Public Document Pack

Resources Scrutiny Commission

Agenda

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Issued by: Johanna Holmes, Scrutiny Coordinator
City Hall, PO Box 3167, Bristol, BS3 9FS
Tel: 0117 90 36898
E-mail: democratic.services@bristol.gov.uk
Date: Monday, 23 November 2020

Agenda

9a) New Item - Council Tax Reduction Scheme **(Pages 3 - 9)**

11. Avon Mutual Regional Community Bank

(Pages 10 - 36)

Resources Scrutiny Commission

30th November 2020

Report of:

Title: Council Tax Reduction 2021/22

Ward: All

Officer Presenting Report: Graham Clapp

Contact Telephone Number: 0117 3576256

Recommendation
To note the decision in respect of Bristol's 2021/22 Council Tax Reduction scheme, the estimated costs of it and rationale for doing so.

The significant issues in the report are:

- Bristol's CTR scheme supports 35,400 low income household of which 23,800 are working age
- The cost of the scheme is currently £42.2m and is estimated to be £46.3m for 2021/22
- Bristol is only one of fewer than 10% of English local authorities and the only Core City to continue to not change its scheme since 2013 and therefore not impose reductions in CTR entitlement to low income households
- Average reductions in CTR entitlement are now 24% (£196 a year)
- Where a new minimum additional payment has been added to CTR schemes, this leads to non-collection rates being 10% higher (25% as opposed to 2.5% pre 2013)
- Introducing a minimum payment causes significant increase (10% – 25%) in the number of people contacting Citizens Advice (and other agencies) mostly around council tax and other debt
- Changing a CTR scheme in the current COVID pandemic economic climate will have adverse effects on Bristol's poorest and therefore negative impacts on poverty, inequality and living standards; especially in the most deprived areas.

1. Summary

1.0 This report highlights the decision that Bristol City Council made for its 2021/22 Council Tax Reduction Scheme compared to other authorities, the reasons why (including impact on households and collection rates) and estimated costs of providing this, especially following the outbreak of COVID 19.

2. Context

2.0 Background

2.1 Following the abolition of Council Tax Benefit (CTB) in 2013, local authorities (LAs) in England were charged with designing their own Council Tax Reduction (CTR) schemes for those of working age – though they were obliged to provide a centrally determined and protected level of support for pensioners. With reduced funding being made available to local authorities by government, most chose CTR schemes that were less generous than the CTB system they were replacing, with some low-income households having to pay council tax for the first time and others seeing their tax liabilities increase. Bristol was and remains, an exception to this.

2.2 CTR remains a significant part of means-tested support with it supporting around 4.9 million households in Great Britain which is more than any 'benefit', costing £4.1 billion and representing 11% of gross council tax bills.

2.3 The CTR scheme in Bristol supports 35,778 low income household of which 25,041 are working age who continue to get the same levels of support as they did before CTB was abolished in 2013.

2.4 Bristol reviews its' scheme each year in line with legislation, but has only been out to full consultation following its inception in April 2013 and in 2017 when it looked to possibly change its 2018-19 scheme (before deciding not to). For all other years Cabinet has decided to keep the same scheme 'as is'.

3.0 So what have other Councils done?

- 90% of English councils have made some changes to their CTR scheme for working-age households -almost all of them cuts – this now includes all core cities. Noticeable exceptions are in some London local authorities (Westminster, Kensington and Chelsea, Hounslow, Camden) and on the mid-South coast (e.g. Chichester, Winchester, East Hants) and in the far North (North Cumbria, County Durham)
- Furthermore, central government cuts to national benefits – such as the freeze to most working-age benefit rates that were in place between April 2015 – March 2020, and the abolition of extra support for third and subsequent children – have often been mirrored in many CTR schemes.
- The most widespread and important change has been the introduction of minimum council tax payments, requiring all households (except any 'vulnerable groups' the council decides to protect) to pay at least a certain proportion of their gross council tax bill.
- Schemes differ substantially, meaning that similar families can have very different council tax bills depending on where they live - most common level of minimum payment is 20% – adopted by over a quarter of councils.

- A fifth of councils have no minimum payment and another fifth have minimum payments of over 20%.
- More deprived councils, and by therefore often by nature Labour councils have been more likely to introduce minimum payments than other councils – but this is also linked to larger cuts to CTR funding from central government. This is also true for almost all of Core Cities.

4.0 Consequences at household level where CTR schemes have changed.

- The 3.6 million working-age households who would have been entitled to some support under the old CTB system are now entitled to 24% (or £196 a year) less on average – 1.0% of their income – when compared to Bristol's current CTR scheme.
- In addition, about half of the additional cuts since 2013–14 are as a result of councils mirroring cuts that central government has made to the wider benefits system (e.g. benefits freezes) – which is a decision that Bristol has also not taken.
- There are now 39% of households nationally who have to pay some Council Tax who would not have had to pay it if the generosity of the pre-2013 system had been maintained.
- A further 44% of households are now billed for more than they otherwise would have been.
- Overall, only 25% of the households that would have had their Council Tax bills entirely covered by the old CTR system still have it fully covered by CTR – with 63% paying more than £100, and 33% paying more than £200 and almost 10% paying more than £300 (note these 3 groups are not mutually exclusive)
- Nationally, low-income households are more likely to have seen their CTR cut if they live in a more deprived area; with households that receive the lowest 20% of income who are also in the 20% most deprived authorities, having a 60% chance of seeing their entitlement reduced, as opposed to those just living in the 20% most deprived authorities (not income related) having a 46% chance of reduction in entitlement.

5.0 Impacts of scheme choices at local authority level.

- Cuts to CTR have led to sizeable increases in the amount of council tax going uncollected.
- It is estimated that about a quarter of the additional council tax liability arising from cuts to CTR is not collected in the year it is due. This is far higher than the typical rate of non-collection of Council Tax - around 10 times higher than the typical 2.5% of council tax that at pre 2012-13 levels.
- Difficulties in collecting the extra tax appear to be long-lasting, with it being estimated that councils failed to collect a quarter of the additional liabilities created by minimum payments in 2017–18
- Introducing a minimum payment has also caused a significant increase in the number of people in that LA contacting Citizens Advice (and other agencies) for advice or help relating to Council Tax or CTR – with enquiries increasing by around 15–20%.

5.1 The below shows collection rates from core cities compared to its CTR scheme for Q2 in 2020/21

Local Authority	Council Tax collection rates (Q2 20/21)	CTR Scheme
Coventry	54.80%	15% minimum liability scheme
Leeds	54.06%	25% minimum liability scheme
Bristol	53.94%	No minimum liability scheme

Newcastle	52.61%	10%, 15%, 50% or 75% by income band
Birmingham	52.19%	20% minimum liability scheme
Nottingham	50.71%	20% minimum liability scheme
Bradford	49.90%	30% minimum liability scheme
Sheffield	49.77%	23% minimum liability scheme
Manchester	47.40%	17.5% minimum liability scheme
Liverpool	47.09%	8.5% minimum liability scheme

6.0 Further impacts if Bristol was to change its scheme.

- Reducing a household's CTR entitlement significantly increases the probability that it reports being in arrears on its council tax.
- Among households entitled to less CTR, when compared to Bristol's scheme, the median loss was £179 per year. It is estimated that a loss of that size increased a household's chances of being in council tax arrears by a half.
- Any change to a CTR scheme, post COVID, would be against a backdrop of 8,000 fewer jobs and a doubling of unemployment rates and 70,000 people being furloughed in Bristol, meaning a greater need for financial assistance.
- Any additional hardship would be particularly pronounced in lower super output areas and its neighbourhoods.
- There is evidence that increased assistance in welfare payments such as CTR, helps to reduce inequality and reduce relative poverty and therefore gives those on low income a better living standard as well as reinvestment in to the local economy.
- National study findings suggest that the relatively low collection rate of the additional council tax liabilities is driven by the difficulty of collecting tax from those who would not have had to pay it in the absence of cuts to CTR, due to issues of ability to pay and cost effectiveness of collection.
- Lone parents, renters, and claimants in councils that already had relatively low council tax collection rates, are all more likely than average to fall into council tax arrears as a result of being required to do so, due to changes in CTR schemes.
- The same findings do however suggest however, that there is no significant impact of losing CTR on whether a household reports being in arrears on other bills or being unable to afford other items, but this is also probably due to prioritisation of debts especially around utilities and housing costs.

7.0 Bristol's CTR scheme costs

7.1 Bristol's scheme currently costs £43,500,991 (as of 1st November 2020) or £42,212,260 (net of MHCLG hardship payments for working age households) (columns G/H - 7.3). The trend from 2016/17 to 2019/20 (shown below) shows a slight increase in costs each year as a result of annual increases in Council Tax, the application of the Adult Social Care precept and any increases made by the precepting authorities (Avon and Somerset Police and Crime Commissioner and Avon Fire Authority). However this has been offset by reductions in overall caseload leading to small net increases in expenditure, e.g. -0.4% comparing 2019/20 to 2018/19. Note this only holds true per COVID 19.

