their accounts to receive the pension then withdraw it often in one go to pay their bills and other expenses. Many banks find this unprofitable and combined with branch closures it makes managing their finances difficult.

In addition, there are many people who struggle to get accounts. They may not have permanent accommodation or have not lived somewhere long enough to qualify to open an account or have a poor credit history. The poverty premium whereby essential services cost more if you don’t have a bank account can cost between £490 - £750 per year. With our Community Bank we will support the most vulnerable to keep more of their own money by making a bank account accessible to them.”

REPORT SUMMARY

Local authorities have a role to play in shaping regional financial services as part of their policies and partnerships, these support residents, develop local economies and meet strategic objectives for promoting economic development; and includes supporting small and medium-sized enterprises’ (SMEs) business growth and financial inclusion for all members of our community.

The current UK banking institutions and infrastructure do not provide a diverse and inclusive financial services. Many individuals and businesses are excluded from a basic banking offer, as they are considered unprofitable or too risky, within the standard banking business

model. In our environment, this is noticeable in multiple branch closures, withdrawal of free to use ATMs and increased reliance on a digital offer.

The impact of this is most keenly felt by the most vulnerable individuals and businesses. Reduced access to basic banking services increases costs, places unfair limitations when accessing other services / products and reduces social mobility.

A growing number of local authorities are now investing in community banks, challenger banks and other initiatives outside the mainstream financial services sector to help meet their local priorities.

Wirral and other authorities in Cumbria, Lancashire and Merseyside (from now on referred to in this report as the North West) have the opportunity to support the setting up of a regional bank called North West Mutual (NWM) Bank (The Bank).

The Community Savings Bank Association, registered with the Financial Conduct Authority is seeking to develop 19 regional community banking models across the UK, with London and the South West already in the pipeline and Wales and some other regions following close behind.

Prior to and once established The Bank would need to approach potential social investors and regional anchor institutions, that share the social and economic ethos of the mutual, to invest circa £20m of the share capital required. It is intended to hold a potential investor day together with Liverpool and Preston councils, once the appointment of the banking expert has been made.

A due diligence exercise will review the case to establish a North West Regional Community Bank (The Bank) creating a regional community bank for the North West of England covering Cumbria, Lancashire and Merseyside.

This matter affects all Wards within the Borough.

This is a key decision.

RECOMMENDATION/S:

1. The Cabinet endorses the requirement for a North West Mutual Community Bank
2. The Cabinet agrees to delegate responsibility to the Director of Finance and Investment to carry out a due diligence exercise into the establishment of a Community Savings Bank.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

- 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 due diligence exercise will look at the potential financial return and the risks associated with the model. The initial case put to the council would suggest returns of annual dividends of 7.5% could be achieved by year 5, with future increases related to share of profits. It is expected that a high and growing dividend yield, moderate share price growth is likely over the medium term and impact investors (such as local authorities) can choose to extract the additional return or recycle financial returns into further social impact in debt, poverty alleviation or financial capability and training.

2.0 OTHER OPTIONS CONSIDERED

- 2.1 The Council could use due diligence information that Regional Partners provided in conjunction with internally-sourced demographic information. This has not been explored further as the scale and reach of the project will benefit from an expert approach, and provide greater insight in specific requirements for Wirral residents and businesses.

