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COMMUNITY BANKING: An Assessment of the Bendigo Bank Experience

A report prepared for a Group of New Zealand Local Authorities

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1. Introduction

This report has been prepared for a group of local authorities as part of exploring the potential for what is generally termed "community banking" to contribute to their purpose of promoting the social, economic, environmental, and cultural well-being of their communities. Research undertaken to assist in the preparation of this report included extensive Internet searching, exchanges with academics familiar with community banking, and three days of face-to-face discussions with Bendigo Bank executives (from both the community banking and corporate areas of the Bank), as well as staff and board members from selected community bank branches and officials from the Victorian Department of Planning and Community Development

Local government interest in community banking reflects a growing recognition that financial services, broadly defined, are an integral part of the infrastructure of any community. The availability of financial services, the way in which they are designed, the terms on which they can be accessed (and by whom), the objectives underlying their provision, and how provision is managed within the community all play an important role in creating and maintaining a healthy community in both a social and an economic sense. Additionally, they can also be an important contributor to the quality of the cultural life of the community, and the way in which the community impacts on its environment.

At a practical level, the local authorities for whom this report has been prepared are increasingly confronted by issues which directly raise the question of what kind of financial services are available within their communities, for whom, and on what terms. Some are participants in what is known as the rates postponement consortium, offering older ratepayers indefinite postponement of the obligation to pay their rates. All are confronted by the consequences of rising housing costs, something which has important social and economic implications for their communities. All have a keen interest in the economic development of their communities, and thus in the ability of small and medium businesses in particular to finance their activities. Several are increasingly aware of the difficulty which many low income households have in accessing financial services at all or, at least, on reasonably acceptable terms.

These are but several examples of the growing extent to which the provision of financial services and community well-being are increasingly intertwined. This provides a rationale for considering whether there are possible alternatives to the current range of financial services and providers which could result in a better alignment between provision and community well-being whilst recognizing, at the same time, that the provision of financial services is inherently a commercial function.

"Community banking" is more a term of art than a term of science. Internationally, it covers a quite diverse range of different kinds of financial entity. In the United States, a community bank is broadly defined as any bank or thrift institution with total real assets of less than $US one billion. This reflects the reality in the US that any bank of this size is likely to be very locally based, locally owned and managed, and quite closely engaged with its local community even though it may be privately owned. Credit unions, micro-credit organisations, and other entities engaged in the provision of financial services with a primary focus on meeting the needs of specific geographic or sectoral interests may also be regarded as part of community banking activity.

The local authorities for whom this report has been prepared are primarily interested in community banking as an alternative means of providing a full range of financial services within their communities. This requires a provider with the status of a registered bank able to offer a range of banking services and products typical of a registered bank but in a way which also satisfies the community banking dimension.

Amongst the many and diverse approaches to community banking considered in an initial scoping, the model which appeared to come closest to providing both the full services of a registered bank, and a strong community focus, was Australia's Bendigo Bank. The purpose of this report is to consider the Bendigo Bank experience and its possible relevance for New Zealand.

2. What This Report Does

This report provides an overview of the Bendigo Bank experience with community banking from the original decision to develop this approach, to community banking as it currently operates, and finally its likely further development. It then considers the implications for New Zealand, and how a New Zealand equivalent might be developed.

The report is presented through the following sections:

- Background: the beginnings of Bendigo Bank's involvement in community banking - why it happened and the early development of the model.
- The evolution of community banking - from 'bringing back the bank' to a different style of banking services.
- Community enterprise - widening the net.
- From community banking to community planning.
- Implications for New Zealand - community banking as a means of promoting community well-being.

3. Background: The Beginnings of Bendigo Bank's Involvement: The Early Development of the Model

Bendigo Bank first became involved with community banking in 1997. The context was widespread bank closures across rural and regional Australia with more than 1000 bank branches closing over a period of 2-3 years.

The immediate impact was to leave a number of smaller communities either without any local banking services, or with a very real fear that whatever banking services they had were at risk of closure. This was much more than just a matter of inconvenience - the need to travel to the nearest centre with banking services in order to undertake your banking business. It was also a very real threat to the viability of the remaining businesses in a town whose bank had closed, especially within the retail sector. A trip to the nearest town with a bank also became a trip to that town's retailers resulting in a very significant loss of business for the unbanked town. Typically turnover for its businesses would decline by as much as 30%.