7.2 All costs included in this report include those of the precepting authorities. As at 2020/21, Bristol City Council was responsible for 85% of the overall scheme cost.

Year	Total Cost of CTR scheme
2013/14	£40,422,754
2014/15	£38,847,472
2015/16	£37,574,288
2016/17	£37,250,084
2017/18	£38,107,637
2018/19	£38,779,102
2019/20	£38,833,595
2020/21 (projected)	£44,484,255

7.3 The table below shows the month on month changes to CTR caseload and expenditure from April to November 20202. Note that the all costs, in the final column (H) (and highlighted in light grey), are net of the additional monies awarded (as of November c£1.3m) via the MHCLG Hardship Fund in order to be consistent with values in previous years.

Date (A)	Pensioner caseload (B)	Pensioner cost (£) (C)	Woking caseload (D)	Working cost (£) (E)	Total Caseload (F)	Total cost (£) (G)	Total cost net Hardship Payments (£) (H)
1/04/2020	11,029	12,993,879	23,248	26,236,777	34,277	39,230,657	39,230,657
1/05/2020	10,996	13,107,763	23,553	27,426,780	34,519	40,534,543	40,534,543
1/06/2020	10,915	13,084,692	24,257	29,086,219	35,172	42,170,912	41,261,880
1/07/2020	10,855	13,067,341	24,567	29,650,828	35,452	42,718,170	41,754,169
1/08/2020	10,832	13,030,889	25,038	30,188,107	35,870	43,218,997	42,165,697
1/09/2020	10,796	13,024,812	25,231	30,481,617	36,027	43,506,429	42,373,675
1/10/2020	10,758	13,003,652	25,125	30,446,995	35,883	43,450,648	42,232,143
1/11/2020	10,737	13,011,914	25,041	30,489,076	35,778	43,500,991	42,212,260

7.4 The trend for 2020/21 has been a large increase in the working age caseload (column D), since April 2020 to September 2020 (7.9%) but a levelling off in demand since. The pension age caseload (column B) however continues to fall slowly (-2.6%) is year and is broadly in line with previous years. This is most probably linked to relative increases in the generosity of pensionable incomes and government's pledge of triple locking state pension increases, leading to some falling out of CTR entitlement. The total caseload (column F) has overall increased by 4.4% and expenditure net of additional MHCLG hardship payments (column G) by 7.6% and almost £2m.

7.5 The modelled costs for the 'as is' scheme in 2021/22 are £46,276,159. This is also in line with the assumptions in Council Tax Base report and a further 5% increase in the working age and continuing 3.6% decrease in pension age caseloads. In addition it also assumes 3.98% overall increase in Council Tax, including the Adult Social Care precept (whilst noting that no decision has been made regarding council tax increases for this year). This is net of the MHCLG Hardship Payments to some working age cases which will cease in 2021/22.

7.6 The current uncertainty around the economy as a result of the coronavirus (COVID-19) outbreak and further more recent lockdown restrictions makes the any estimate for future years extremely difficult. We have however estimated (as above) that the cost at the end of 2021/22 will be £46.3m. The table below shows the effect of increases in the working age caseload on the modelled estimate overall cost of the scheme, if the increase of 5% (highlighted) within the working age caseload itself for 2021/22 was higher.

Percentage increase in the working age caseload (%)	Overall scheme costs (£million per annum)	Amount change (£million per annum)	Percentage change (%)
20	51.1	4.8	10.38
15	49.5	3.2	6.92
10	47.9	1.6	3.46
5	46.3	0	0
0	44.7	-1.6	-3.46

8.0 Bristol's choices for 2021/22

8.1 The proposal agreed by Cabinet for 2021/22 was to retain the current CTR. There were no proposals around the delivery of a saving or reduction in costs to the council as this would have a negative impact on communities in an already financially uncertain time, or to simplify its administrative processes, as the requirement to design and consult on such changes would place an unreasonable demand on officer time and council resources.

9.0 Conclusion

9.1 Most Local authorities have chosen to amend their CTR schemes, almost exclusively to deliver savings in light of government cuts, but Bristol is an exception to this and continues to support those low income households at the same levels at pre 2013-14.

9.2 The reasons for doing so are highlighted in the report, but benefit not only low income households in terms of reduced poverty but also the local authority in terms of collection.

9.3 The cost of Bristol's CTR has remained between £37.2m - £38.3m since 2014-15 and until the outbreak of COVID 19 when it has increased to £42.2m (net of Hardship Payment additions) and is estimated to rise to £46.3m in 2021/22, but it is hard to predict this with any certainty within the current economic climate.

9.4 Bristol has however committed to continue to 'fully fund' its CTR scheme until at least 2021/22 and notes the importance it provides on supporting Bristol's low income households, especially following the outbreak of COVID 19 and its economic impact.

Appendices:

None

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985
Background Papers:

Cabinet approval for 2021/22 CTR scheme (agenda item 14)
https://democracy.bristol.gov.uk/documents/s50478/Council%20Tax%20Reduction%202021_22_Report_Cabinet_14_07_2020_Final.pdf

Bristol's 2019/20 CTR scheme
https://www.bristol.gov.uk/documents/20182/34692/Council+Tax+Reduction+Scheme+2018+to+2019/5cb77adf-f90b-fc7a-4711-81432b9dc5e5

Resources Scrutiny Commission

30th November 2020

Report of: Director of Finance and S151 Officer

Title: Avon Mutual Regional Community Bank

Ward: Citywide

Recommendation:

The Resources Scrutiny Commission is asked to consider the following Avon Mutual Regional Community Bank progress update report that will be presented to Cabinet on 1st December 2020.

Decision Pathway – Report Template

PURPOSE: Key decision

MEETING: Cabinet

DATE: 01 December 2020

TITLE	**Avon Mutual Regional Community Bank**
Ward(s)	**City Wide**
Author: Denise Murray	**Job title: Director of Finance**
Cabinet lead: Councillor Craig Cheney	**Executive Director lead: Mike Jackson**
Proposal origin: *Other*	
Decision maker: Cabinet Member **Decision forum:** *Cabinet*	

Purpose of Report:

The report provides a progress update on the establishment of Avon Mutual a Community Bank for the region with an inclusive ethos that supports the local community and economy and seeks approval for Bristol City Council (the Council) to make a further investment in development shares that will support the proposition through the next stage of its development.

Evidence Base:

Background

Access to financial services and financial inclusion are of fundamental importance to achieving an inclusive economy where no one is left behind and cash-flow and business investment is even more paramount post the presence and impact of Covid-19 regionally, nationally and globally. The UK's 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.

SME Lending

For many micro, small and medium size enterprises access to cash can be a critical success factor to the survival of the business. SME loans have been decreasing nationally since 2013; SME loans in the BS postcode area in Q1 2020 had fallen by 15% (over 7 years); recovering marginally from 19% decrease in lending - year 5 low in Q4 2017. This trend is materially different to the average decrease in lending across the wider southwest region; 11% (Q1 2020) and almost 3 times worse than the 7% at the year 5 low in 2017. National comparator 15% (2020) and 11% (2017). The Big Four banks only allocated 1%-4% of assets to SME lending (Source: UK Finance Post Code Lending Data).

Bank Branches / ATM Closure

Bank branch closures nationally, and Bristol specifically, is significant. Since January 2015 almost 50% of branches have closed across Bristol with Bristol East the worst impacted with 63% decrease (8 to 3). Free ATMs have been removed and ATM charges of up to £2 per withdrawal are becoming the norm. The national analysis showed Bristol West is the second worst area in the country for the decline with the loss of 40 free machines (Birmingham Ladywood is first with 47).

Poverty Premium

The poverty premium which is integral to many financial service products means that those who are most vulnerable pay more for financial services. Research by the University of Bristol indicates that the impact of this 'poverty premium' can be severe - for 10% of low income households an additional cost of £780 p.a. can be expected and for those in severe hardship this premium rises to as much as £2,250 p.a. These costs are attributed to a lack of access to a full current account, a necessity to use high-cost credit, living in perpetual overdraft debt, and households using high cost "rent-to-own" for essential household goods.

There is a strong view that these factors disproportionately affect communities and businesses in areas of deprivation or rurality and have a significant impact on the most vulnerable that need easy, inexpensive access to banking / cash facilities. It is important that consumers continue to have the freedom to pay for goods and services however they choose and access to cash must be maintained for those who need it. We recognise that as cash usage falls, it is important to consider how this infrastructure can be redesigned to better reflect cash's declining popularity but this needs to be considered from both a social, economic and financial ethos.

The impacts of exclusion in Bristol are not just financial but also affect education, employment, health, housing and overall well-being.

The Avon Mutual Community Bank

Regional community banks, in touch with and supporting their local economies, are commonplace in continental Europe and the USA with community banking models that aim to deliver better economic and social outcomes for the regions in which they operate. A network of community banks are being considered with the aim of replicating the successes and best practices of values based banking models across the UK.