3.0 BACKGROUND INFORMATION

The Rationale for a Community Bank

- 3.1 The UK bank landscape and investment institutions currently do not provide a diverse and resilient financial system that has enough variety and choice to serve the needs of all our community. Groups of individuals and businesses are excluded from obtaining a basic level of service from financial services providers; bank branches closure in the region have been significant and often in the poorest areas at a time, when there are still large sections of our community who rely on bank branches to carry out their banking needs, both business and personal. ATM charges are becoming the norm and the poverty premiums mean that those that are the most vulnerable pay more for financial services products.
- 3.2 Local banks supporting local businesses have been successful in Germany with around 70% of banking carried out by some 1,700 local co-operative banks, and are defined by providing services in the public interest, over that of shareholders. Each savings bank is independent, locally managed and concentrates its business activities on customers in the region in which it is situated. This model could be sustainable in the UK.
- 3.3 According to Bristol University, individuals on low incomes suffer an average of £490 p.a. additional costs due to being prevented from accessing preferential deals due to their income levels and history. The impact of this 'poverty premium' can be severe - for 10% of these households the cost rises to £780 p.a. and for those in severe hardship this premium rises to as much as £2,250 p.a. These costs are attributed with lack of access to a full current account, a necessity to use high-cost credit, living in perpetual overdraft debt, households using high cost "rent-to-own" for essential household goods.

Financial Inclusion

- 3.4 One of the main characteristics of financial exclusion is having no bank account and no access to the financial services which are provided through it. It should also be noted that not having a bank account will affect a person's ability to get a job, arrange accommodation, pay bills and prove their identity. In particular, those claiming Universal Credit will need to have a bank account. Wirral's residents are facing high levels of debt and financial exclusion as a result of the impact of recent welfare reforms coupled with low median household incomes. Information regarding Wirral residents who are likely to be exposed to Financial Exclusion are included in Appendix B.
- 3.5 A consequence of financial exclusion is that those households pay a 'poverty premium' because they pay more for accessing basic financial products and services as well as higher costs for paying for energy and insurance. The most recent research estimates that the average cost which poor families bear in acquiring cash and credit, and in purchasing goods and services, can amount to a 'poverty premium' of around £490 a year with the most affected experiencing a poverty premium of £750 a year. To poor households these are significant sums. People on low incomes must often rely on 'sub-prime' credit or high-cost mail order at higher rates of interest because they cannot access mainstream financial services.

Small and Medium-Sized Enterprises (SMEs)

- 3.6 SMEs can struggle to access finance from the mainstream banking sector and since the financial crisis banks have reduced the amount of risk they are willing to take on in their lending decisions to SMEs. Credit conditions have tended to be more constrained for smaller SMEs. Empirical studies show that large banks have a propensity to lend to large businesses and small to medium-sized enterprises (SMEs) will be overlooked by them.
- 3.7 According to recent data from the ONS, Wirral's local economy is dominated by the SME sector. These are the organisations who often struggle to raise loans from big banks and could be better served by a smaller bank. According to the latest national data on SMEs from UK Finance, loans to the sector are falling. Around 20% of loan applications from SMEs were rejected by the major banks in Quarter 2 of 2017 and there was a 14% fall in applications compared to Quarter 2 in 2016. Lack of access to financial services limits the sustainability and growth of SMEs.

Community Bank Offer

- 3.8 NWM Bank looks to offer financial inclusion, the same service for all regardless of income and will charge a simple and transparent upfront membership fee of £5/month for personal accounts, £10/month for business accounts to all customers. In return for this fee, there are a range of benefits that current account providers will receive such as:
- The provision of staffed branch services, which many SMEs rely on for cash banking facilities.
 - Local knowledge supporting local decisions.
 - A current account without requiring a minimum income or a credit check, which means that customers currently excluded and seen as a greater risk can bank, improve financial management and receive the wider benefits from direct debit discounts.

- Interest will be paid on whole combined balance across accounts including current account balances.
- No complex additional charges (for example SME's paying in cash).
- Access to cash via ATM's will be free.
- The main credit product for Individuals and SME's is an overdraft, which can only be provided directly by banks, addressing the gaps in services offers from credit unions or post office accounts.
- Access to residential mortgages as well as business and personal loans at reasonable rates.

3.9 The guiding principle is that the management fee is outweighed by the other financial benefits and look to actively reduce 'poverty premium' for low income families.

