

TTL Better Banking Group

Presentation by Tony Greenham of the New Economics Foundation (NEF)
Monday 7 Feb Lewes Werks 7.30 - 9.30

Notes by Dirk Campbell - please add or amend!

Tony Greenham introduced himself as a former banker who left the industry during the dotcom bubble, expecting that things couldn't get any worse, which, in due course, they did! He showed a short selection of slides to illustrate a) the structure and results of the current banking system since the 1970s; b) the alternatives and options for localising saving, lending and investment.

This presentation is available from Colin Tingle and can be emailed. It will be shared as a Google doc too.

There was a good deal of conversation during the presentation which I did not note down. One striking statistic showed that 0.05% of the UK population belongs to credit unions by comparison with 35% in the USA and nearly 50% in Ireland. The UK's vulnerability to bank failure would be greatly mitigated by the expansion and take-up of credit unions, which do not speculate on loans or encourage debt in order to make profits. (They are in fact non-profit.)

Tony's final slide showed a flow diagram for local finance. Money is frequently wasted in unnecessary outsourcing; for example it would be cheaper and more effective for social landlords to fund debt advice for tenants instead of pursuing legal action for non-payment of rent.

There was a vote taken at the end of the meeting to reconvene in the near future so as to decide what course of action the group wishes to take - whether to form a new financial vehicle, approach the local Councils with proposals for local authority action, simply join the existing East Sussex Credit Union, or some/all of these.

No date was fixed and no other actions were volunteered or voted on. Colin Tingle said he was unable to organise any further meetings. [Note: Ann Link and Daniela Coles are going to share organising the next one, probably involving the Credit Union.]

I noted the following as practical options for the Group.

- members of the Group to join and publicise the East Sussex Credit Union, and support its presence in Lewes by creating a 'shopfront' for the credit union for example at the Town Council offices in Fisher Street.
- to set up a Community Development Finance Initiative (DCFI) in order to localise business financing in cases where banks refuse to lend.
- to approach the local authority with the proposal that the LA set up a local authority bank (development fund) using council tax income.
- to propose that the local authority accept Lewes Pounds in payment of council tax and business rates. This would revive the fortunes of the Lewes Pound by giving local businesses something to spend it on.

Some extra notes on the presentation from Ann Link – do add more

Tony Greenham is head of finance and business at NEF. There's also Josh Ryan Collins who is especially involved with the Brixton Pound. NEF's work was more oriented to social issues such as financial exclusion in the past but now has an active campaign Better Banking, for reform of the system. Pat Conaty is the other expert we might call upon – he has actually founded a local bank, some years ago. See <http://www.neweconomics.org/>

What do we need from the banking system – see slide

- Asset building (=saving) not debt dependency
- Capital allocation – allow the use of spare money as loans etc for other people, and to make provision for the future, e.g. pensions
- Investment needs to be productive, not speculative:
 - this requires local, personal knowledge to judge future cash flow, not centralised computer based credit scoring, which is what banks use now.
 - the lack of this local knowledge is a major factor in banks not lending to small businesses – it is not what they are currently set up for.
 - banks are therefore incapable of serving poor areas and small businesses
 - property is an example of speculative investment. It is not actually producing new houses, and the market is good for people already in, but excludes new buyers.
 - A truly local bank or building society manager would be a good thing, although you need some controls to avoid nepotism etc.
- Housing: a lot of property companies are basically bust but this is not apparent yet. Some people wondered if a local building society would be a good thing to aim for.

Banks

- Banks are aiming to earn a 15% return on investment – 7% was OK before deregulation, which was as long ago as 1971. When the high yield risky investment goes wrong, we pay.
- Banks are now building up their balance sheets by getting the money from us, e.g. by charging high rates of interest. (This is another way they exclude small businesses).
- We need local banks to serve local communities
- We can have a shared branch banking model which exists in the US. A town may need only one physical branch, because Internet banking has reduced need for branches. A community could own a bank like this, and have staff providing the personal element needed for loans.
- A local bank would cost £20 - £40 million to set up. Metrobank is a new bank being set up commercially to have branches in cities. Such a bank could provide the platform (software for electronic banking) that could be used by independent community banks.