Communities across Australia losing, or at risk of loss of, their banking services began approaching all of the country's trading banks begging them to open a branch, or find some other means of providing a local banking service. Bendigo Bank as the only regionally-based bank believed it had a special obligation to try and find a means of responding to this demand (all of Australia's other trading banks have their head office in one or other of the country's state capitals).

The Bank was very well aware that the main reason for branch closures was economic; the branches being closed were not generating sufficient revenue within the conventional banking model to justify their continuing operation. A different approach was required - one which shared the risk with the community. Logically this also meant sharing the returns with the community.

The fact that the Bank considered a community-based approach was consistent with its own history. It had originally been established, in 1858, as the Bendigo Land and Building Society with the purpose of providing finance for goldminers wishing to build their own homes. It remained a building society for nearly 140 years, converting to bank status, and listing on the Australian stock exchange, only in 1995. The sense of service to its communities, developed through its building society origins, remains an important part of the Bank's culture.

The community banking model was developed very much on a "learning by doing" approach. The basic principle of sharing risk and returns was easily established. The more important issue facing the Bank was how to turn that into a robust set of institutional arrangements.

Institutional arrangements

The basic approach was that the Bank would provide the banking services and products, remain responsible for marketing and branding, and set the operational standards and practices (essentially requiring the application of the same practices within community bank branches as within company-owned branches). This included setting standards for bank premises, being involved in the recruitment of key staff, and monitoring performance on a regular basis as part of the Bank's own risk management.

The community owned branch, for its part, would be responsible for providing and fitting out the premises, under the Bank's guidance, for purchasing furniture and equipment, and meeting branch operating costs including salaries.

The contractual relationship between Bendigo Bank and the community bank branch was developed as a franchise, providing for payment to the Bank of defined franchise fees and with branch income (essentially the margin between cost of funds and return on funds) shared between Bendigo Bank and the community bank. The precise details of this arrangement remain confidential between the Bank and individual community banks. In broad terms, however, community bank branches receive approximately 1% per annum of the value of their bank book which, after meeting branch operating costs, is shared between returns to shareholders, building up reserves, and grants to the community.

A very important issue for Bendigo Bank was developing a corporate structure for individual community banks which would support the model long-term (part of this was making sure that the right incentives were in place to underpin ongoing community ownership). The first 10 community banks were established as not-for-profit companies limited by guarantee. Funding was provided by long-term loans from individuals within the community (in practice, many of the lenders will have regarded these as perpetual advances).

There were some problems with this model. First, the Australian Taxation Office refused to accept that the income of not-for-profit companies operating a bank branch could be treated as charitable income exempt from taxation. Secondly, Bendigo Bank concluded that the long-term incentive arrangements it needed for ongoing community commitment would be better supported if capital contributions came as shares rather than as advances to a company limited by guarantee.

With the exception of the first 10 community banks, all community banks now use the shareholder model but their constitutions contain some variations on the standard approach. Specifically:

- The maximum shareholding is restricted to 10%. Initially this was a restriction on individual shareholdings but is now expressed as a related party restriction. The purpose is to ensure a broad spread of shareholding within the community.

- Rather than the conventional 'one share one' vote rule, each shareholder has one vote only. This is to ensure that decision-making by shareholders is broadly based.

- Although the companies are formally public companies (as typically the number of shareholders exceeds the limit for a private company), directors retain the right to refuse to register a share transfer without assigning any reason. The purpose is to give the board the ability to ensure that shareholding remains "within the family".

As well as these formal constitutional provisions, there are other non-constitutional understandings which effectively govern the operation of community banks. One is that directors serve on a voluntary basis rather than being paid. This is not just to ensure that the community banks are able to maximise the surplus available for distribution. It is also seen as an important part of developing the culture of the community banks as community organisations.

Establishing a community bank

Bendigo has developed a well-established process for establishing individual community bank branches. From a New Zealand perspective, one key interest is who drives the process? Does Bendigo select communities which it considers suitable for community bank branches, or does it rely on communities to come to it?

The significance of this issue includes whether there is any substance in the occasional suggestion that Bendigo has "cherry picked" communities seeking those which will offer the most attractive banking business, or whether it has been prepared to deal with all comers. Both the Bank's literature, discussions with bank staff, and discussions with individuals associated with different community bank branches confirm that Bendigo has traditionally relied on communities to come to it. Anecdotally there is good evidence that Bendigo has been prepared to deal with communities which, on first acquaintance, look as though they would have very real difficulty in generating a viable banking business.