4.0 FINANCIAL IMPLICATIONS

4.1 The likely cost of an initial due diligence exercise is £50,000, a revenue item which would be funded from existing reserves

4.2 The due diligence exercise will identify if the NWM Bank is a viable option for Wirral Council and its regional partners. If this is the case, there will be further costs. Once incorporated, NWM anticipates a timeframe from concept to trading from 2020 – 2022 and is seeking total investment of circa £20m in 3 rounds.

- Round 1 – Q4 2019 - £300,000 - initial investment to build initial team and start licensing process - Investment in this round will result in two free shares for every share purchased which NWM estimate equates to circa 20% Internal Rate of Return (IRR).
- Round 2 – Q1 2021 - £2.0m - Investment to finalise licensing, test systems, build bank team and first branches and HQ – Investment in this round will result in one free share for every share purchased which estimate equates to circa 15% IRR.
- Round 3 – 2022 - Investment drawn down day after license gained to capitalise the bank. Operations go live with branches fitted out and systems integrated, and trading commence £18m - Investment in this round will result in one share and circa 7.5% dividend.

4.3 It should be noted that if the due diligence exercise leads to a decision not to proceed, this cost is sunk.

5.0 LEGAL IMPLICATIONS

5.1 The local authority has the power under the 2000 Local Government Act to promote the economic and social wellbeing of the borough, enabling it to support initiatives which support economic regeneration and development.

5.2 There are two primary powers which would enable the Council to invest in NW Mutual – Section 12 Local Government Act 2003 and section 1 Localism Act 2011. Under section 12 (a) Local Government Act 2003 a local authority may invest for any purpose relevant to its functions. There is no limit on the nature of the investment, provided it is relevant to the authority's functions. Section 12 (b) Local Government Act 2003 allows a local authority to invest for the purposes of the prudent management of its financial affairs. Investment under (b) is aimed at general

prudential management of finances, which would mean any investment would need to comply with the authority's investment strategy etc. Section 1 Localism Act 2011 gives a general power of competence. As the investment in NW Mutual may be characterised as an activity for a commercial purpose, then the local authority can undertake the activity through a permitted structure as set out in s4 Localism Act 2011. The proposed NW Mutual structure as NW Mutual is a registered society within the meaning of the Co-operative and Community Benefit Societies Act 2014, which is permitted under section 4.

5.3 NW Mutual will be a co-operative society registered with the Financial Conduct Authority, but yet to commence trading. It requires regulatory consents before it can commence trading, and if these are not forthcoming the Council will lose its investment.

5.4 As a limited liability entity, if NW Mutual is wound up, the Council will have no liability beyond the value of its initial investment. The shares are non-withdrawable – this means that the Council cannot withdraw its share capital from the Mutual; it can only cease to be a member if the directors of NW Mutual agree to that being the case.

5.5 A shareholder is not automatically a member of the Mutual – an application has to be made. It is envisaged that the application to become a member will take place at the same time as the application to subscribe for shares. If the application to become a member is not accepted, NW Mutual is under no obligation to repay the subscription monies for the shares.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 No adverse implications for Staffing, ICT and Assets

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 initial due diligence exercise.

8.0 ENGAGEMENT/CONSULTATION

8.1 Community Bank Training was provided to all members on 10 September 2019

9.0 EQUALITY IMPLICATIONS

9.1 There are no adverse equality implications at this stage. A full equality impact assessment will be carried out by the NWM

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APPENDICES

Appendix A – Background to CSBA and recent history of Regional Mutual Banks
Appendix B – Detailed analysis of Wirral Demographic Financial Inclusion

BACKGROUND PAPERS

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Full Council Capital Programme approval	5 March 2019

Background to CSBA and recent history of Regional Mutual Banks

North West Mutual is being set up under the umbrella of the Community Savings Bank Association (CSBA) – a registered co-operative under the Co-operative and Community Benefit Societies Act 2014 – which is aiming to create a network of 18 community banks in the regions. CSBA is aiming to encourage stronger regional banks and challenge the concentration of market share of the Big Five: Barclays, HSBC, Lloyds Banking Group, RBS and Santander. Since 2010, national policy has encouraged diversification of the banking and finance sector.

