

Submission to the Greater Manchester Co-operatives Commission from the Greater Manchester Mutual steering group, 10th June 2019

A Co-operative Community Bank for Greater Manchester

An opportunity and a need exist to create a co-operative community bank for Greater Manchester. This is part of the new movement of community banks in the UK, with work taking place to set up mutually-owned banks across the country, including in Greater London, South West, Avon, Wales and North West England. The formation of the Greater Manchester Mutual is the first step in the process of establishing a GM bank.¹ This submission to the Greater Manchester Co-operatives Commission explains the case for community banks, recent developments in the UK and the process to establish a new bank in Greater Manchester. We welcome the opportunity to contribute to this timely Commission and are would be happy to discuss the content of this submission in more detail.

Summary

- *Banking services are essential for all. They support people and organisations to live their lives well and achieve their objectives. However, in the UK, the banking system often does not meet the needs of customers and is disconnected from local economies. Moreover, some people do not have access to banking and many of those who do have lost trust in their banks.*
- *A movement to establish locally-based community banks in the UK is setting out to provide access to a new kind of bank. The Community Savings Bank Association (CSBA) has developed a 'bank in a box' model and is supporting the development of a network of co-operative local banks in the UK.*
- *The Greater Manchester Mutual has been established to develop a community bank for our region. This will be a co-operative, controlled by customers and providing a full range of banking services to residents, businesses, social enterprises and voluntary and charitable sector.*
- *A Greater Manchester community bank can work as part of the wider financial ecosystem, co-operating with credit unions, CDFIs and others to supporting the local economy and communities of Greater Manchester, and contributing to a sustainable and just place to live and work. A co-operative bank will help to retain wealth in Greater Manchester and provide more local accountability and control.*
- *Work is now underway to develop the proposal for a Greater Manchester community bank. Greater Manchester Mutual is working with and seeking to extend the range of supporters of a new kind of bank, as a preliminary step to putting in place the organisational, legal and financial basis for a new co-operative bank.*

¹ Greater Manchester Mutual is a co-operative established as a project delivery organisation to work towards the development of a community bank. See <https://greatermanchestermutual.org/>

1. Why do we need a new kind of bank for Greater Manchester?

Access to banking services is an everyday necessity for citizens, businesses and third sector organisations but the current retail banking sector in the UK often fails to deliver. Nationally-based big banks find it difficult to meet the needs of small and medium sized businesses (SMEs). They have also mis-sold financial products to many of their customers; there have been widespread branch closures² and closure of ATMs and spread of ATM charges are a further problem.³

A co-operative bank for Greater Manchester can focus on local needs to help sustain a diverse and successful region. For example, there are many residents who do not have bank accounts. An estimated 63,131 adults in Greater Manchester (in 36,550 households) face a substantial poverty premium of around £490 per household per year because they are unbanked.⁴ At the Greater Manchester level alone this is a total amount of extra spending for households without a bank account of £17,909,304.

There is also a need to better support regional businesses and third sector organisations. The amount of business lending has been falling in Greater Manchester.⁵ There are also low levels of SME customer satisfaction but few SMEs switch banks as there are limited alternatives.⁶ Big banks aim for high risk adjusted return on equity to maximise shareholder returns. This causes disproportionate credit rationing for SMEs during downturns in the economy and over-charging for credit and services in upturns. Business Finance Solutions distributes the Northern Powerhouse fund from the British Business Bank, but this is dependent on Government political cycles. The Greater Manchester Business Survey has found that of the firms who sought finance, a third had difficulty accessing finance. Small business organisations also note the problems that many members face in accessing banking services:⁷ long term relationships are just as important as access to credit.