The Avon Mutual was established to create a regional community bank for the West of England covering Bristol, South Gloucestershire, Bath and North East Somerset, Gloucestershire, Wiltshire and North Somerset, with an economic and social mission that includes the following:

1. the creation of a bank to serve the everyday financial needs of ordinary people, local community groups and micro, small and medium sized companies;
2. to help redress regional inequalities, make financial inclusion the norm, build and store community wealth;
3. to significantly increase the proportion of bank lending going to the 'real' (non-financialised) economy, micro and SME's instead of the financial economy;
4. to rebuild the regional economy and economic resilience; and
5. to bring about a renaissance of customer service, relationship banking and mutual trust.

The ambition is to obtain a licence and commence operational trading in late 2021 or early 2022.

Cabinet July 2019

Cabinet July 2019 approved an initial investment of £100,005 (at risk) to support the first round formation of Avon Mutual and up to £50,000 to be used by the Council to undertake further independent due diligence for this proposition and to support any further investment from the Council.

Due Diligence - Community Bank

A National Framework was established which can be accessed by all UK authorities and the provider on the framework is RSM Corporate Finance LLP ("RSM"); with a two phase approach to the due diligence work proposed:

- Phase 1 – Regional diligence - comprehensive financial review of the regional 'community bank 'model for the area and examination of the viability of supporting local citizens who may be deemed high risk financially, and micro, small and medium sized enterprises.

- Phase 2 – Local diligence to consider the strategic case for the investing authority and the ability to have a positive impact on social, environmental and economic outcomes in the defined local area.

The Council in conjunction with other authorities in the region with an initial interest in the proposition commissioned Phase 1 due diligence and two reports (exempt) were produced and are attached at appendix I(i) and I(ii). The reports were positive in terms of progress of the regulatory process to the operating licence (which is where the promoters have focused much of their attention to date) and the underpinning assumptions are considered prudent. Circa £23 million is the expected investment required (Covid permitting) to launch the bank and by year 10 the bank aims to have 24 staffed branches, 200 staff , 97,000 personal and small business members and a c£570 million loan book lending of local money within the local economy.

The risk in the proposition remains and investment should be perceived as long term as annual dividends may not be achieved until year 6 requiring Social or Patient capital that reflects the delay in dividends whilst the bank grows. Growth could be accelerated with a further capital investment primarily to fund working capital / loan book growth, and this is currently modelled within the 5 year forecast, however this will need greater consideration by investors. The reports make a number of recommendations such as compound stress testing of the sensitivities, differential pricing model for current account fees (currently £5 per month for individuals and self-employed) to both effectively support and

incentivize take up of the accounts by the most vulnerable, and accelerated research to facilitate a co design with investors of the impact framework.

Avon Mutual is seeking investment in 3 rounds:

- Round 1 (Founder Share) - initial investment of £1 million has already been raised from a range of stakeholders including £100,005 from the Council. This enabled the promoters to build the initial team and start the licensing process – the Council's investment in this round resulted in two free shares for every share purchased (reflecting the risk profile of this investment) which Avon Mutual estimates equates to an indicative 18 - 20% IRR on expected dividend payments.

- **Round 2 (Development Share)** – the second round of funding is seeking to secure up to £2.4million (the "Development Share Offer") autumn 2020 – summer 2021, to further develop its business plan and to continue the regulatory process of becoming authorised as a bank. This element is disaggregated into two phases:
  - **Development Share Offer (Phase 1)** - In this first phase, the bank is aiming to raise £500,000 by issuing 333,334, non-withdrawable, non-redeemable shares of £1.50 each (nominal value of £1.00 per share and premium of £0.50). Avon Mutual's estimate equates to an indicative 9 - 10% IRR.
  - **Development Share Offer (Phase 2)** - a further £1.9 million investment to finalise licensing, test systems, build bank team and first branches and HQ – with terms as outlined above.

- Round 3 (Capital Share) – investment of approximately £20million drawn down day after licence gained to capitalise the bank after obtaining a banking licence. Operations would go live with branches fitted out, systems integrated and trading commenced. The current rules of Avon Mutual state that investors in the final share issue prior to launch will pay a subscription price of at least £3.00 per share and the investment in this round would equate to circa 5 - 6% IRR.

Proposal

Avon Mutual has been successful in attracting investors such as high net worth individuals, councils and a range of grant providers to complete round 1 and part of round 2. Having given consideration to the reports the Council is proposing to invest up to a further £200,001 in Round 2 development shares; however this is in two tranches.

1. £100,001 phase 1 - to provide the resources required to undertake the detailed market research and draft Impact Framework (as outlined in the Avon Mutual update provided at Appendix A), and following our local due diligence investor recommendations can be made to ensure alignment with the Council's strategic direction.
2. £100,000 phase 2 - which will be subject to the Council's endorsement of the Impact Framework, to finalise the regulatory business plan, test the approach, and to seek authorisation from the Bank of England and Financial Conduct Authority to become a bank and commence trading.

£50,000 is earmarked to undertake local diligence, consider the strategic case and ability to have a positive impact on social, environmental and economic outcomes in the local area and deliver the benefits outlined for Bristol citizens.

The benefits for the customer remain unchanged:

Achieving financial inclusion, the same service for all regardless of income, charging a simple and transparent upfront membership fee of £5/month for personal accounts (differential pricing to be considered) and £10/month for business accounts. In return for this fee, there are a range of benefits that all current account providers will receive such as:

- The provision of staffed branch services, which many SMEs rely on for cash banking facilities.
- "Softer" analogue human factors and local knowledge.
- 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 - bank branches are closing and independently operated machines usually charge around £1.50 to £2 per transaction.
- The main credit product for individuals and SME's is an overdraft, which can only be provided directly by banks (and not by credit unions or post office accounts).
- Access to residential mortgages as well as business and personal loans at reasonable rates.

The membership fee is considered to be outweighed by these benefits and the significantly reduced 'poverty premium'

for low income families. Whilst the Council understands the benefits we are asking for further consideration to be given to a differential pricing model for current account fees for the most vulnerable to both effectively support and incentivize take up.

In taking this decision members of the Council should recognise that the investment may not necessarily be returned to the Council as there is a risk there will be no financial return and the entire investment could be lost if the plan to launch the mutual is unsuccessful, a banking license is not granted, or if the mutual turns out not to be profitable. Hence, at this stage, officers do not recommend investing in the mutual explicitly to derive a financial return as this is deemed too much of a financial risk but that investment is considered for the wider social, economic and environment impact.

It is envisaged that other authorities within the region who support inclusive financial and economic growth would also consider investment to make this proposition a reality and potentially shorten the timetable to opening branches and commencing trading within the wider West of England region. The Council would seek to promote the wider benefits of financial inclusion to other local authorities, Combined Authority and anchor organisations within the region.

Cabinet Member / Officer Recommendations:

1. To approve an investment of up to £200,001 (at risk) in round 2 (development shares) to support the formation of Avon Mutual; a Regional Community Bank for inclusive growth, funded from the capital investment reserve and redirection of associated returns from previous investments.

2. To approve £50,000 to be used by the Council to undertake the phase 2 local due diligence to inform the Impact Framework and wider business model for this proposition and any further investment from the Council.

3. Delegate authority to the Director of Finance in consultation with the Director Legal and Democratic Services and Deputy Mayor and Cabinet Member for Finance, Governance and Performance to agree the investment tranches and conclude the subscription by the Council for 133,334 shares for a sum of up to £200,001 in Avon Mutual, and all matters and documentation required in connection with the Council's investment.

Corporate Strategy Alignment:

The proposal supports the goal outlined in the Council's Corporate Strategy and the One City Plan of "building a city of hope and aspiration, where everyone can share in its success" and in working towards this goal, the following Corporate Strategy priorities apply:

- **Empowering and Caring** - empowering communities and individuals, increase independence and support those who need it.
- **Fair and Inclusive** - improve economic and social equality, pursuing economic growth which includes everyone and making sure people have access to homes they can afford.

Our principles:

- Build city resilience, improving ability to cope with environmental, economic or social 'shocks and stresses'.
- Use our assets wisely, generating a social and/or financial return.

City Benefits:

A regional community bank with a social ethos can assist in developing balanced communities which are inclusive. They can play a key role in establishing a resilient city financing structure, with investment strategies that recognise the long-term challenges and vision for the region and the long-term resilience value shaped by investments, rather than just short-term financial returns. This proposition could assist the Council to deliver target outcomes around a prosperous and inclusive economy, as well as helping the city to be innovative, prosperous, resilient and attractive to business.

Consultation Details:

1. In conjunction with key stakeholders, Avon Mutual has run a series of public events across the region to engage stakeholders, explain the plans and to hear what investors would want from the region's bank;
2. They have also had hundreds of one-to-one meetings with people and organisations and spoken at a number of events;
3. Movement building is ongoing and will involve further stakeholder engagement as the proposition is shaped to reflect the region and the key milestones are delivered.

