

CABINET – 3 DECEMBER 2014

THE OVERVIEW & SCRUTINY COMMITTEE – 8 DECEMBER 2014

HAMPSHIRE COMMUNITY BANK

REPORT OF CHIEF FINANCE OFFICER

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RECENT REFERENCES:

CAB2594: Capital Outturn 2013/14, 2 July 2014

EXECUTIVE SUMMARY:

Earlier this year the Council approved the inclusion of £250,000 in the capital programme for the purposes of supporting the development of a Hampshire Community Bank.

In order that funds can be released to meet the timetable of when subscriptions are likely to be called (February 2015), approval is being sought for the release of the funds (under Financial Procedure Rule 6.4) to be delegated to officers in consultation with the Portfolio Holder for Finance and Organisational Development.

RECOMMENDATIONS:

That Cabinet:

1. Approve capital expenditure of £250,000 under Financial Procedure Rule 6.4 to be delegated to the Chief Executive in consultation with the Portfolio Holder for Finance and Organisational Development and the Chief Finance Officer, subject to the satisfactory completion of Due Diligence.

That The Overview & Scrutiny Committee:

1. Considers whether it wishes to make any comments to Cabinet on this proposal in the light of the risks associated with a project of this nature.

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2. Introduction

- 2.1. Earlier this year the Council made a provision in its capital programme for an amount of £250,000 to allow the Council to indicate its support for the proposed Hampshire Community Bank.
- 2.2. In order that funds can be released to meet the timetable of when subscriptions are called (now planned for February 2015), approval is being sought for the release of the funds (under Financial Procedure Rule 6.4) to be delegated to the Chief Executive in consultation with the Portfolio Holder for Finance and Organisational Development and the Chief Finance Officer, and subject to the satisfactory completion of Due Diligence.

3. Proposal

- 3.1. This idea is being led by Professor Richard Werner, who is a Director of the Centre for Banking, Finance and Sustainable Development at Southampton University. He and a group of like minded people have set up a company called “Local First Community Interest Company” (LFCIC) which is in the process of seeking investors to develop and launch a not-for-profit bank to be called the Hampshire Community Bank.
- 3.2. Local First CIC has already secured £270,000 of seed funding from the Regional Growth Fund (BIS) and the Partnership for Urban South Hampshire (PUSH) as a contribution to the task of establishing the Hampshire Community Bank. It has further secured £950,000 initial seed capital from the Regional Growth Fund allowing it to commence the bank licensing process.
- 3.3. An Information Memorandum for potential investors was issued in the Summer and this includes information on; the vision, legal structure, market context, benefits to Hampshire, implementation team and partners and financial forecasts (see Exempt Appendix).
- 3.4. The stated requirement is for £14m in total equity investments comprising £7m from Hampshire investors and £7m match funding from the Department for Business, Innovation and Skills. Portsmouth City Council are proposing to invest up to £5m, Eastleigh Borough Council and Test Valley Borough Council are also supporting this initiative as are Southampton University and others.
- 3.5. The Information Memorandum sets out the minimum investment as £250,000, in Non-cumulative callable preference shares, yielding 6% annual equivalent return including redemption bonus over a 10 year period.

- 3.6. The aim of the bank is to help secure a strong and sustainable local economy. It will operate with a focus on Hampshire and plans in time to provide a full range of banking services to individuals, businesses and social enterprises that live, work or operate in the county. Whilst there are no guarantees of support to Winchester businesses, it is consistent with the Council's commitment to the local economy and it is thought likely local business will benefit from a successful Community Bank.
- 3.7. The bank is offering preference shares in Hampshire Community Bank Holding Ltd. (HCB Holding). It is proposed that Hampshire Community Bank Ltd. will be a wholly owned subsidiary of HCB Holding which in turn will be fully owned and controlled by a charitable foundation with an objective to ensure that the bank would continue in perpetuity to support social, environmental, educational, research and cultural projects.
- 3.8. The Council has already included an amount of £250,000 in its capital programme for 2014/15, financed by the useable capital receipts reserve, which enabled the Council to indicate its support for this scheme.
- 3.9. The Chief Finance Officers of the Hampshire Local Authorities that are proposing to invest are working together to commission some independent Due Diligence advice on Local First CIC's ability to obtain a banking licence and Portsmouth City Council's internal legal team are to review the proposed legal structure and documentation prior to any payments being made. An escrow account is also proposed to control the release of payments so that the costs are capped prior to the award of a banking licence.
- 3.10. The original timescales included in the Information Memorandum have slipped; current outline timescales are as follows:
- | | |
|--------------------|--|
| January 2015 – | Due diligence completed on public sector investment |
| February 2015 – | Subscriptions signed and initial funds released |
| March – April 2015 | Engagement with Regulators and likely partial submission of application documents for Bank Licence |
| | Negotiations of contracts with key service providers |
| | Finalising application to BIS for Direct capital Investment Programme for challenger bank funding and matching of local investment |
| May – July 2015 | Work towards completion for bank authorisation |
| 2015 | Final application documents submitted to BoE |
| After this | Grant of banking authorisation – bank goes live |