Other countries including Germany, US, Canada and Japan have an established tradition of local banks that have been able to build relationships and provide credit to local businesses. Evidence suggests that support from local banks helps improve economic resilience.⁸ It has also been noted

² See list of bank closures since 2015: <https://www.which.co.uk/money/banking/switching-your-bank/bank-branch-closures-is-your-local-bank-closing-a28n44c8z0h5>

³ See, for example https://www.fsb.org.uk/docs/default-source/fsb-org-uk/cr_atm-inquiry_apr18.pdf?sfvrsn=0 and https://www.which.co.uk/news/2019/03/uk-cash-payments-at-risk-of-collapse-review-warns/?utm_campaign=whichukt&utm_medium=social&utm_source=twitter&utm_content=CashlessSociety&utm_term=twnews

⁴ The additional amount unbanked households pay for credit, energy charges and insurance, see Bristol University reports at <http://www.bristol.ac.uk/geography/research/pfrc/themes/finexc/poverty-premium/>

⁵ See Figure 1 in Sensier (2017) "Financing Inclusive Growth with a GM Community Bank": <http://hummedia.manchester.ac.uk/institutes/mui/igau/briefings/IGAU-Briefing-3-Regional-Banks.pdf>

⁶ See BIS (2016) SME lending and competition: an international comparison of markets https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/522490/bis-16-105-small-and-medium-sized-enterprise-lending.pdf

⁷ See [https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-bank-branch-closures-\(final\).pdf?sfvrsn=0](https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-bank-branch-closures-(final).pdf?sfvrsn=0)

⁸ See Sensier (2017) "Financing Inclusive Growth with a GM Community Bank": <http://hummedia.manchester.ac.uk/institutes/mui/igau/briefings/IGAU-Briefing-3-Regional-Banks.pdf>

that small loans from locally based financial institutions have a lower rate of recidivism than medium sized loans from commercial lenders.⁹

2. What is a community bank?

The GM community bank offers an alternative to help address these problems. The bank will be a locally based co-operative, controlled by its customers and operating for the sole purpose of supporting local people. Rooted in the local economy, the bank will be designed to help it to meet the needs of residents, businesses and communities. The GM bank can only operate in the region, so its objectives are focused on serving the needs of current and future customers and sustaining the local economy and communities, not on expansion outside Greater Manchester.

In the past the Co-operative Party has recommended a network of regional mutual banks to help with financial inclusion and local economic development.¹⁰ The need for this is increased with the Government's Industrial Strategy white paper in 2017 providing greater power for combined authorities to create and control their Local Industrial Strategy. A community bank could help manage funding for new infrastructure and distribute grant funding from Government for partnerships between the combined authority, local business, the university and voluntary sectors. A community bank can also play a role in the creating a more ecologically sustainable Greater Manchester through its support for social innovators in the business, social enterprise and the voluntary and community sectors who can make a contribution to the challenges of decarbonisation and bio-diversity.

3. Don't we already have credit unions?

Credit unions are very effective and popular: over 50,000 people across Greater Manchester use credit unions.¹¹ Credit unions help local people to build up savings and offer modest credit on fair terms. However, credit unions cannot offer a full range of banking services: they do not provide current accounts and they cannot create credit to allow more lending to local businesses and social enterprises. The GM bank would work with credit unions and other organisations to help provide access to financial services for all members of the community. Indeed, the GM credit unions are very supportive of the plans to create a new community bank owned by its customers.

4. Don't we already have Community Development Financial Institutions (CDFIs)?

CDFIs operate regionally to provide credit to organisations that may otherwise find it hard to access finance. For example, in Greater Manchester GC Business Finance¹² provides credit to businesses at different stages of development, including early stage or export finance. A community bank provides a different and complementary offer: CDFIs cannot provide a full banking service; and they are dependent on external sources of finance (some of it related to government policies), whereas a community bank is independent and self-sustaining because it can create credit and has a wide

⁹ See evidence submitted to the National Assembly of Wales on access to banking by Banc Cambria <http://senedd.assembly.wales/documents/s88309/15.%20Banc%20Cambria.pdf>

¹⁰ See Scott and Fortune (2016), "By us, for us: a co-operative party agenda for enhanced city and county regions", <https://party.coop/publication/by-us-for-us-a-co-operative-agenda-for-enhanced-city-and-county-regions/>

¹¹ <https://soundpound.co.uk/>

¹² <http://www.businessfinance.growthco.uk/>

range of customers. A community bank therefore offers a distinctive and complimentary piece of the financial ecosystem to work alongside existing organisations including credit unions and CDFIs which target different needs.