To date, none of the CSBA sponsored regional banks are as yet operational. However, in the regions and in London, local authorities have been investing in and supporting non-mainstream banking and financial services initiatives. So far, the largest has been Hampshire Community Bank which has attracted investment from a number of local authorities, including Portsmouth City Council which approved a capital investment of up to £5 million in preference shares in 2014 while Eastleigh Borough Council bought £500,000 in shares in 2014 in the bank. Other local authority investors include Winchester District Council and Test Valley District Council and in total, councils have committed £6.25million as investments. The bank intends to issue a 7 per cent return to these investors via dividends on the shares for 10 years. ¹

Hampshire Community Bank was set up by the Local First Community Interest Company. As a community interest company, surpluses are mainly re-invested in the business or in the community and half of the returns go to HCB Foundation, a charity. As a not-for-profit bank it cannot ever be taken over or sold and exists to benefit local communities. The bank is in the process of applying for a banking license to the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). However, joint working between Local First Community Interest Company and the local authorities has enabled loans from a Regional Growth Fund totaling £1.1million to be made to support small and medium-sized enterprises (SMEs) operating in the area. ²

The model for the Hampshire bank is the *Sparkassen* in Germany, local savings banks which provide long-term finance for local businesses, promote savings, and offer credit services to all customers, regardless of their personal income and financial situation. Surpluses and profits generated remain with the savings bank and stay in the regional economy. ³ In some *Sparkassen* 40 per cent of their lending is totally unsecured but they have very low default rates because of strong relationships of trust and between the savings bank and businesses. ⁴

Other examples of community banking in the regions supported by local authorities include Cambridge and Counties Bank, which was set up as a partnership between Trinity Hall College and Cambridge and Cambridgeshire Local Government Pension Fund. In Warrington in the north-west, the Redwood Bank in Warrington focuses on the SME sector and in April 2017, Warrington Borough Council became a shareholder and acquired a 33 per cent stake. Redwood Bank also offers accounts to clubs, associations, charities and societies. ⁵ It should be noted that not all initiatives by local authorities in this area have been

¹ Eastleigh Council Audit and Resources Committee, 9 August 2017; Portsmouth City Council, Cabinet Report 15 July 2014

² www.hampshirebank.org

³ CV Simpson, 'The German Sparkassen' (Civitas, 2013), pp.10-20

⁴ London Assembly, Economy Committee, Transcript 10 October 2017

⁵ www.redwoodbank.co.uk/inside-redwood/history/

successful. Bournemouth Borough Council established the Bournemouth Community Finance Company in 2014 using £15 million of unallocated capital reserves. It had forecast a return of between £6.9m and £24.2m over its first 10 years. However, the company was closed in 2015 after lending to around 22 business in 18 months. ⁶

Local authorities are also supporting microfinance initiatives. Microfinance emerged originally in developing countries. For example, M-PESA in Kenya allows users to deposit money into an account stored on their smartphones, send balances through SMS to other users and redeem deposits for cash. While it does not pay interest on deposits, or make loans, it is increasing trade and household savings. ⁷ Similarly, Grameen Bank in Bangladesh has led community development by making small loans to the poorest households enabling them to develop businesses and stimulate growth. The methodology and thinking behind microfinance is being applied in the UK. Fair Finance, which started in 2012 in Tower Hamlets, has helped 30,000 financially excluded residents and lent over £17million in 15,000 loans, and £1million in loans to small businesses. Fair Finance's first branch was on a council estate in Stepney, and it now operates five branches in south and east London. It has also helped the most financially excluded people open accounts with mainstream banks and was one of the first community finance organisations in the UK to start updating client payment histories to help improve their access to credit. ⁸

North West Mutual is incorporated under the Co-operative and Community Benefit Societies Act 2014 and registered by the Financial Conduct Authority (FCA) as a co-operative society. Constitutionally, the governance of the co-operative would be controlled by its members who would run it on the basis of one-member-one-vote so it would be a mutually owned bank. The directors of the board would be elected. As a co-operative, the bank would trade purely for the mutual benefit of its members and any surpluses will be shared with members as dividends, proportional to investment, as well as loan interest rate rebates and savings rate bonuses. ⁹ Shareholders in the bank would also have to be members and would be entitled to vote on the basis of their membership – shareholding is non-voting. Customers of the bank, whether businesses or current account holders, would be members. In effect, the governance arrangements mean that customers would own the bank.