OTHER CONSIDERATIONS:4. SUSTAINABLE COMMUNITY STRATEGY AND PORTFOLIO PLANS
(RELEVANCE TO):

- 4.1. This initiative supports the aim of strengthening the local economy, which is a key priority for the Council.

5. RESOURCE IMPLICATIONS:

- 5.1. The minimum issue of preference shares is proposed at £250,000. The primary purpose of committing this expenditure would be to achieve the economic benefits for the community, as opposed to for the potential investment benefit. The Council would be using its economic development powers under the general power of competence in S1 Localism Act 2011. Therefore, this would be classified as capital expenditure in the Council's accounts and there would not be a need for revision to the Treasury Management Strategy.

6. RISK/UNCERTAINTY/SENSITIVITY

- 6.1. There is considerable risk associated with this proposal as the Council's funds amongst others would provide the seed capital and some of this will have paid before a banking licence is obtained – with no certainty that the application will be successful. Similar ventures supported by other councils have failed in recent years. The table below indicates some of the risks associated with this project.

Risk Description	Outcome of Risk	Mitigating Action
Local First CIC spends investors funds, but fails to get a bank licence	Investors lose their funds with no redress. Other HCB benefits not realised. Reputational damage for Investors and FLCIC Directors.	Due Diligence by suitably qualified external expert on behalf of LA investors.
Slow development of the bank leading to it seeking more support from its founding members over the coming years.	More investment capital required. Benefits not fully realised.	Wider spread of investors.
Pro Bono Legal advisers remove their support for the bank. Additional unforeseen set up costs.	Significant extra costs incurred pre bank licence at investors' risk. Reduced level of capitalisation for HCB.	Due Diligence exercise.
Due Diligence concludes that	Due Diligence costs incurred	CFO review of LFCIC

Risk Description	Outcome of Risk	Mitigating Action
HCB is not a sensible investment.	by investors. Reputational damage for FLCIC Directors.	proposals prior to Due Diligence exercise.
Local Authorities unable to source suitable expertise to undertake independent Due Diligence	Local Authorities unable to gain assurances on robustness of plans and will need to determine at what level of risk they will proceed.	May require more time and more budget to obtain suitable assurances.
Due Diligence exercise not properly completed and bank licence not obtained.	Investors lose their funds without redress. Other HCB benefits not realised. Reputational damage for Investors and FLCIC Directors.	Due Diligence specification scrutinised and approved by all investors.
Due diligence not completed by January and delay in release of funding.	Start up funding spent and work to set up the bank stalls.	Project resourcing to achieve timescales.
Investor(s) pull out, BIS funding withdrawn or significantly reduced.	Delays in project whilst alternative investors are found. Loss of confidence. Possible project failure. Benefits not realised. Reputational damage.	Project management. Key stakeholders kept well informed. Review & understanding of BIS grant support. LFCIV canvassing potential new investors.
HCB obtains a bank licence but subsequently fails and is wound up.	Loss of some / all investment. No distribution of funds for intended purposes. Reputational damage for investors and HCB Directors.	Due Diligence & Bank licence process to assess robustness of business plan and ability to deliver.

BACKGROUND DOCUMENTS:

None.

APPENDICES:

Exempt Appendix - Hampshire Community Bank -Information memorandum for Investors