5. What's happened so far in the UK to establish co-operative community banks?

The Community Savings Bank Association (CSBA) has developed a mutual model which is now being taken forward in several places: the Greater London Mutual¹³ is supported by the London Assembly Economy Committee;¹⁴ Marvin Rees, the Mayor of Bristol, is supportive of the CBSA application being prepared in Bristol;¹⁵ the Wales community bank, Banc Cambria,¹⁶ is supported by the new First Minister; and the recently proposed North West Mutual initiated by Preston Council is finding support from other authorities in the region.¹⁷ The new mayor for North of Tyne has also indicated a commitment to establishing a community bank in the north east.¹⁸ Such is the interest in local banks that the New Economics Foundation has recently produced a toolkit.¹⁹ The Greater Manchester mutual will benefit be part of a network of community banks.

The CSBA model complements other local banking approaches: several local banks have already been established to lend to SMEs with the support of local anchor institutions. For instance, Warrington Borough Council has a 33% stake in the Redwood Bank,²⁰ and Cambridge and Counties Bank²¹ was formed as a partnership between Cambridge and Cambridgeshire Local Government Pension Fund and Trinity Hall, Cambridge University. A Hampshire Community Bank²² has support from four local councils and four universities

6. What difference will it make to GM?

A community bank can have a significant economic and social impact in the following ways.

- A bank that can build local relationships: the CSBA model is based on establishing principal branches with autonomy so that, for example, a local branch manager can make decisions about lending. Principal branches can be established across GM to allow relationships to be built at the local level with bank customers - particularly small and medium size enterprises -under an umbrella of the regional bank.
- A bank that can provide credit to the local and regional economies to support business and social enterprise.

¹³ See <http://www.glmbnk.co.uk/>

¹⁴ See recommendation 8 in the Economy Committee (2018) report "Short Changed: the financial health of Londoners", London Assembly at <https://www.london.gov.uk/about-us/london-assembly/london-assembly-publications/short-changed-financial-health-londoners>

¹⁵ See Jules Peck RSA blog <https://www.thersa.org/discover/publications-and-articles/rsa-blogs/2017/10/building-community-wealth-in-the-banking-sector>

¹⁶ See <https://wales.coop/access-to-banking-why-do-we-need-a-community-bank/>.
<http://senedd.assembly.wales/documents/s88309/15.%20Banc%20Cambria.pdf>

¹⁷ See <https://www.lep.co.uk/news/latest/city-bids-to-open-bank-of-preston-this-will-be-a-bank-for-the-community-to-make-us-resilient-1-9598502>

¹⁸ <https://www.chroniclelive.co.uk/news/north-east-news/live-north-tyne-mayoral-election-16218631>

¹⁹ See NEF (2018) *The Local Banking Toolkit*, https://neweconomics.org/uploads/files/NEF_LOCAL-BANKING-TOOLKIT.pdf

²⁰ See <https://redwoodbank.co.uk/>

²¹ See <https://ccbank.co.uk/>

²² See <http://hampshirebank.org/>

- A bank that retains its surpluses locally: unlike other retail banks whose headquarters are elsewhere and which export profits made from the region to London or further afield, the surpluses are retained in GM.
- A bank that can work alongside other initiatives such as a local industrial strategy to help improve infrastructure and support SMEs.
- A bank that offers a distinctive choice for local residents, who then have a say in the future development of a bank that is accountable to them as customers, not to distant shareholders. As the bank does not pay dividends to shareholders, customer-members will benefit through higher interest rates on savings and/or lower charges. In short, the customers are stakeholders who benefit from the success of the bank.²³

7. How long will it take to set up the bank?

Establishing a community bank is a significant task, even with the support of the CSBA, RSA and other organisations. The necessary steps include fund raising, obtaining a banking licence, establishing an effective organisation with appropriate expertise and develop management and governance structures that will both gain the trust of stakeholders and provide the basis for successful launch and operation. It is likely to take 9-12 months to carry out preliminary evaluations and preparations prior to submitting the banking licence request to the Bank of England. The licence authorisation process takes around 12 months and, after achieving this milestone, significant work needs to be done to put all of the structures in place for the bank to operate. Taking all of this into account, it is realistic to expect it to take around three years from getting started on the plans to having a fully operational bank with all restrictions lifted.²⁴

8. Isn't it very expensive to start a bank? How will it be financed?

The CSBA estimates that £20 million of equity finance is required to start a community bank. This is not all required at the outset but needs to be built up over several stages: NEF estimate that a start-up fund of £150 - 300,000 is required, with a further £1 -2 million to achieve bank authorisation. Further equity (£4-5 million) is then required to open branches, set-up online channels and recruit staff (mobilisation), with £13 -14 million then required to capitalise and launch the bank.²⁵ Different types of investors are likely to be interested in different phases of the capitalisation. Based on experience of other community banks and the advice of the CSBA, it is expected that investors will include local authorities and pension funds, local organisations like housing associations, social impact funds, charitable foundations, social investors and others whose aims are compatible with the community banking initiative.

²³ See NEF (2018) *The Local Banking Toolkit* pp.15-17 for a full list of expected stakeholder benefits
https://neweconomics.org/uploads/files/NEF_LOCAL-BANKING-TOOLKIT.pdf

²⁴ See NEF (2018) *The Local Banking Toolkit*, p.21 for more details
https://neweconomics.org/uploads/files/NEF_LOCAL-BANKING-TOOLKIT.pdf

²⁵ See NEF (2018) *The Local Banking Toolkit*, pp.22-24 for more details
https://neweconomics.org/uploads/files/NEF_LOCAL-BANKING-TOOLKIT.pdf

9. Is a community bank very risky?

A community bank, like all banks, would be licenced by the Bank of England and regulated by the Prudential Regulation Authority, which acts to protect the interests of bank customers. On that basis, community bank customers are safeguarded in the same way as those of other banks. In addition, there are other distinctive features of a community banks which will help to manage the risks that any retail bank can face.

While the community bank will be inclusive and accessible to the residents of GM, it aims to have a mix of customers from across the region and from different demographic groups which helps to reduce risk. It is estimated that the bank needs a minimum of 46,750 private customers and 12,750 'business' customers (including voluntary and community organisations, public sector and other organisations such as housing associations or universities) to be fully financially sustainable, from a region of around 3 million people. In addition to a diverse customer base, the bank is designed to have low overhead costs. The community bank will adopt a prudent and responsible approach to lending. Building relationships with local business members, as well as using local knowledge and 'soft' information, will contribute both to lending decisions and will help reduce risks of default on loans to those customers.

10. What are the next steps in Greater Manchester?

There is already considerable local support for a co-operative community bank in Greater Manchester. This support comes from members of the voluntary and community sector, housing associations, local politicians and business organisations. The next steps will be:

- Widening the steering group of the Greater Manchester Mutual to include stakeholder representatives from business, the voluntary sector, local anchor institutions and others.
- Work with local organisations to appoint a project officer and build a project team to undertake preliminary work.
- Provide more information about the plans and opportunities for discussion across Greater Manchester.
- Work with RSA, CSBA and others to develop fundraising for the successive stages of establishing the bank.
- Work with CSBA and others to obtain regulatory approval.
- Set up the management and governance arrangements, as appropriate for each stage.

11. How to find out more information

Here are some good places to find out more about the idea of community banks:

The Community Savings Bank Association (CSBA) <http://www.csba.co.uk/>

New Economics Foundation (NEF) *The Local Banking Toolkit*

https://neweconomics.org/uploads/files/NEF_LOCAL-BANKING-TOOLKIT.pdf

The Royal Society of Arts (RSA) <https://www.thersa.org/discover/publications-and-articles/rsa-blogs/2018/11/a-regional-banking-revolution-for-the-21st-century> and <https://www.thersa.org/discover/publications-and-articles/reports/cashing-out>

Sensier (2017) briefing paper from the Inclusive Growth Analysis Unit “Financing Inclusive Growth with a GM Community Bank”:
<http://hummedia.manchester.ac.uk/institutes/mui/igau/briefings/IGAU-Briefing-3-Regional-Banks.pdf>

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