The business model of NWM is to be a regional bank for the North West. It will be protected from being taken over, floated or operating outside of the North West and membership will be restricted to those individuals who are resident in the area or businesses which operate in the area. The operating model is that local savings will be used exclusively in the North West to make local loans, creating and retaining wealth within the regional economy. NWM will be constitutionally precluded from any speculative trading on its account or operating outside of the North West. Similar to Hampshire Community Bank the model is influenced by the German *Sparkassen* and puts importance on trust relationships between the bank and its customers and long-term relationships between them. NWM is also committed to local knowledge of the needs of customers and businesses within the region and to face-to-face personal relationships with them, which may not be practiced by mainstream banks. Membership and a shareholding in the bank would commit the local authority to this type of long-term relationship.

⁶ Mark Sandford, 'Local Government: Alternative Models of Service Delivery' (House of Commons Library Briefing Paper, May 2016) p20

⁷ William Jack and Tavneet Suri, 'Mobile Money: The Economics of M-PESA', (National Bureau of Economic Research, 2011).

⁸ <https://www.fairfinance.org.uk/about-us/history/>

⁹ Timothy Edmonds and Jeanne Delebarre 'Social Enterprise' House of Commons Briefing Paper, (July, 2016),

Financial Inclusion Demographics

Wirral’s residents are facing high levels of debt and financial exclusion as a result of the impact of recent welfare reforms coupled with low median household incomes. In response, the council has developed a Financial Inclusion Strategy as part of the draft Community Wealth Building Strategy to coordinate activities across departments and work with partners.

One of the main characteristics of financial exclusion is having no bank account and no access to the financial services which are provided through it.¹⁰ It should also be noted that not having a bank account will affect a person’s ability to get a job, arrange accommodation, pay bills and prove their identity. In particular, those claiming Universal Credit will need to have a bank account. ONS does not have borough-level data; however, ONS data shows that 3% of households in the north west have no bank account of any kind, this rises to 4% when the Post Office Card Account (POCA), which has limited functionality and is not considered by the Treasury to lead to full financial inclusion, is excluded. 8% of Households in the North West do not have a current account.

Table 1: Percentage of Households Without Bank Accounts/Current Accounts

	England	North West	16-24*	85+*	BAME*	Single Pensioner*	Single Benefits*	Workless/ Inactive*
No Account (Including POCA)	3%	3%	5%	5%	4%	4%	10%	11%
No Account (Excluding POCA)	3%	4%	6%	6%	4%	5%	10%	13%
No Current Account	6%	8%	12%	8%	7%	8%	14%	21%

Source: Adapted from Family Resources Survey 2017/18, ONS; *DWP data for households in United Kingdom

¹⁰ Transact: The National Forum For Financial Exclusion/Resolution Foundation Briefing, 2015

There are at present an estimated 149,000 households in Wirral. Based on the percentage for the North West without an account there are likely to be around 5,960 households in Wirral without a bank account (excluding POCA). Assuming the (mean) average household size is 2.8 people there could be around 16,700 people at least living in households without a bank account at present and therefore suffering financial exclusion. ¹¹

However, a segmentation of the national ONS data for households by age, ethnicity, worklessness and economic inactivity and those in receipt of benefits, who are the main groups at risk of financial exclusion, suggests the figures for Wirral of households without a bank account or current account may be higher than the North West percentage. Wirral has a far lower BAME population than the North West or national average – 5% compared with 12.9% for The North West. The percentage of worklessness households in Wirral is 16.1%, lower than the North West average of 10.3%, but the number of economically inactive people is 21.9%, which is lower than the North West average of 23.1%. ¹²