Complementary currencies

- Can allow businesses to have mutual credits, trading with each other
- But problem may be that enough businesses do not source locally so businesses cannot trade with each other.
- Paying council tax in (e.g) Lewes Pounds could be crucial.

Credit Unions

- Very constrained in UK – they can only lend what people save with them, and amount that can be saved is limited to maximum of £10,000 per member.
- Because of this, they perhaps do not seem enough like banks, so people may lack confidence in them. In the US their premises are just like banks (but not-for-profit), and 35% of US people are members of one.

- After April 2011 there will be fewer restrictions, perhaps meaning they can lend to businesses, and perhaps electronic transfer will be possible. (There is already something called Paypoint)
- Our nearest is the East Sussex Credit Union, in Brighton, with a weekly money advice session in Lewes 12-2pm on Wednesdays in the Community Flat, 33 Heron Court, Ousedale Close, off Abergavenny Road. <http://eastsussexcu.org.uk/>
- They need and welcome savers, who do it more out of concern for the community: a dividend may be paid but no interest. I believe you can get the forms to join and save, at the Lewes session.
- CUs are co-ops with one member one vote, so this protects them from some possible hazards if they begin to grow.

Other models (slide 6)

- CDFIs = Community Development Finance Institutions. They are not-for-profit.
 - Can't take savings but are funded e.g. by grants and enlightened investors
 - They lend to useful enterprises, worthy projects
 - Very locally based, e.g. Town Council or District Council
 - Sheffield pioneered the local impact bond – 3 year, no interest – a charitable donation but you get it back. It could give a small amount of interest, but major motive is the satisfaction of seeing local benefit, which may show in whole community
- JAK bank – this is a bank which has no interest, in principle because they think it is usury. It originated in the Swedish agricultural sector, one in which the profits are all in one season but the spending all in another. The sector finds the fees which cover overheads. People save before they borrow, and pay back and save at the same time. These have been calculated to need about £28-40m to start, so this is a barrier.

Local authority banks / development funds

- Birmingham and Essex used well-being legislation (Local Government Act 2000) to permit them to set up banks which are more of a fund than a bank. Essex outsourced the running to Santander (bought Abbey). Essex gives loans to small businesses, and I think Birmingham's is its Green New Deal which lends to householders for renewables and insulation.
- Local authorities have cash hanging around during the year from council tax not yet spent, which they invest – this is why some had funds in Icelandic banks. This could be invested locally.
- We don't know if Lewes (LDC) have considered this, and could ask.
- Councils tend to be put off because they don't have the expertise for sensible lending – but there will be lots of expertise in bank managers who have retired/been made redundant because of centralised credit scoring. There may be local ones who would really like to do their old job again!
- This type of fund can lend up to £100,000 over 5 years, perhaps only in its own local area.

Building societies – can be ethical, social mutuals. Many are still mutuals, although none are local to here. There is a list here: <http://www.bsa.org.uk/aboutus/buildsocmember.htm> They include the Ecology Building Society which lends to householders and small enterprises that are doing eco-refurbishment and/or renewables.

Other ethical options include Triodos which lends to renewables projects and to organic growing. It was suggested that we produce a list of relatively ethical banks and spread the information.

Lewes Pound – could this be linked to a local authority bank? NEF is doing a scooping study for an electronic based local currency and is now appointing IT people. This could have a cash card that you charge up. There will be trials in three locations – what about Lewes? Lambeth is possibly considering rewarding people who do voluntary work etc by paying them in credits in local currency. A crucial thing for a local currency is if people can pay their council tax in it – this could give traders something to do with their Lewes £.

Community Banking Partnerships – see separate PDF Community Banking Partnership, and the last of Tony's slides which shows the partners and functions

- Social landlords such as housing associations or councils can find that it is cheaper to give financial advice than take eviction proceedings and eventually to evict people who fail to pay their rent.
- The partnership would also include Credit Unions and Citizens' Advice Bureaux.
- The local council is an important partner.
- There are six already in existence, including South Coast Moneyline, based in Portsmouth, which already has connections with OVESCo regarding loans for insulation and renewables.

Who attended? New people: Dez Anderson, Daron Williams, Michaela Williams, Julia Waterlow, David Anderson, Louise Anderson, Ray Sheath.