The first community bank was established in the Victorian wheat belt in a town which was under significant economic stress. That branch has been consistently viable and is now an important source of community grants within its community. A common response to this branch as the 'first cab off the rank' was that a number of other communities, knowing that community, concluded "if they can do it then it should be straightforward for us".

Another anecdote comes from the two individuals who led the community bank initiative in its early years. They speak of arriving in a community which had approached the Bank to establish a branch, and parking on the main street a bit ahead of the initial meeting time. The first impression was of a town which looked quite rundown, with foot paths not properly sealed and channelled, and passers-by from their dress looking far from prosperous. Their comment to each other was to the effect of "what on earth are we doing here?". Today that branch operates through a main office and four separate agencies and is one of the most successful in the entire network.

Bendigo has relied strongly on a process which is designed to ensure both a strong level of community commitment, and some reasonably thorough testing of the prospects for the proposed branch. The steps include:

- Formation of a steering group. This will usually be a group of local people who approach the Bank with a request to establish a community bank branch. The Bank will appoint an executive to work with them and help them through the various stages involved.

- A pledge campaign is mounted in the local community seeking expressions of interest from potential shareholders. It is made very clear that this is not a commitment to invest but simply an indication of interest. A typical campaign will be very well-planned (with the Bank's assistance) and seek to target a broad range of community interests including local businesses, service clubs, the not-for-profit sector, sport and recreation bodies and other local networks. It is usual for the people leading the pledge campaign to take some care to ensure that the pledges they receive have been carefully considered so that they are likely to transform into shareholdings if the branch proceeds.

- A feasibility study is undertaken by one of a number of firms which have developed specialist capability. The focus of this study is on the likely level of business through the branch and serves as the basis for a business plan. The study, when completed, is considered both by the establishment body for the branch itself and by the Bank which "runs the numbers" through the financial model it has developed for community banks. Typically such a study costs in the order of $A15,000. The cost is borne by the local community (usually a combination of the members of the establishment group, and local government or other co-funders), but recovered from the branch's share capital if it proceeds. The Bank is very clear on the importance of the community bearing the cost. It is seen as a means of building the community's commitment to the success of the community bank and from the Bank's perspective, if the community is not prepared to carry the risk of that cost, it is unlikely to provide the branch with strong support.

- Assuming a favourable feasibility study, a prospectus is then issued to raise the required capital which now runs in the order of $A500,000-$A600,000.

The involvement of local government

Both bank executives, and people from the community banking sector, were asked about the role of local government in establishing community banks. Bendigo Bank itself has not taken any particular steps to engage local government in the establishment process. Rather this has been left to individual communities or, for that matter, local governments themselves to take the initiative. It is relatively common for councils to provide some support for the cost of a feasibility study, usually recognizing the community need but not all councils have done so.

In one instance, local government actually did take the initiative. Bendigo Bank now has approximately 40 branches in Western Australia, all but two of which are community banks. Its involvement in Western Australia began when it was approached by a state senator and half a dozen local authority people with a request that it come to Western Australia and set up community banking as a response to bank closures. The Bendigo response was basically to say it had not yet thought of Western Australia, but that if it did decide to introduce community banking there, it would need sufficient branches to create the critical mass the Bank itself would need to justify establishing a state administrative structure. In answer to the question "how many" the Bank replied around 30. The local government response was "we will do that".

Somewhat to Bendigo Bank's surprise local government did deliver. A close look at the situation explains why. Most of the councils involved were single town shires so the loss of a banking service was not only a blow for individuals and businesses within the shire, but also a serious blow for the council itself.

Occasionally councils have approached Bendigo Bank with a request to establish a community bank branch and offering to put up the entire share capital. Bendigo has always declined, explaining the importance of getting a broad-based community shareholding. This is seen by the Bank as crucial to the success of community banking. In practice, what the current ownership model typically achieves is that everyone within a community will almost certainly either be a shareholder, live with a shareholder, work with a shareholder, play sport with a shareholder, drink with a shareholder or have some other direct connection. The strength of the local network is a very important part of the success of community banking.

Some evidence of impact

As at August 2007, key statistics for the community bank branch network included:

- 202 branches (from a total Bendigo Bank branch network of 350).
- Nearly $10 billion of banking business on the books.
- $9 million as the cumulative amount of community distributions.
- More than 1000 staff employed throughout the network.