In addition, Wirral has a residual problem of low pay. Median average household earnings for full-time workers in Wirral are £529.6 per week compared with a North West average of £532.1 and national average of £571.1. The percentage of adults who claim work related benefits in Wirral is 3.7% compared with the North West average of 3.5%. ¹³

A consequence of not having a bank account and financial exclusion is that those households could pay a 'poverty premium' because they have to pay more for accessing basic financial products and services as well as higher costs for paying for energy and insurance. The most recent research estimates that the average cost which poor families bear in acquiring cash and credit, and in purchasing goods and services, can amount to a 'poverty premium' of around £490 a year with the most affected experiencing a poverty premium of £750 a year. To poor households these are significant sums. People on low incomes must often rely on 'sub-prime' credit or high-cost mail order at higher rates of interest because they cannot access mainstream financial services. ¹⁴

There are concerns regarding the effects of welfare reform. Under the new system of Universal Credit people are expected to claim online and have payments paid into bank accounts. Full rollout for Wirral was implemented in January 2018. The NWM model could help to mitigate wider effects of welfare reform and in particular Universal Credit such as payments direct to households rather than landlords which may push some households into arrears. The NWM current account product would offer 'jam-jar accounting' so that money is ring-fenced and separated as it comes in. The introduction of Universal Credit is thought to be making it more difficult for people to budget so the 'jam-jar' approach of dividing money into separate pots for different purposes means that once a recipient has a monthly payment they can ring-fence an amount for the rent and a certain amount for bills. NWM also plans to have financial literacy and initiatives to help people with budgeting. There will be a monthly

¹¹ Estimate based on taxable household data from Wirral Council Business Intelligence Team, July 19

¹² 'Labour Market Profile Wirral' NOMIS official labour market statistics 2018, Office for National Statistics

¹³ NOMIS official labour market statistics 2018, Office for National Statistics (includes Universal Credit claimants)

¹⁴ Family Resources Survey 2015/16 (Office for National Statistics, 16 March 2017); Sara Davies, Andrea Finney and Yvette Hartfree, 'The Poverty Premium: When Low-Income Households Pay More for Essential Goods and Services' (University of Bristol, 2016)

flat-rate fee of £5.00 but NWM will have no hidden fees, charges for a bank letter, or unauthorised overdraft penalties. ¹⁵

Wirral Council also has a long-standing policy commitment to supporting the development of credit unions. NWM would enable the credit unions which operate in the borough (o access greater sources of finance and increase their capacity locally.

Small and Medium-Sized Enterprises (SMEs)

SMEs can struggle to access finance from the mainstream banking sector and since the financial crisis banks have reduced the amount of risk they are willing to take on in their lending decisions to SMEs. Credit conditions have tended to be more constrained for smaller SMEs. Empirical studies show that large banks have a propensity to lend to large businesses and small to medium-sized enterprises (SMEs) will be overlooked by them. As a regional bank anchored in the North West economy, NWM argues it would be better placed and more receptive to lending to the borough’s SMEs and enabling this sector to grow.

According to recent data from the ONS, Wirral’s local economy is dominated by the SME sector. Of the 8,550 enterprises in the borough, only 20, (0.23%) have 250 or more employees. The biggest segment are micro-enterprises of up to 9 employees at 88.7%, 7,580 employees followed by small enterprises, 815 employees (9.5%). ¹⁶ These are the organisations who often struggle to raise loans from big banks and could be better served by a smaller bank. According to the latest national data on SMEs from UK Finance, loans to the sector are falling. Around 20% of loan applications from SMEs were rejected by the major banks in Quarter 2 of 2017 and there was a 14% fall in applications compared to Quarter 2 in 2016. ¹⁷

