

## Briefing to OVERVIEW AND SCRUTINY

# Community Bank in Oldham

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### 1. Summary

The concept of a community bank was considered by the Corporate and Commercial Services Overview and Scrutiny Link Meeting on 17th June 2015, with a decision to refer the matter to Overview and Scrutiny for a more detailed review to be undertaken.

The role of Overview and Scrutiny in this regard is to;

- (1) Gain an understanding of the concept of a community bank
- (2) Understand how community banks operate in other localities
- (3) Understand what complimentary organisations operate within the locality or whose services are available to Oldham residents and businesses
- (4) Understand the key issues before we consider a community bank being opened in the Borough

### **What is a Community Bank?**

The concept of a community bank is based on a model used throughout the world with local co-operative banks account for 70% of the sector in Germany. In 2014 community banks and similar organisations in the UK lent £72m to 13,230 Small Medium Enterprises (SME's), £78m to 370 social enterprises and £19m to 42,000 individuals and £4m to 580 homeowners.

The core purpose of these banks is to offer competitive community based banking services as an alternative to the traditional, well established commercial/ high street offer. The form and terms of business of individual banks differ, in the main they exist to lend money to businesses and/ or in some cases individuals who struggle to get finance from high street banks. They are specially created social enterprises that invest in customers and communities. By way of example the newly established Hampshire Community Bank will provide loans to small and medium businesses with a particular focus on green projects. The constitution varies from bank to bank. Partner entities typically include local authorities, local enterprise partnerships (LEP's), community interest companies (CIC's) and other community based interest groups and companies.

In the UK community banks are in the main (but not exclusively) non-deposit taking financial institutions, funding is secured from commercial and social lenders, grants from local, central and European governments, trusts and foundations, equity from shareholders and funds managed on behalf of third parties. They receive income from lending through interest and fees and portfolio management charges, with many raising revenue grants, often for delivery of support services such as technical assistance and also receiving customer deposits if applicable. The banks obviously operate in a sector which is both high profile and high risk and are bound by a very complex regulatory and statutory regime. The interest rates charged are in the range of those offered by high street banks, typically overlapping at the top end and/ or slightly exceeding those offered by traditional banks. An average £15k SME loan with a community based institution would typically be priced in the range 10-15%, compared to rates in the range of 8-13% with high street banks.

## 2. Key considerations for Overview and Scrutiny to discuss

### **The Customer**

The type of 'customer' and terms of business vary from organisation to organisation and are defined by the specific criteria and local priorities of each institution. Customers are typically small to medium sized businesses who struggle to get finance from traditional sources. The customer base could also include individuals; typically lower income or more vulnerable residents both as a deposit maker and/ or loan recipient. Given that Oldham Credit Union currently has an offer that predominantly focuses on individuals, it is envisaged that any Oldham proposal would focus on SME's, social enterprises and other community led business ventures.

The call on Council resources would be reliant on the size and scope of the proposed operations of the bank, the partner organisations and the availability of external funding and grants. 'Seed' funding would also be needed to fund the set-up of the bank. The Hampshire Community Bank, previously mentioned, is looking to raise £7m, which it is hoped will be matched by an equivalent contribution from central Government, this should enable the bank to make loans in excess of £100m in its first year of trading.

State Aid, whilst being a consideration has been overcome by those Authorities who are partners in existing banks and is not foreseen as a problem. Legal advice would obviously be required to ensure adherence to the regulations

### **Current Assistance Oldham**

There are a number of community banks and other institutions who are offering similar services, both locally and nationally which are potentially available to Oldham residents and businesses. Section 4 is a comprehensive but by no means exhaustive list of such organisations with a very brief summary of their main lending criteria. The Council does not currently directly offer any comparable services, however loans to individuals and to a lesser extent business are available via the credit union, the Council will also advise, 'sign post' and facilitate approaches to the following;

- Oldham Enterprise Trust Fund
- Business Finance Solutions who are part of the Business Growth Hub and who can send people to Business Angels Network and Access to Finance.
- Funding Circles
- Existing Banks – majority of loans still via this route.
- Oldham Credit Union

The potential advantages and disadvantages of a community bank are as follows;

### **Advantages**

- Community based with a visible local presence
- Offering access to finance for local business (and possibly residents)
- Broadly competitive interest rates and transaction fees
- Catered/ targeted to specific sectors, community groups or residents
- A more flexible approach; to credit scoring and loan criteria
- Better Customer Service; a more personalised approach
- Faster decision making
- Profits' reinvested in either the bank or the local community

### **Disadvantages**

- Complex Organisation;
  - requires a high degree of expertise to set up
  - Operates within a highly regulated sector currently outside the Authority's skill set
- Limited Funds; particularly at inception which may restrict activity
- Unknown track record nationally; still an emerging sector
- Unknown call on the very limited financial resources available to the Council
- Lack of expertise within the Authority
- Potential call on officer and Member time
- Cuts across currently available OMBC business incentives
- Potential for reputational damage to the Council if there are problems
- Exposure to risk of debt financing or underwriting financing

## **3. Key questions for Overview and Scrutiny to consider**

### **1. Would the introduction of a Community Bank be a feasible proposition in Oldham?**

*Does a community bank represent a feasible business plan that could work in practice in Oldham, what offer would it make?*

### **2. Would a Community Bank be beneficial for Oldham businesses and/ or residents?**

*Are the benefits of a Community Bank model right for businesses, communities and individuals in Oldham as a co-operative Borough, given the alternative provision that already exists, do the advantages outweigh the disadvantages.*

### **3. Does a Community Bank offer value for money?**

*Are the outcomes of having a Community Bank a worthwhile investment given the financial pressures the Council currently faces.*

### **4. Are there any other considerations that may impact on having a Community Bank in Oldham?**

*Should anything else be taken into account in any future discussions around a Community Bank.*

## 4. Additional supporting information

### 'Local' Banks potentially available to Oldham businesses and/ or residents

#### **Bolton Business Ventures (BBV)**

BBV Ltd offers business loans of between £500 and £50,000 across the North West region.

#### **Business Finance Solutions**

Business Finance Solutions provides business loans across the North West of England including Cheshire, Greater Manchester, Lancashire and Cumbria. It provides Loans of between £500 and £100,000 to help start-up or growing businesses who have been refused loans from mainstream sources

#### **East Lancashire Moneyline**

Provides personal loans in North West England, Midlands, Yorkshire and Humber & Wales. Loans of between £50.00 and £1,000.00 are available for customers who are excluded from mainstream credit.

#### **Enterprise Answers**

Provides loans to start-up and existing businesses which are unable to access the finance they require from banks or other conventional sources across Cumbria, North Lancashire, Northumbria & County Durham and will consider applicants for loans of between £3,000 and £100,000.

#### **Lancashire Community Finance**

Personal loans of between £400 and £5,000 are available for a range of purposes. Business loans of £400 to £25,000 are available for business expansion. Start Up Loans from £250 are available for business start- up or the expansion of a business under 12 months old. Home improvement loans of £400 to £25,000 are also available to enable homeowners to improve their homes.

#### **Oldham Credit Union**

Loans to members of the Credit Union to a maximum of £10k, interest rates range from 42.6% on 'small' loans up to £1.5k to 12.7% on loans of £5k plus

#### **The Key Fund**

Investment to social enterprises working across the North of England offering loan packages ranging from £5000 to £300,000 to social entrepreneurs, new and existing social enterprises and voluntary/community organisations aspiring to become social enterprises.

### 'National' Banks potentially available to Oldham Businesses and/ or Residents

#### **Big Issue Invest**

Big Issue Invest offers loans of £50,000 to £1 million to charities and social enterprises across the UK.

#### **Charity Bank**

Charity Bank provides loans and guarantees and related business support to charities, social enterprises and other community and voluntary organisations. Loans of between £50,000 and £2.5m

#### **Co-operative and Community Finance**

Co-operative and Community Finance provide business loans exclusively for the co-operative and social enterprise sector based in mainland UK. between £10,000 and £200,000 is available

### **FSE Local Growth Finance**

The FSE Group provides funding and support for ambitious social enterprises and SMEs.

### **My Home Finance**

My Home Finance offers small-personal loans and related services across England. Loans of between £100 and £2,000 are available for people who may otherwise turn to unethical sources to get credit in times of need.

### **Resonance Community Land & Finance**

Finance for community-led groups to assist in developing and financing assets to achieve more sustainable and functional communities across the UK

### **Royal Bank Scotland Social & Community Capital**

Provides loans of between £30,000 and £1m to viable charities, social enterprises, community interest companies, co-operatives, community businesses and community development finance institutions located and trading in the UK that do not qualify for mainstream lending.

### **Triodos Bank**

Loans from £25,000 to charities, social businesses, community projects and environmental initiatives across the UK. It only lends to organizations which create real social, environmental and cultural value.

### **TSELF**

Loans of £50,000 to £1 million to charities and social enterprises across the UK that are unable to secure sufficient funding from mainstream sources.

### **Other Regional Banks**

#### **Acorn Fund**

Acorn provides business loans ranging from £100 to £500,000 across large parts of the East Riding, some of North Yorkshire and North East Lincolnshire.

#### **Adage Credit**

Adage credit provides personal and business loans in London and the Birmingham area. Personal loans of between £100 and £1,000 and business loans of between £500 and £2,000

#### **ART Business Loans**

Business and social enterprise loans in the West Midlands. Loans of between £10,000 and £150,000 are available for all sectors to start up and existing businesses where the banks have been unable fully to meet their needs.

#### **BCRS Business Loans**

BCRS provides business loans ranging from £10,000 to £100,000 across the West Midlands. Its loan fund has been especially designed to meet the needs of West Midland's based businesses that are unable to get loans from traditional sources such as banks.

#### **Business Enterprise Fund**

The Business Enterprise Fund provides loans ranging from £500 to £150,000 to start-up and existing businesses. It operates across West and North Yorkshire

#### **Burnley Savings and Loans (Bank of Dave)**

Personal loans up to £500, business loans up to £10k, interest in the range 8.9% to 14.9% depending on circumstances

**Coventry and Warwickshire Reinvestment Trust**

Provides start up loans to aspiring entrepreneurs from Coventry, Warwickshire and the West Midlands area and loans to existing businesses based in Coventry & Warwickshire. Loans of between £1,000 and £75,000 are available

**DSL Business Finance**

Provides business advice and loan finance to small businesses and social enterprises in Scotland. Loans of between £500 and £50,000 are available.

**East London Small Business Centre**

Provides start up and existing business loans between £1,000 and £25,000 to small businesses based in any of the 33 London Boroughs.

**Enterprise Loans East Midlands (ELEM)**

Finance ranging from £500 to £100,000 to Small Businesses across the East Midlands. Where organisations are unable to gain all or any finance from the main high street lenders

**Enterprise Northern Ireland (ENI)**

ENI Start Up Loans offers unsecured loans for the purposes of starting a business across the whole of Northern Ireland. It offers loans of up to £10,000 repayable between 1 and 5 years with an interest rate which is fixed at 6% (6.2% APR). Also provides loans to new and growing businesses and social enterprises in Northern Ireland. Loans of £1,000 to £15,000 are available for start-up enterprises, and loans of up to £50,000 are available for existing enterprises. Interest rates typically range from 6% – 10% (APR circa 11% – 19%).

**EV Business Loans**

EV Business Loans is fund manager for Finance Yorkshire, which provides business loans to Small and Medium Enterprises located in The Yorkshire and Humber region including North & North East Lincolnshire. Loans of between £15,000 and £250,000 are available for business expansion and development.

**Fair Finance**

Business loans of up to £20,000 to entrepreneurs (that have been trading for a minimum of 12 months), personal loans of up to £2,000, and debt advice to over-indebted individuals.

**Finance for Enterprise**

Provides business loans of between £250 and £150,000 across South Yorkshire and the North Midlands.

**Five Lamps**

A range of personal, business and home improvement loans in the North East and Yorkshire. Personal loans range from £50 to £1,000. Business loans are available range from £250 to £25,000.

**Foundation East**

Foundation East provides business & social enterprise loans. Loans of between £500 and £100,000 are available for both start up and growing enterprises

**Fredericks Foundation**

Fredericks offers loans from £250 to £20,000 to people starting up or running a business who are unable to secure funding from high street banks.

**GLE oneLondon**

Provider of unsecured business loans to businesses and offers growth loans of up to £95,000 across London and Start Up Loans of up to £25,000 across the UK.

**Goole Development Trust**

Business and social enterprise loans in the East Riding of Yorkshire. Loans of between £1,000 and £50,000 are available to help businesses generate new jobs and safeguard existing jobs. Its loans are normally over a three year period. Interest rate is 7.5% p.a.

**HBV Enterprise**

Business loans can be for any stage of business from start up to growth . Loans of between £500 and £25,000 are available.

**Impetus**

Impetus offers loans of £1,000 to £150,000 to small businesses and social enterprises in Shropshire, Telford & Wrekin, Herefordshire, and Worcestershire.

**Isle of Wight Lottery**

Business loans of between £1,500 and £25,000 to entrepreneurs on the Isle of Wight. Criteria for the loans are that it must be creating a job and the amount of the loan is up to 50% of the total project's costs.

**Let's Do Business Finance**

Business loans to micro, small and medium enterprises and social enterprises in Sussex, Kent, Surrey & Hampshire. Loans of up to £50,000 may be provided.

**London Community Finance**

New and existing businesses in all parts of London as well as Hertfordshire and Bedfordshire. Loans averaging £5,000 to £8,000 are available for start-up businesses and those trading for less than 18 months. Loans of up to £50,000 are available for more established businesses

**North London Credit Union**

The North London Credit Union (NLCU) provides personal loans (£300 to £15,000), savings and budgeting accounts for those living or working in Barnet, Enfield, Haringey, Waltham Forest and the EN postcodes of south Hertfordshire.

**MCF Loans**

MCF Loans provides business and personal loans across the East and West Midlands as well as Peterborough. Business loans of up to £20,000 are available for new and existing businesses and social ventures, and personal loans of up to £3,000 are available for individuals.

**Moneyline Yorkshire**

Moneyline Yorkshire offers low interest personal loans in Sheffield. Loans of between £500 and £5000 are available for a variety of purposes

**MSIF**

Provides finance of between £250 and £2m+ to businesses across Merseyside and the surrounding Region.

**Purple Shoots Business Lending**

Business loans in Wales. Loans of up to £3000 are available for individuals seeking to start their

own business or existing businesses who are struggling to raise funds from other sources.

### **Robert Owen Community Banking Fund**

Business, personal, social enterprise and home improvement loans across Wales. Loans of between £500 and £90,000 are available. It specialises in new business Start Ups at just 6% APR

### **Scotcash**

Personal loans in the Greater Glasgow area. Loans of between £50 and £5,000 are available for a range of purposes.

### **Sirius**

Business loans to local people looking to either start up a business in the Hull or East Riding Of Yorkshire area or to expand an existing business. Loans from £500 to £25,000 are available.

### **Social Investment Scotland**

Provides social enterprise loans in Scotland. Loans of between £10,000 and £1m are available for Scotland's charities and social enterprises.

### **South West Investment Group (SWIG)**

Offers loans from £500 to £100,000 for businesses which are either just starting up or seeking to grow and need funds to get things moving. As SWIG's emphasis is on potential rather than collateral or track record, it can often fund projects where bank support is limited.

### **Spirit of Enterprise**

Specialist lender of micro business loans of up to £25,000 in the north east region. Loans are targeted at people with a disability, disadvantaged people with complex or additional support needs and people from communities of common interest including veterans and ex services, young people, offenders, homeless and 50+.

### **Ulster Community Investment Trust (UCIT)**

Loans to social ventures in Northern Ireland, usually in the range of £10,000 to £500,000.

### **Wales Council for Voluntary Action**

Social enterprise and third sector organisations with loans throughout Wales. Loans of between £1,000 and £250,000 are available depending on circumstances.

### **Wessex Resolutions C.I.C**

Provides (subsidised) home improvement loans in partnership with 20 local authorities in South West England. Loans of between £1,000 and £15,000 are normally available at a fixed interest rate of 4%.

### **West Yorkshire Enterprise Agency**

Provides business loans to support business and employment growth in Kirklees, Calderdale, Wakefield, Leeds, Bradford and North Yorkshire. Loans of between £1,000 and £50,000 are available for start-up, expansion or working capital purposes. Applicants will have been declined by a bank, have a business plan and live or operate in the catchment area. Loans are repayable over a maximum of 3 years at a rate of 11% with no fees. T