Background Documents: Cabinet July 2019

Revenue Cost	£250,001	**Source of Revenue Funding**	Capital Investment Reserve – Recycled Interest
Capital Cost	£0	**Source of Capital Funding**	Not Applicable
One off cost ☒ Ongoing cost ☐		**Saving Proposal ☐ Income generation proposal ☒**	

Required information to be completed by Financial/Legal/ICT/ HR partners:

Finance Advice:

To date from the £150,000 previously earmarked the Council has invested £143,005 in the setting up of the Avon Mutual Regional Community Bank as outlined below:

1. £100,005 (at risk), direct investment into the Community Bank and hold 6,667 Founder shares (£15 each) which will subsequently be converted into 20,000 ordinary shares.
2. £43,000 on the procurement and establishment of a national framework and commissioning Phase 1 due diligence.

This proposition seeks a further investment of up to £250,001 into the development round. £200,001 to inform the development of the impact framework and the next stage in the application process and further phase 2 due diligence (£50,000) to ensure local strategic alignment and to support any decisions for future investment into Round 3 – Capital Share (operation).

If approved, this investment will be made in 2020 (£100,000.5) and 2021 (up to £100,000.5); purchasing 133,334 (non-withdrawable, non-redeemable shares) at a price of £1.50 each share (nominal value of £1.00 per share and premium of £0.50). Avon Mutual estimates that this will equate to an indicative 9 - 10% IRR if the new bank becomes profitable as modelled in Year 6. It should be noted that any dividend would be subject to Avon Mutual receiving the relevant approvals and future funding to enable it to operate and, once it commences operation, being profitable. Similarly dividend return may rise over time if the bank is successful and the surplus returned is greater than initially modelled.

Risks

While community banks would tap into localism, they would still have a challenge in attracting customers as bank switching is not a common occurrence and the competition could perceive a threat and respond accordingly. Some depositors would act out of philanthropic motives, however community banks would still have to offer an attractive commercial proposition to lenders and borrowers if they are to be viable and remain sustainable in the long term.

The investment has limited liability, if the bank is wound up investors and/or members have no liability to contribute to its assets and no personal responsibility for settling its debts and liabilities. Distribution on dissolution is limited to the amount invested, comprising nominal value plus any share premium, thus if the bank is wound up, no more than the subscription price (e.g. £1.50 per share) will be received by shareholders.

Given the risks that a license or operational profits may not be achieved this should not be viewed as an investment made for purely financial return but one which focuses on social and environmental impact and supports the local economy and at least in the short term akin to an economic grant.

Source of Funding

It is proposed that the Council recycles the returns from previous loan investments from the capital investment reserve, such as Bristol Waste Company and the Bristol Credit Union currently estimated to be c. £296,000 in 2020/21. By making this “investment”, the Council will be forgoing potential interest / return on the funds held in this fund. The current investment return achieved by the Council is c.0.35% per annum. This equates to forgoing £700 per annum, if interest rates and returns were to remain the same. Interest rates are expected to remain low during the medium term and therefore the opportunity cost of investing these balances during this period is minimal.

The purchase of share capital is treated as capital expenditure and will be reported within the capital programme accordingly.
Finance Business Partner: Jon Clayton – Capital & Investments Manager
2. Legal Advice: The July 2019 report identified the legal basis for supporting the Community Bank and this has not changed. Similarly that report set out the potential risks for the Council as an investor/shareholder, primarily the loss of its investment should the project fail; the absence of any guarantee of a return (and these remains the case albeit now with an increased investment); and its limited liability in the event of bank failure – all detailed elsewhere in the report. The due diligence report makes it clear that there are risks with the investment of further funds in Avon Mutual, as there are only the projections provided by the bank to base the report on. Unless the Council becomes a member, (as distinct from a shareholder) it will have no say in the direction of the bank, as this is a function exclusive to members. (This is not the same situation as would apply to a normal limited company). That said, membership would still only entitle the Council to one vote at a general meeting and not a number equal to the number of shares, as in the case of a company limited by shares. Accordingly the major risk remains that if the bank does not succeed and has to be liquidated the Council may not get back its investment. Cabinet needs to balance these risks against the perceived advantages and benefits detailed elsewhere in the report.
Legal Team Leader: Eric Andrews - Legal Services, 20 November 2020
3. Implications on IT: As a funding only initiative, there are no identifiable IT implications in this proposal.
IT Team Leader: Simon Oliver – Director, Digital Transformation, 17/11/2020
4. HR Advice: No HR implications evident because Avon Mutual is a separately constituted organisation.
HR Partner: James Brereton - People & Culture Manager, 19/11/2020

EDM Sign-off	Mike Jackson	18/11/2020
Cabinet Member sign-off	Cllr Cheney	21/09/2020
For Key Decisions - Mayor's Office sign-off	Mayor's Office	29/10/2020

Appendix A – Further essential background / detail on the proposal Appendix A - Avon Mutual Regional Community Bank – Update	**YES**
Appendix B – Details of consultation carried out - internal and external	**NO**
Appendix C – Summary of any engagement with scrutiny	**NO**
Appendix D – Risk assessment	**NO**
Appendix E – Equalities screening / impact assessment of proposal	**YES**
Appendix F – Eco-impact screening/ impact assessment of proposal	**NO**
Appendix G – Financial Advice	**NO**
Appendix H – Legal Advice	**NO**
Appendix I – Exempt Information Appendix I(i) – Due diligence report Financial Appendix I(ii) – Due diligence report Social Appendix I(iii) - Application to Purchase Shares	**YES**
Appendix J – HR advice	**NO**

Appendix K – ICT	**NO**

Avon Mutual
Ethical | Social | Regional

Bristol City Council – Cabinet Update

13th November 2020

Background

In 2014 the reform of the industrial & provident society legislation by the Co-operative and Community Benefit Society Act allowed co-operatives to hold a deposit-taking licence for the first time, clearing the way for full service high-street retail banks to be funded by their customers as shareholder-members.

In response to this new law, in 2015 a long-serving RSA Fellow of the Royal Society for the Arts (RSA) paved the way for a network of regional co-operative banks across the UK, a move backed in 2017 by the RSA's Inclusive Growth Commission. As an active Fellow of the RSA, Avon Mutual's Founder and local resident Jules Peck followed these initiatives closely and started the process of creating the first of the 18 mutual banks by setting up Avon Mutual in the West of England region.

Our progress

Three years on and Avon Mutual is making good progress towards its aim of becoming a regulated retail bank. Key to this is raising start-up funds and our final capital, and progressing the regulatory process.

In terms of funding, having already raised £1m in our first investment round we are currently in the process of raising a first stage additional £500k of our required £2.4m second round investment needed to reach launch. Interest in this £500k raise has been strong and, with £100k invested by BCC, we expect to reach that target soon.

Investors have been a combination of individuals and BCC, Stroud DC and Wilts CC. In addition we have had a £200k grant from Thirty Percy, the foundation of the Gloucestershire based family who sold Ecover, a £20k grant from St Johns Foundation Bath and a £200k investment-readiness grant from George Soros' Open Societies Foundation's Economic Justice program who are exploring investing several million to help us launch and then capitalize the bank.

In terms of the regulatory process, the team has spent considerable time and effort completing our Regulatory Business Plan, creating a meticulously researched business and financial model totalling more than 300 pages. Having reviewed this RBP the FCA and PRA have now given us their feedback and allowed us to step into the second of three key stages of the regulatory process.

Overview of RSM due diligence process

An important milestone in these developments was the commencement of due diligence, conducted by RSM Corporate Finance LLP ("RSM") and commissioned initially by Bristol City Council and other LAs with a particular interest in the proposition, to examine our business plan, investment case, and impact opportunity. RSM's written and verbal reports were highly positive of Avon Mutual, identifying no new areas of unidentified risk, and supporting

the validity and rigour of the bank's methodology in creating its business case and financial model.

One area identified for further work was the bank's impact framework, which, having now completed our core Regulatory Business Plan we are now focusing on progressing. The rest of this paper summarises the work done on the impact framework to date, and lays out the process being taken and management expectations for this work as it takes shape.

Broad Impact Pillars (Economic, Social, Environmental)

There are three key 'pillars' of impact that Avon Mutual is concerned with, and which the bank was founded with the purpose of generating a positive contribution towards. Throughout the bank's development we have announced various commitments and aspirations to generate positive impact in a number of areas, all of which sit under these three key strategic areas:

- **Economic Impact:** Improving the economic conditions of our region so that businesses are better served and more able to provide jobs, growth, and opportunity

- **Social Impact:** Generating positive impacts for individuals, particularly those that are vulnerable and/or suffering from financial exclusion and detriment

- **Environmental Impact:** Contributing to the sustainability and viability of human civilisation, by accelerating the journey to a carbon-negative economy

Avon Mutual recognises that each pillar of impact is complex, multifaceted, and interconnected, and that our approach to each will develop over time. We believe that contributing to these impact pillars is not only a moral duty but also a business imperative, and note the growing base of evidence that suggests that values-based banks consistently outperform their incumbent competitors across a number of key indicators.[1]

Approach

Avon Mutual also recognises the wealth of excellent resources, actors, and initiatives that exist in the impact space. The bank is keen to integrate and build upon this work, rather than reinvent the wheel, and furthermore as a mutual is committed to the principle of collaboration, co-operation and community engagement wherever possible and mutually beneficial. Consequently, this ethos forms a core tenet of our approach to delivering impact.

Specifically, the bank is keen to leverage and integrate existing frameworks, proven techniques, and established methodologies into its impact framework. There are a number of advantages to this approach, including enhanced credibility and external validation of the framework; established evidence bases; case studies and peer learning; and benchmarking.

[1] See for example "Real Economy – Real Returns: The Business Case for Values Based Banking", GABV (2020), and similar papers from 2019, 2018, 2017, 2016, 2015 and 2014.

In addition to integrating recognised frameworks, the bank will also seek to develop partnerships with reputable organisations that can improve our activities and who have a stake in our work. This is likely to primarily consist of consultation and review partnerships, though in some circumstances may also extend to service delivery, customer referral, and/or evaluation partnerships. We anticipate developing such partnerships with service providers, charities, housing associations, utilities companies, private sector businesses and local authorities.

We will work with BCC and its key stakeholders as well as referring to the BCC One City Plan and Inclusive and Sustainable Economic Growth Strategy, post-Covid Recovery and Resilience Planning, West of England Strategic Economic Plan, Local Industrial Strategy, and other relevant plans and taskforces.

In order to best build a product and service which fulfils the needs of the region, its organisations, businesses, community groups and its citizens we are also undertaking on-going assessment and examination of local demand and needs through a combination of market research and community engagement.

Finally, the bank intends on reporting its impact performance openly and transparently. The bank will regularly publish updates on its impact performance, including a dashboard of metrics to illustrate our contribution to the three impact pillars. This may include an Integrated Annual Report, as well as regular impact reporting to stakeholders and investors.

Impact pillar 1: Economic

One of the core functions of a retail bank is to provide intermediation between capital owners and capital seekers. By providing a safe store for deposits and the opportunity to borrow money through loans, banks are able to facilitate economic activity and growth through the balancing of these two activities. However, significant research and experience since the financial crisis[2] has shown that the incumbent banking sector has not performed this function well, particularly for smaller businesses, smaller loan principals, and for regions outside of London and the Southeast.

By contrast, Avon Mutual has been designed to serve small businesses and to fill the gaps in provision left by the incumbent banking sector. We aim to reinvigorate local high streets, deliver for underserved customers, and improve regional economic conditions for everybody.

As well as providing additional services to customers that incumbent banks currently exclude or underserve, a key tenet of our economic impact is the positive effects that displacing business from the incumbent banking sector can provide. These effects are derived from Avon Mutual's geographically-bound regional structure, which ensures that deposits, loans and profits circulate within the regional economy, rather than being extracted outwards or redirected to other areas. This "local multiplier effect" is a key and

[2] See the Avon Mutual Regulatory Business Plan for extensive discussion of this evidence base

recurring concept from emerging new economy and systems thinking, including inclusive growth, community wealth building, circular economies, and doughnut economics.[3]

To quantify, track, and improve our efforts in these areas, Avon Mutual has identified a number of external sources that it aims to integrate into its economic impact framework:

Name	Description	Originator	Benchmarking
Local Multiplier 3 (LM3)	Comprehensive methodology for measuring the local multiplier effect. Quantifies the additional economic value of local procurement, spend, and investment for a local or regional economy.	New Economics Foundation	Social investment projects (various)
Balance Sheet Composition	Measuring what proportion of the bank's assets are dedicated to small business loans versus other asset classes. A measure of how well the bank serves SMEs and how much it prioritises these customers.	New Economics Foundation	Competitors (Big 5, Challengers) Alternatives (Credit Unions, CDFIs)
Real Economy Assets	The proportion of the bank's assets that are dedicated to supporting the production of real goods and services, rather than merely supporting activity in financial markets.	Global Alliance for Banking on Values	Values Based Banks Competitors
Jobs Created and Supported	Reporting on the number of jobs either created or retained as a result of the bank's financial support.	Responsible Finance	Alternatives

As well as these external frameworks, Avon Mutual has identified a preliminary set of additional key impact areas that could monitor and report on. The exact metrics and methods of measurement are currently being developed, but the bank aims to assess areas where it has brought additionality through things such as:

- Measuring and reporting its performance on advancing lending to underserved businesses, for example by monitoring when we are advancing loans where other banks have refused to do so, in particular to start-up businesses, social enterprises, community groups and others delivering to inclusive and sustainable development
- Monitor the number of "edge cases" where loans are advanced. This would indicate the bank's greater use of "soft information" and management judgment over centralised algorithms, where the latter tend to exclude some viable businesses. The performance of these "edge cases" will also be monitored at the product, branch, underwriter, and customer levels
- Measures of business confidence and perception of economic conditions in the region, particularly in relation to accessing finance
- Measuring the bank's support of key sectors and business types, including "feast-to-famine" businesses, start-ups, scale-ups, and target industries such as technology
- Measuring the bank's impact on recirculating local money to local lending – for instance our region's SMEs deposit approximately £6.65bn into the banking system

[3] For more information on how Avon Mutual contributes to the Doughnut Economics agenda, please see our short paper "Avon and the Doughnut".

but only get £3.6bn lent back to them, leading to a leakage of £3.05bn out of the region's economy

- Measure and report on estimates of numbers of jobs created by our lending and banking provision
- Our role in the continued development, growth and flourishing of an alternative financial ecosystem in the region with blended finance through partnerships with bodies like BBRC, BCU, Quartet, City Funds and others

Impact pillar 2: Social

Financial services are essential for facilitating modern economic life, and for enabling people to participate in markets for goods and services that can improve their lived experience. Yet because of their ubiquity, financial services also have the ability to disadvantage, exclude, or cause significant detriment to people through poor service, inappropriate products, and institutional cultures that prioritise profit and shareholder gain over customer wellbeing. This is particularly true for more vulnerable and excluded groups, who are often both more susceptible to detriment and also less resilient to its negative impacts.

Avon Mutual understands the critical role that finance plays in peoples' lives, and the potential that financial service providers have to create both negative and positive impacts through the design of their products, services, processes, and operations. We believe that this confers a special responsibility on financial service providers to strive to alleviate rather than cause suffering through its provision of financial goods and services, and to take a proactive, conscious, and deliberate approach to generating positive social impact within its purview in the financial services space.

In particular, retail banks have a critical role to play in facilitating financial inclusion (to both products and financial infrastructure), enhancing the financial resilience of their customers, and ensuring responsible and compassionate conduct with their most vulnerable customers. As well as designing all our products, services, and operations with these aims in mind, Avon Mutual has also identified a number of measures of social impact that it aims to integrate into its own impact framework, including:

Name	Description	Originator	Benchmarking
The Poverty Premium	People on lower incomes tend to pay higher prices for goods and services. Key products for particularly vulnerable groups, such as current accounts for the unbanked, can help to alleviate these costs.	University of Bristol	Customer
Sustainable Development Goals	A collection of priority goals for the social and economic advancement of people everywhere, ratified by the UN and international governments worldwide. B Corp, the movement for sustainable and social enterprises, has developed a tool to track a business' contribution towards the SDGs.	United Nations B Corp	Competitors Comparable Financial Service Providers
National TOMs Framework	Guidelines for local government that help steer and monitor procurement decisions so that they deliver social impact and the Social Value Act.	UK Government	N/a
Financial	Comprehensive review of evidence on how to	Financial	Customer

Capability Outcomes Framework	improve financial health, and how to measure it.	Capability Strategy for the UK	
Building Blocks of Financial Capability	Framework for understanding financial capability, including financial skills and resilience, and how to improve and develop them.	Money Advice and Pensions Service	Customer
Vulnerable Customers	Extensive experience with vulnerable customers, and deep knowledge base of debt collection, resolution, and intervention strategies.	Citizens Advice	N/a
Triple Bottom Line Lending	Ensures the exclusion of lending to socially irresponsible or damaging businesses, and gives a measure of a bank's commitment to supporting socially beneficial projects and companies	Global Alliance for Banking on Values	Values-Based Banks Competitors

As well as these external frameworks, Avon Mutual has identified a preliminary set of social impact areas that could monitor and report on. The exact metrics and methods of measurement are currently being developed, but the bank aims to assess areas where it has brought additionality through things such as:

- Monitoring and reporting on the number of previously excluded individuals, in particular the unbanked and other vulnerable customers, who we have brought into the banking system and who are using our various products – we estimate there may be around 38,000 unbanked citizens in our region
- Measure the potential economic productivity improvements from bringing people out of the poverty premium, helping them gain a credit rating and become economically active - which could be worth billions of pounds annually across the UK
- Monitor the number of "edge cases" where loans are advanced. As with businesses, this would indicate the bank's greater use of "soft information" and management judgment over centralised algorithms, where the latter tends to exclude some viable applicants. The performance of these "edge cases" will also be monitored at the product, branch, underwriter, and customer levels
- The number and locations of bank branches and ATMs, particularly in areas of low provision, deprivation, or greater social need for financial infrastructure
- The performance of the bank in preventing, and ameliorating bad debt, and its performance in dealing with customers who slip into arrears
- Become accredited as a socially beneficial and responsible employer, for example through Living Wage Foundation accreditation and reporting on pay ratios
- Modelling the potential for differential banking fees for the unbanked citizens including zero fees
- Increased economic activity, employment and enterprise supported by the bank in disadvantaged communities

Impact pillar 3: Environmental

The scale and urgency of meeting the challenge of climate change is difficult to underestimate. The UN has announced that the world has around 10 years left to reverse the climate emergency, or else face runaway climate change above 1.5ºC warming and

irreversible "tipping points" that will accelerate the demise of habitable conditions on our planet. Finance in particular has a huge role to play in the transition to a climate-safe world, with the International Renewable Energy Agency estimating that an additional $27 trillion capital must be mobilised by 2040 just to limit global heating to 2ºC.[4] Unlike other businesses, the climate impact of banks and other financial institutions extends beyond simply their own activities, as it also includes the activities they enable through their financing.

Thankfully, global and regional leaders are acting on this urgent imperative, with cities around the world recognising the climate emergency that we are in, and announcing ambitious plans to accelerate the drive to becoming carbon neutral – including Bristol City Council. Successfully meeting these targets will require huge effort and significant behaviour change from everyone, including individuals, businesses, and the public sector.

Avon Mutual recognises the role that it has to play in facilitating and encouraging these changes, and in addition as a bank is in the privileged position of being able to direct or refuse to advance capital to projects and businesses on the basis of the applicant's climate impact. We will take a proactive approach to catalysing positive environmental change in the region, and aim to leverage our balance sheet, operations, and credit providing capacities to catalyse and accelerate the transition to a sustainable economy. External frameworks that we have identified that could help us in this process include:

Name	Description	Originator	Benchmarking
Partnership for Carbon Accounting Financials	Banks' environmental impact extends beyond just their own activities, and also includes the activities that they enable through lending. Reporting the carbon intensity of the bank's loan book helps illustrate this impact.	Partnership for Carbon Accounting Financials	Competitors Values-Based Banks
Taskforce on Climate-Related Financial Disclosures	Global drive to increase transparency and investor confidence in banks' exposure to climate change risks, the TCFD seeks to standardise and improve information disclosure	Taskforce on Climate-Related Financial Disclosures	Competitors Values-Based Banks
Principles for Responsible Banking	Global movement of banks committing to monitor, report, and improve their social, environmental, and governance impacts, including their contribution to the SDGs and the Paris Climate Agreement. Also provides peer and community support for best practice and improvement.	United Nations Environment Finance Initiative	Competitors Values-Based Banks
Triple Bottom Line Lending	Ensures the exclusion of lending to environmentally damaging projects and businesses, and gives a measure of a bank's commitment to supporting environmentally beneficial projects and companies	Global Alliance for Banking on Values	Competitors Values-Based Banks
Doughnut Economics Action Lab	Community of practice working to integrate and promote Kate Raworth's "doughnut economics" approach into operational business as usual. Includes environmental sustainability and promoting social wellbeing	Kate Raworth Doughnut Economics	N/a

[4] International Renewable Energy Agency, Global Energy Transformation: A Roadmap to 2050, 2018

As well as these external frameworks, there are several areas of environmental impact that the bank is keen to pursue. The exact metrics and methods of measurement are currently being developed, but the bank aims to assess areas where it has brought additionality through things such as:

- Reporting on the number and proportion of loans that are used for environmental transition purposes, such as organic farming transition and low carbon transition lending, and to promote best practice and opportunities for environmental transition across our customer base
- Report on the environmental impact of our own operations, including emissions, energy use, supply chain, and waste
- Report on the number and proportion of 'Green Mortgages' that are used specifically for environmental purposes, such as eco house builds, energy efficiency, and retrofitting

Data Sources & Collection

This ambitious approach to monitoring and reporting our economic, social, and environmental impacts will rely on collecting a wide array of accurate and reliable data. Broadly speaking we anticipate having to collect three different types of data to enable accurate impact monitoring and reporting:

Passive	Surveying	Active
Data sources and metrics that are easily extracted directly from our internal systems	Perception, attitudinal and personal data sources that need to be self-reported or acquired sensitively	Insights that need investigation and research from staff in order to report

As our impact framework develops we will refine exactly which metrics we will be tracking, and what their collection methods will be. This will in turn have a knock-on effect on the resourcing needed to establish, monitor, and report on our impact framework, and the reporting that we will deliver on an ongoing basis.

Operations & Integration

Similarly, the impact framework will influence the way we operate, from contributing to loan decisioning, branch locations and customer communication, to collaborating with partners, reporting to stakeholders, and improving our systems and processes. Consequently, our operational processes, infrastructure procurement, product design, institutional policies and more will all need to be integrated with and aligned to the social impact framework.

Avon Mutual is cognisant of this challenge and committed to integrating impact throughout our organisation. As we advance through the regulatory process and enhance our

operational capacity, we will integrate our impact framework throughout the business so that we are ready to deliver and report on our impact aims from day 1.

Targets
Due to the early stage of development of our impact framework we have not yet determined targets or benchmarks, as these will be highly dependent on the impact metrics chosen, the methodology required, and the benchmarks selected (where applicable). That said, we will always endeavour to better our established incumbent competitors on all impact metrics after controlling for size (for example, comparing proportions of lending rather than volume), and to match or better our peers in the values-based banking arena.

Preliminary Indicative Impact for Bristol
Given the above, we are unable to provide impact targets or projections for Bristol City Council across the full suite of intended impact areas. However, we are able to share some preliminary and indicative metrics for Bristol, based on the work completed so far on our business and financial model.

Next Steps on this impact framework
Our next steps are to hone and refine our impact framework, in consultation with the community, businesses and citizens of the region and to advance integration of the impact framework into our operational capacities, procurement activities, and institutional design. This will include clarifying resource, reporting, and technology requirements, as well as benchmarking, targets, partnerships, and potential branch locations.

As part of this process Avon Mutual will conduct a rigorous analysis of the expected impact in Bristol City Council and other local authority areas within the West of England. From this we will work to create an estimate of the social return on investment for investor councils, and to complete the second stage of the due diligence process with RSM.

Our next steps overall
In addition to finalizing our impact framework we are now focusing on growing our core team, including currently recruiting a CEO, undertaking more granular market research product and service development, developing our technology, capital and liquidity plans and the next iteration of our Regulatory Business Plan.

This will allow us to complete the process of regulatory authorisation, and to complete the infrastructure build and preparations to take us to launch, planned for late 2021 or early 2022. We anticipate that a final round of c£20m of funding in 2021-2022 will be required to support operations post-authorisation.

Once licensed we will build to lending around £0.5bn local money to the local economy with 24 staffed branches, 97,000 personal and small business members and 200 staff.

Timeline for licensing and investment

Financial year:	Pre-application 2019/20	Application 2020/21	Mobilisation 2021/22
Activities / milestones:	✓ Informal meetings with PRA/ FCA ✓ Fundraising ✓ Refine business plan ✓ Build team	✓ Formal application ✓ Maximum 12 months ✓ Rigorous due diligence ✓ Authorisation of key personnel	✓ Provisional licence gained ✓ Operations go live ✓ Restriction on amount of deposits for up to 12 months
Investment:	**Round 1 - £1m** Bonus shares + dividends IRR c18%-20% **Round 2 stage 1 - £500k** Bonus shares + dividends IRR c10%	**Round 2 stage 2 - £1.9m** Bonus shares + dividends IRR c10%	**Final - £20m** Dividends, IRR c5.5%-6%

Bristol City Council Equality Impact Assessment Form

(Please refer to the Equality Impact Assessment guidance when completing this form)

Name of proposal	Avon Mutual Regional Community Bank
Directorate and Service Area	Resources / Finance
Name of Lead Officer	Denise Murray

Step 1: What is the proposal?

Please explain your proposal in Plain English, avoiding acronyms and jargon. This section should explain how the proposal will impact service users, staff and/or the wider community.

1.1 What is the proposal?
For the Council to make a further at risk investment in phase 2 development shares that will support the establishment of Avon Mutual; which is a Regional Community Bank that if established will aim to serve the West of England region broadly comprising Bristol, Gloucestershire, Wiltshire and Bath & North-East Somerset. If a licence is obtained the Avon Mutual aims to commence trading in late 2021 or early 2022 and will be one of the first customer owned financial institution (full service bank) that has a strong social mission, promoting sustainable and equitable prosperity for the region. From the Councils' investment, it is seeking to ensuring that the way the Avon Mutual operates, its culture, governance, and approach to businesses and individuals is values-based, with a retail bank offer that benefits those currently underserved and puts the financial wellbeing of our communities at the heart of what they do. The Bank aims to serve people of ordinary means, community groups, self-employed, SMEs and social enterprises. It will offer a range of essential banking services, from current accounts and savings, to mortgages, loans and overdrafts for personal and SME customers, accessed through online, mobile and branch distribution channels. The Bank's strategy is to gain competitive advantage through cooperative ownership that provides a superior knowledge of local markets and its governance and policies. It will serve businesses who wish to innovate and grow but find the traditional routes to finance challenging. It will support the reshaping of future markets in line with stakeholder and local economic priorities and as such it has the potential to help the post covid-19 recovery and transformation of Bristol's economy.

Step 2: What information do we have?

Decisions must be evidence-based, and involve people with protected characteristics that could be affected. Please use this section to demonstrate understanding of who could be affected by the proposal.

2.1 What data or evidence is there which tells us who is, or could be affected?

Current Evidence Base

Bank and Building Society Branches

In the UK banks and building societies closed (or scheduled the closure of) 3,770 branches since January 2015, at a rate of around 55 each month. The % of local branch closures in the Bristol area and branches left from January 2015 to the end of 2021 (projected) are outlined in the table below.

Bristol

Constituency	Branches Left	% network lost since Jan
Bristol East	3	63%
Bristol North West	5	50%
Bristol South	6	50%
Bristol West	21	40%

Source: https://www.which.co.uk/money/banking/switching-your-bank/bank-branch-closures-is-your-local-bank-closing-a28n44c8z0h5#headline_1 - Which?

Free Cash Machines

The Which? Analysis indicated that between January 2018 and December 2019 an estimated 9,500 free ATMs (54,500 to 45,000) have been removed or have introduced charges of up to £2 per withdrawal. In that time 1,203 bank branches closed.

Overall, the most deprived areas across the UK saw a reduction of 979 free-to-use machines – 6% of their ATM network. But the least deprived areas lost just 223 free cashpoints – 4% of their network of machines.

The analysis showed Birmingham Ladywood saw the biggest losses, with a reduction of 47 free machines. This was followed by **Bristol West the second worst area in the country** for the decline with the loss of 40 free machines and then, Manchester Central (-36). All of the constituencies outlined above have a high proportion of deprived neighbourhoods.

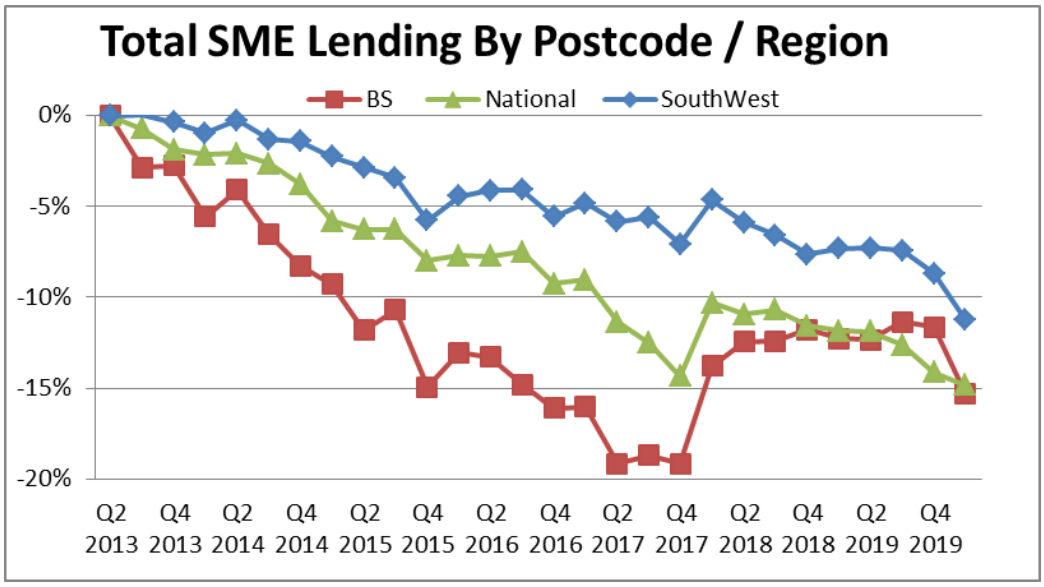
In Bristol 15% of residents - 70,700 people - live in the 10% most deprived areas in England. Previous Which? research found that over three-quarters (78 per cent) of people in the two lowest household income groups rely on cash the most – using it at least two or three times a week. The poorer communities have been particularly affected by the banking changes,

with vulnerable customers including the elderly, disabled, and those of low financial means most reliant on the ability to access and pay with cash and who can least afford to pay for withdrawals are facing charges or being forced to travel to access money for free.

Micro, Small and Medium Size enterprises

According to the ONS there are 22,500 business units registered (VAT / PAYE registered) in Bristol, in 2019. This is up from 20,600 in 2015.Many small businesses are reliant on branch facilities for loans and banking takings and are increasingly neglected by high street banks. In BDRC's SME Finance Monitor report for Q2 2019, the most common source of external funding for SMEs is bank overdrafts at 22% – 3% increase since the previous report. Q4 2018, Credit cards are the second-most common source of SME funding at 17% (another 3% increase). Meanwhile, only 8% of SME'S say they were able to secure loans from major banks (a 1% increase).

SME loans have decreased nationally since 2013. The peak of this decrease was in 2017 with a national average fall of 14%, and more significantly in Q1 2020 by 15% when the effect of Covid was emerging. However the impact on the southwest in comparison has not been as severe with an average fall of 7% at the peak and 11% 2020. The decrease in lending in the BS Postcode area in contrast has almost tripled that in the southwest; at the 2017 peak a fall of 19% was experienced and following a degree of recovery has now fallen again in line with the national average of 15%.



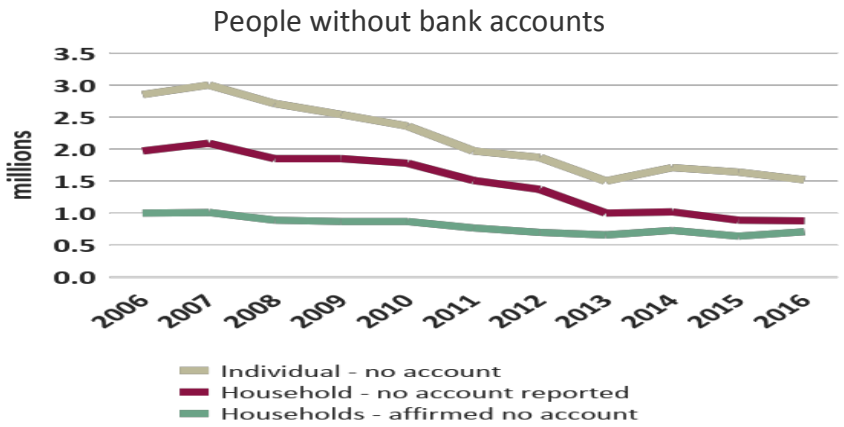
Source: UK Finance Post Code Lending Data. Total of 7 largest banks: Barclays, CYBG, Lloyds, HSBC, Nationwide, RBS/Natwest and Santander

Households and Individuals

Sources: HMT report on cash 2018, CHASM Financial Inclusion Report 2016 & 2017, FCA

Financial Lives Survey 2017, Pro-rata on adult population of Bristol City Council area - 365,000 from UK population estimates mid-2017.

INDICATOR	BRISTOL est.
Individuals without bank account	12,000
Households without bank account	7,000
'non-users' of the internet	60,000
Entirely dependent on cash	19,000
Consumers with 1 or more indicators of potential vulnerability	183,000
Can't pay bills/meet credit commitments in 3 out of last 6 months	29,000
Not able to find £200 at short notice	40,000
3 day emergency food packages from Food Banks	8,000
Adults with little or no confidence in money management	88,000
Used unauthorised overdraft facility in last 12 months	22,000
Borrowing from friends and family in last 12 months	25,000



Source: CHASM, Financial Inclusion Monitoring Report 2017

Over 79,000 Bristolians suffer income deprivation and in some areas of Bristol this is likely to be a major concern, with for example some wards have 49% of people living in them suffering from income deprivation and the poverty premium.

According to Bristol University those on low incomes suffer an average £490 p.a. additional cost due to their low income preventing access to better deals. The impact of this 'poverty premium' can be severe - for 10% of these households the cost rises to £780 p.a. and for others this premium rises to as much as £2250 p.a. Bristol University's Personal Finance Research Centre's report *Making the Poverty Premium History* has recently called for new forms of banking relevant to the socially excluded.

The table below shows that some equalities groups in Bristol, including disabled people and young people, are more likely to find it difficult to manage financially.

Characteristic	% who find it difficult to manage financially
16 to 24 years	15.4%
50 years and older	7.7%
65 years and older	3.4%
Female	10.0%
Male	7.8%
Black, Asian and minority ethnicity	15.0%
White minority ethnicity	8.6%
Disabled	23.1%
Carer	14.2%
Single Parent	22.7%
Religion or faith	7.9%
No religion or faith	7.6%
Lesbian, Gay or Bisexual	10.4%
Bristol Average	**9.0%**

source: Quality of Life in Bristol survey 2019-20

Other Sources: PFRC, CSFI and JRF, 2016

- 2.5m people are using high-cost credit, and 2.1m living in perpetual overdraft debt
- 400,000+ households are using high cost "rent-to-own" for essential household goods

The FCA recently estimated that over four million people use some form of unsecured high-cost credit, at a value of £8.3bn. In contrast, the Community Development Finance Institution (CDFI) market lent a total of £20 million in personal loans, and the reach of credit unions appears to be similarly constrained.

Impact

Branch closures worsen financial exclusion for communities and the vulnerable, and can hasten local economic demise. Small, micro, community and social businesses are excluded from lending, reducing growth and opportunity, Cash services are increasingly restricted and some business accounts provide poor value. Lending is too expensive as Banks financially penalise many on low incomes, and are bad at providing for people with complex needs. The Avon Mutual Regional Community Bank could provide a positive contribution by making banking services more readily available in the region and ensuring that millions of people are not left behind as digital payments grow in popularity and to help those in deprived or isolated areas adequately safeguard free cash access in the long-term and via its lending policy making it harder for small firms to compete.

2.2 Who is missing? Are there any gaps in the data?

2.3 How have we involved, or will we involve, communities and groups that could be affected?

In having submitted the core Regulatory Business Plan the Avon Mutual are now focusing on

progressing the bank's impact framework to ensure they generate positive impact in a number of areas, all of which sit under the three key strategic areas:

- **Economic Impact**: Improving the economic conditions of our region so that businesses are better served and more able to provide jobs, growth, and opportunity
- **Social Impact:** Generating positive impacts for individuals, particularly those that are vulnerable and/or suffering from financial exclusion and detriment
- **Environmental Impact:** Contributing to the sustainability and viability of human civilisation, by accelerating the journey to a carbon-negative economy

This will require them to undertake more granular market research and community engagement on product and service development, technology, capital and liquidity plans.

In further developing the proposition for the region it will be necessary to understand the unique points for each locality and the Council intends to commission a phase 2 due diligence to assess the local impact and information gathered. This will assist in understanding the strengths, challenges and needs of the local communities and additional depth on the impact on customers with protected characteristics and how the operational planning and systems implementation could address these.

Step 3: Who might the proposal impact?

Analysis of impacts on people with protected characteristics must be rigourous. Please demonstrate your analysis of any impacts in this section, referring to all of the equalities groups as defined in the Equality Act 2010.

3.1 Does the proposal have any potentially adverse impacts on people with protected characteristics?

The UK market for current accounts is unusual in its charging structure, with apparently free current accounts (Free-if-in-credit – FIIC) – most other countries charge for banking. FIIC account providers over-sell other complex and untransparent products to pay for the cost of such accounts.

FIIC banking models which are marketed as 'free' have a range of hidden costs and penalties that can impact on the most vulnerable. Many customers are excluded from banking and financial services if they do not meet the required minimum income thresholds or fail the credit checks for a FIIC account. Overdraft fees can be excessive and an additional premium is often applied to those on low incomes or with poor credit.

It is proposed that a simple and transparent upfront membership fee of £5/month for current accounts, £10/month for business accounts will be applied to all customers. This is primarily due to the fact that a full range of services will be provided by the Avon Mutual and they will need to compete with other high street banks. Given the challenges that we seek to address there will need to be an additional offer from Avon Mutual and as such this will come at a costs. For example staffed high street branches, free ATM machines, multi-

channel access, video link to talk to customers which can be co-located with community facilities, softer services such as budgeting tools including analysis of expenditure and visualisations and functionality to improve control over personal finances.

It is recognised that there is a risk that these upfront costs could disincentive take up from vulnerable customers and whilst the Council recognises that the membership fee is outweighed by the benefits, particularly the potential to significantly reduced 'poverty premium' for low income families we are asking for further consideration to be given to a differential pricing model for current account fees of the most vulnerable to both effectively support and incentivise take up.

3.2 Can these impacts be mitigated or justified? If so, how?

In addition to the indirect benefits derived from the additional accessibility and services that will be provided (3.1 above), the Avon Mutual will offer:

- 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.
- Access to cash via ATM's will be free - bank branches are closing and independently operated machines usually charge around £1.50 to £2 per transaction.
- Interest will be paid on whole combined balance across accounts including current account.
- The main credit product is an overdraft, which can only be provided directly by banks (and not by credit unions or post office accounts), will have modest overdraft fee that is applied consistently.
- Access to residential mortgages as well as business and personal loans.

As shown in the comparison with Lloyds and Natwest FIIC accounts, once the balance exceeds £1,000 the Avon Community Bank accounts begin to deliver a direct value and is much better value for any customers who need an overdraft.

Bank	AM- RCB	Lloyds	Natwest
		Classic	Select
Monthly membership fee	(5.00)	-	-
Interest on £1,000 in current account	1.22	-	-
Cost of £500 overdraft for 15 days	(1.94)	(10.65)	(9.74)

Avon Mutual are committed in achieving financial inclusion, the same service for all regardless of income, wealth or background and in doing so a simple and transparent fee will need to be applied. The £5/month costs is outweighed by these benefits and the significantly reduced 'poverty premium' for low income families..

As outlined in 3.1 the Council would expect to see further mitigations being explored to protect the most vulnerable primarily differential pricing for the most vulnerable customers. Other areas could also be explored such as working with large socially responsible service providers who may also be end beneficiaries to agree to share or meet these costs. For example via direct debits it would be possible to seek agreement to transfer an element of the cost to the receiver, on the principle that they will also benefit from the direct debit with improved cash flow in a move away from Pay on Bill and reduced arrears, therefore creating a win / win scenario. The deliverability of such a scheme would need to be tested including with local authorities who fall into the category of large service provider and could be applied in direct debit areas such as council tax and offset by discretionary hardship funds.
3.3 Does the proposal create any benefits for people with protected characteristics?
The promoters have set out missions for the Bank to guide its activities and ensure alignment between the activities of the Bank and regional stakeholders. It is anticipated that there are three main ways in which the activities (direct / indirect) of the community Bank, can deliver positive impacts in respect of the protected characteristics and in the reduction of socio-economic inequality: • Its culture, governance and engagement with its employees (direct). • Its interactions with its customers (direct). • Supporting its customers to deliver positive impacts in respect of the protected characteristics and to address socio-economic inequality within their own ventures and through the activities that the Bank's financing will enable (indirect). The additional evidence and phase 2 due diligence will identify the local need, support policy development and operational implementation in delivering the above.
3.4 Can they be maximised? If so, how?
The promotors will continue to work with a range of businesses, including some that have previously faced issues when seeking to access finance and it is vital that Avon Mutual is able to identify and take opportunities to establish productive partnerships. Recognising the barriers to those partnerships will be key to unlocking the potential of a variety of businesses and sectors. Avon Mutual should consider how its lending practices can address the particular needs of its potential customers. Their needs may vary depending on the types of persons leading the business, its sector of activity and the geographic location of its business or activity.

Step 4: So what?

The Equality Impact Assessment must be able to influence the proposal and decision. This section asks how your understanding of impacts on people with

protected characteristics has influenced your proposal, and how the findings of your Equality Impact Assessment can be measured going forward.

4.1 How has the equality impact assessment informed or changed the proposal?
The evidence and data gathered to date and data set for the UK and Bristol specifically has assisted in demonstrating the need for a community bank in the region. The development of the EQIA will be an iterative process has the proposition for the establishment of the community bank matures, further due diligence and evidence is gathered, the application for the banking license is approved, Board and executive team in place, impact framework established and the bank becomes operational.
4.2 What actions have been identified going forward?
The phase 2 investment being proposed by the Council is to enable wider localised research to be undertaken to refine the impact framework, following which a further phase 2 local due diligence will due undertaken which will identify any gaps and make residual recommendations to ensure the Councils objectives will be achieved. This information should be utilised to finalise the impact framework, shape the investment and other policies and the business plan assumptions. The findings from the wider localised research and due diligence will enable a more detailed EQIA to be completed and evidence of which will support the Bank's development of its Investment policy and any further investment in the establishment of the community Bank in 2020. Examples of the approaches that are being considered are captured within section 1.1, 3.3 and 3.4 above.
4.3 How will the impact of your proposal and actions be measured moving forward?
The additional research and wider evidence gathering will assist the Council in ascertaining the baseline for their locality and basis upon which the actual impact of these interventions and wider social value generated can be measured.

Service Director Sign-Off: Denise Murray – Director of Finance	Equalities Officer Sign Off: *Reviewed by Equality and Inclusion Team*
Date: 13/11/2020	Date: 13/11/2020