The statistics suggest that the community banking initiative has had a significant impact on the business of the Bank itself. Community bank branches are now more than half of the Bank's total branch network. Community banking's share of the Bank's total banking business is somewhat smaller at approximately 25%, reflecting the fact that community bank branches are significantly younger than their company owned equivalents, with many still in their establishment phase.

The growth of business through community bank branches is clearly seen as still very much in its infancy. This reflects the "learning by doing" approach which appears to have characterised the growth of community banking over the past 10 years. From experience through the impact of individual community banks, Bendigo Bank has developed an understanding of the way in which business grows and of the relationship between the grant distribution activity, and the growth in banking business. One senior executive described it in these terms:

> A community bank branch begins with what is usually a 12 month campaign to get pledges for share capital, undertake a feasibility study and put the company structure in place including completing the prospectus offering and opening a branch. This is followed by something like three months of euphoria - they have done it and the branch is operating - followed by eight or nine months of "what on earth have we done" as the branch is not yet in profit (even though this will have been predicted by the business case). There is then a period of rebuilding support and confidence until the Bank gets to the stage where it can start a distribution programme. Typically once this happens the growth rate takes off as people in the community start to see the full impact of what the community bank can do.

People involved with individual community banks reported a strong relationship between making distributions and the growth the banking business. One bank chairman made the point that he had ensured his branch started making grants, admittedly at a very low level, not long after the branch had open for business. He believed this decision was validated by the public response. As he (and others) saw it this was a way of ensuring that the community could see the virtuous circle of "place your business with the Bank, and the Bank will place its profits with you".

4. The Evolution of The Model: From 'Bringing Back the Bank' to a New Style of Banking Services

Development of community banking began as a response by a regionally-based bank to what was seen as a problem specific to regional and rural Australia: the withdrawal of banking services from remote areas. By the turn of the century the model was starting to change. Bendigo had received approaches from communities on the outskirts of metropolitan Melbourne. This was not something which had been anticipated but, on analysis, turned out to be driven by much the same motivation as the original approaches from rural and regional communities.

A typical example is the Highett Community Bank, which operates in a shopping strip within the city of Bayside. In the late 1990s, the area had four bank branches. The development of a major shopping centre some 1.5 km away triggered a series of closures. By 2000 the only bank branch left was a branch of the Commonwealth Bank.

Local business people began raising with their Chamber of Commerce the question of what would happen if that branch closed as well. The president undertook some research and concluded the impact had the potential to be catastrophic. He started looking at the community banking option and was introduced to someone who was leading an initiative to establish a new branch who explained to him what was involved. He concluded that it looked an attractive option.

Despite the Commonwealth Bank maintaining that it had no intention of closing, he decided that the risk for the community was too great. A group of some 10-15 people was called together to act as the establishment group for a new community bank branch. Following a successful pledge campaign, and the completion of a favourable feasibility study, the proposal to establish a community bank was announced to the local community. Almost immediately the Commonwealth Bank announced that its branch would close in six weeks time. This would leave a hiatus of approximately 4-5 months between that closure and the earliest possible opening of the community bank branch.

This provided immediate and direct evidence of the impact, within a metropolitan shopping area, of the withdrawal of the last bank. Turnover of businesses within the shopping area dropped by between 10% and 60% (the chemist) as people opted to take their business to a shopping area which had banking services.

The community bank branch was established late in 2001. It has been successful both in terms of its own commercial viability, the ability to generate significant grants for the community, and in terms of underpinning the viability of the local shopping area - all shops in the area are occupied and businesses appear prosperous.

This was the first significant shift in the model to a recognition that it applied not only in rural and regional Australia but equally well in at least parts of metropolitan Australia.

> The model continues to evolve. The era of bank branch closures is virtually at an end. Communities are now approaching Bendigo Bank to establish a community bank branch not because they fear the loss of their banking services, but because they want a community owned branch.

There is a growing awareness that a community bank not only retains banking services, but is both an important source of funding for community-based activity, and a significant resource which can be used underpin community based project activity drawing on the fact that the community bank has a physical presence, is staffed 5 1/2 days a week, and has a commitment to supporting the community.

Strengthening the model

In the early years of developing community banking, community bank branches were largely left to their own devices in areas such as developing their grant programmes, and determining how they related to their communities. Sharing of different experiences amongst community bank branches and between them and the Bank did take place but in a relatively ad hoc way. The main constraints/directions which community bank branches faced were the requirements restricting the amount of profits which could be paid to shareholders (currently set at a maximum of 20% of branch profits but at a per annum rate not to exceed a margin of 5% above the 90 day bank bill rate averaged over the five days prior to declaring a dividend) and a requirement that the balance of the branch's surplus was either to be transferred to reserves or applied to community grants.