Table 2: Enterprises in Wirral and the North West by Number/Percentage

Enterprises	Wirral number	Wirral Percentage	North West number	North West Percentage
Micro 0-9	7,580	88.7	238,155	88.9
Small 10-49	815	9.5	24,290	9.1
Medium 50-49	135	1.6	4,315	1.6
Large 250+	20	0.2	1,005	0.4
Total	8,550	-	267,765	-

Source: NOMIS official labour market statistics 2017, Office for National Statistics

In year 2016-17 the Cabinet agreed to participate ‘in principle’ in a pilot business rates pool in 2017-18 year and to enter into negotiations with other boroughs. The devolution of business rates means that SMEs will become particularly important and their growth needs to be encouraged. However, the lack of finance available to SMEs is thought to be imposing

¹⁵ ‘The Mayor’s Role in Promoting Financial Inclusion’, London Assembly Economy Committee, 10 October 2017

¹⁶ NOMIS official labour market Wirral Profile statistics 2018, Office for National Statistics

¹⁷ www.ukfinance.org.uk/sme-finance-data-q2-2017/

restraints on the growth of some SMEs in the borough. A regional bank for the North West such as NWM could help overcome these bottlenecks faced by the sector.

Since the 2007-2008 financial crisis, securing access to finance remains a major barrier to start up and growth for some businesses, notably SMEs. Gaps include micro loans, early stage venture capital, and debt and equity for established SMEs. In particular, micro and small businesses report higher decline rates on new/renewed loan facilities. For micro businesses the decline rate remains notably high at 35% for those with 1-9 employees.¹⁸ 88.7% of Wirral's business base are microbusinesses with 0-9 employees.¹⁹ If we applied this decline rate to the 7,580 Wirral Micro businesses then this would equate to 2,653 businesses who would be declined finance.

The length of time a business has been operating can also impact on its ability to secure finance. Bibby Financial Services²⁰ surveyed 1,000 SMEs and found that nearly half of those who had been rejected for finance were turned down because they had not been trading long enough.²¹ Research conducted on behalf of CYBG, a banking group, suggests that 35% of SMEs continue to find accessing finance from banks a challenge. In addition, 9% of SMEs said that accessing finance is either very difficult or almost impossible. SMEs identified an increase in the availability of finance as the most important factor in their region which could help them grow and prosper, with 41% of SMEs saying it is the most important development in their region.²²

According to a leading financial consultancy firm, Hadrian's Wall Capital (HWC). Over half of the country has seen bank lending to SMEs fall over the past year, as small businesses continue to face difficulties securing finance.¹⁴

NWM has said that a key part of its business model would help SMEs and micro-businesses in particular. Anecdotally, the majority of SMEs still access physical branches. For example, many cannot or do not want to keep cash on their premises. Wirral, like other areas of the uk, has experienced the closure of bank branches in recent years, which has reduced the size of the network. The NWM model would include a branch with a local director who would build up knowledge and relationships with local SMEs as well as having a good understanding of the local regional economy. A director would be able to make decisions about loans to SMEs based on a greater familiarity with local businesses than the big four banks, and on the basis of trust and relationships developed over time with local SMEs. The business model should mean that SMEs do not have to make the sub-optimal choices about accessing credit and loans which have been described in the surveys. The structure of SMEs in Wirral, as shown in 3.13, is heavily weighted towards coastal and microbusinesses – exactly the organisations which are most affected by sub-optimal financial decisions

¹⁸ <http://responsiblefinance.org.uk/2017/10/responsible-finance-is-critical-to-supporting-small-businesses-and-underpinning-londons-economic-success/> - (BDRC SME Finance Monitor, Q2 2017)

¹⁹ Inter Departmental Business Register (ONS), 2017

²⁰ Leading independent business funder

²¹ <https://www.fsb.org.uk/media-centre/press-releases/access-to-finance-still-a-problem-access-to-finance>

²² <http://smallbusiness.co.uk/smes-challenges-access-finance-banks-2537961/>: