

HAMPSHIRE COMMUNITY BANK REPORT

Report of the Corporate Director – Support Services (CFO), Eastleigh Borough Council

Summary

This report is an update for the PUSH Joint Committee for information only and has been prepared in response to a request at the last Joint Committee for more information on the Hampshire Community Bank Progress. The report outlines the progress with the project including details surrounding the company structure, success of the revolving loans pool and the banking licence application process.

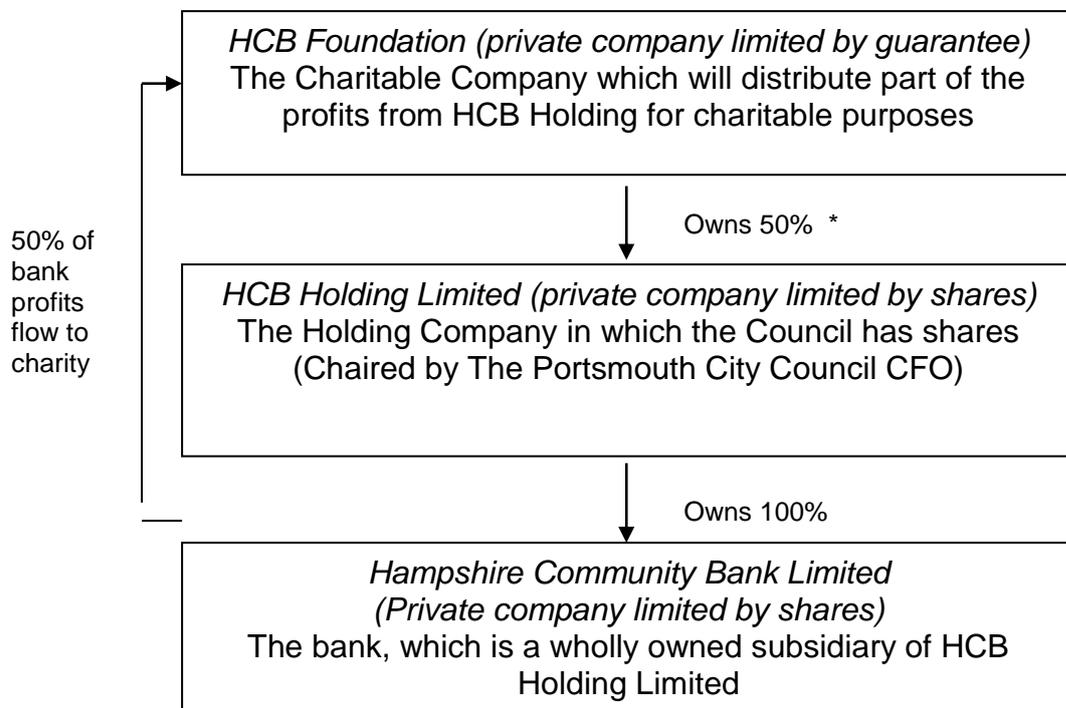
Introduction

1. Hampshire Community Bank was set up using part of a Regional Growth Fund grant of £3M which was awarded in October 2013. The Regional Growth Fund scheme was established by the Department of Communities and Local Government in 2013 and enabled the provision of grants, loans, use of equipment or premises or business support in support of projects that supported the creation of new, sustainable, private sector jobs. From this funding £250,000 was provided for set up costs to aid the creation of the Hampshire Community Bank.
2. Following this initial set up £7M has been committed by a number of local authority and higher education investors.
3. Due diligence was completed in July 2015.

Structure of the Bank

4. The Bank will be owned and controlled by a charitable foundation (the Hampshire Community Bank Foundation). The Foundations' charter enshrines its goal to own the Bank in perpetuity, offer appropriate corporate governance and receive and allocate the dividends from the bank in order to support social, environmental, educational, research and cultural projects. The Articles of Association specify the aims of the foundation to include "promote any purposes that benefit the public primarily in Hampshire; to promote any charitable purpose in the United Kingdom, if the public in Hampshire will also benefit indirectly". As the charity cannot sell the Bank shares, this structure ensures the continuation of the Bank and its not-for-profit character.

5. The registration of HCB Foundation with the Charity Commission is ongoing.
6. There are three companies within the structure of the bank group. The structure can be summarised as:



* The remaining 50% is owned by investors as detailed in para 8.

Investment in Hampshire Community Bank

7. Hampshire Community Bank is a new bank being created to help secure a strong and sustainable local economy. It will operate with a focus on Hampshire and in time will provide a full range of banking services to individuals, businesses and social enterprises within the County. The aims of the bank are consistent with and supportive of the Council's economic policy and strategy to support the establishment and growth of small and medium sized businesses and support the growth of the green economy. It has been well documented that there is a national market failure in bank lending to SMEs and the establishment of Hampshire Community Bank will help address this in Hampshire.
8. In order to obtain sufficient liquidity HCB Holding Ltd has issued A Class common shares to the value of £7M to organisations as tabled below. The intention is to issue a return to early investors via dividends on the shares. The level of dividend will be determined by the investors who have one vote each regardless of level of shareholding.

	Number of Class A Shares on achievement of licence	% Share	Votes
Portsmouth City Council	5000	31	1
Local First	950	6	1
Test Valley Borough Council	500	3	1
Eastleigh Borough Council	500	3	1
University of Southampton	400	2	1
Winchester City Council	252	2	1
University of Portsmouth	200	1	1
University of Winchester	100	1	1
Southampton Solent University	100	1	1
<i>HCB Foundation (Class B shares)</i>	<i>8000</i>	<i>50</i>	<i>10</i>
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9. A due diligence report was commissioned by the investing bodies from BDO to determine whether Local First Community Interest Company was able to obtain a banking licence for the Hampshire Community Bank. The report was delivered in July 2015 and confirmed that the achievement of a banking licence was likely. The initial tranche of investments was subsequently made in March 2016 with the Council owning 125 A Class Common Shares in return for an investment of £125,000. The shares have an individual £1 par value plus a premium of £999 per share.
10. A second due diligence report from BDO was completed in August 2017 with the conclusion that: *“Overall, based on our review at this stage, HCB has met the requirements set for releasing the second instalment as the documents prepared for the “Feedback Session” are sufficiently robust and adequate to meet the PRA’s expectations and in our view authorisation can be achieved”*. This report confirms that the Bank has met the requirements of the second stage.
11. The share subscription agreement states that the bank needs to obtain authorisation by the longstop date of 31 December 2018 (unless the Investors unanimously agree a later date) else the bank will “immediately cease all trading and other activities”. Prior to obtaining authorisation the bank is prohibited from incurring expenditure in excess of £2,1M in aggregate. The report from BDO gives confidence that authorisation can be achieved before the longstop date.

Loans to SMEs

12. The Regional Growth Fund (RGF) grant of £3M awarded included £950,000 to be allocated to SMEs as loans. This loan fund is administered by the Eastleigh Borough Council as Hampshire Community Bank had not been incorporated when the RGF grant was received and therefore could not offer loans.
13. The loans are negotiated by Local First CIC and offered on commercial terms to SMEs. Funds repaid, including interest, are able to be recycled to enable further loans to be offered to businesses in need of financing. At the end of September 2017 loans totalling £1,485,000 had been given to 18 different companies ranging from £20,000 to £250,000. For information, loan terms have been complied with by all but one debtor which unfortunately went into administration resulting in a loss for Local First CIC of £46,000. With the profile of debtors being SMEs it is not surprising that there is an element of business risk.
14. The loans are currently made in the name of the Eastleigh Borough Council and each loan includes an administration fee of 1% which is retained by the Council to cover the costs of the legal and finance teams in administering the loan agreements and loan repayments.
15. The Hampshire Community Bank was incorporated in early 2016 and is now able to administer the loans fund. Steps are being taken to transfer the existing loans and the revolving loan fund from Eastleigh Borough Council to Hampshire Community Bank. The Regional Growth Fund Monitoring Officer at the Department of Communities and Local Government has “no objections to the request to transfer the grant over to Hampshire Community Bank now that it has been incorporated”. Portsmouth City Council are currently finalising an investment of an additional £10M into the loans fund linked to and collateralised with real estate.
16. HCB Foundation is the charitable arm of the Hampshire Community Bank. 50% of all bank profits will be returned to the community through this foundation. All current investors in A Class Common Shares of HCB Holding Ltd. amounting to £50,000 or more are eligible and invited to serve as members of the Grants Board. This will enable the Council to influence which community causes will be helped in the future from bank profits.

Conclusion

17. This report gives an update on the progress of the Hampshire Community Bank’s process to obtain a banking licence. It is envisaged that the Community Bank will obtain its authorisation with restrictions in 2018. This report also demonstrates the success of the revolving loan fund in providing loans to 18 SMEs to date.