The growth of the community banking network, and of the amount available for community distributions, has led to two important changes.

First, the Bendigo Bank has moved to provide additional support for the grantmaking activities of individual community banks. There were two triggers for this. The first was a request from community bank branches themselves to find a means of ensuring that grants to the community could be made from pre-tax profits. The second was an acceptance that the process of grantmaking is itself a significant strategic activity which, at its most effective, is supported by specialist skills with an in-depth understanding of grantmaking and its potential in a community context.

The response was the creation of what is known as the Community Enterprise Foundation. The foundation operates two separate programmes. The first is used as a vehicle for managing country wide appeals for specific objectives which have support across the bank network. A good example is an appeal for funds for tsunami relief following the Indian Ocean tsunami in 2005.

This programme provides prospective donors with the facility to donate at any branch of the Bendigo Bank, coupled with systems to ensure that donors are able to claim the associated tax relief. The foundation itself manages funds gathered in appeals of this type strategically to target needs which are not being met by traditional donors (governments, international relief agencies etc in this case). The foundation was instrumental in committing funds to help rebuild Sri Lanka's coastal fishing fleet which had been largely wiped out by the tsunami.

The second programme supports the grantmaking activity of individual community banks. Briefly, the process involved is:

- The community bank makes a donation to the foundation from its pre-tax profits of the amount it wishes to commit for community grants. That amount is fully tax-deductible, thus correcting the anomaly resulting from the Australian Tax Office's refusal to recognize community banks as an entity which should be entitled to tax relief on its community related income.

- The Foundation then manages the grant programme within the community served by that community bank. This includes running a grants information evening for potential applicants, receiving and processing applications, including checking them for eligibility, making grant decisions, and then hosting a grants distribution ceremony. The community bank is fully involved in this process. The grants information evening is chaired by the chair of the community bank. The Bank establishes an advisory committee to assist the Foundation in its consideration of grant applications (the committee will be the board, or a subcommittee of the board, sometimes enhanced with outside appointments). The community bank is fully involved when grants themselves are handed out. The purpose is to combine the professional skills of the Foundation with promoting the community bank as the source of the funds and a primary actor in determining how they should be applied.

The Community Enterprise Foundation is also starting to develop major strategic projects which focus on specific issues, rather than geographic communities (youth suicide and mental health are two examples). This clearly involves a careful balancing exercise between the obvious interest of individual community banks to reinvest funds in their own communities, and the importance of addressing issues which impact to varying degrees on all communities. There is a clear "checks and balances" control over the extent to which the Community Enterprise Foundation pursues issue-based rather than community-based strategies from the fact that it is reliant on individual community banks agreeing, each year, to donate their available grant funds to the Foundation for it to manage their distribution. Currently 70 community banks (apparently including most of those with substantial surpluses) use the Foundation's facilities.

> The role of the Foundation is still very much in its early days (it has been established for just over two years). It clearly forms part of transforming the Bendigo community bank network from a series of loosely connected local entities, to a coordinated and potentially very influential nationwide network of locally based community development entities.

It also reflects a wider understanding which appears to be emerging within the community bank network of the value to local communities of the presence of a community-based entity which has an independently sustainable and long-term cash flow. A number of informants commented on what they saw as the vital difference between community-based activity which was dependent on term limited government grants, and activity which could draw on independently sustainable cash flows and thus have confidence in its long-term viability.

The second change affects the way in which the Bank manages its relationship with individual community banks. Traditionally this relationship had been handled by relationship managers who dealt with individual community banks on a one-on-one basis.

Some 18 months ago the Bank moved to a different structure for its Victoria state network[1], establishing a series of regions, with regional managers, each of whom was responsible for both the company owned and community bank branches within the region. The boundaries of individual regions were set to match, as far as possible, the boundaries established by the state government for its regional activities. This was consciously done to facilitate collaboration between the community bank network and government agencies with an interest in working at a community level (this development is considered in more detail in section 6 below).

Taken together, these two changes can also be seen as an important shift in strategic direction from facilitating community banking in response to community requests, to a more coordinated focus on building what can be seen as not just a network of community banks, but a network of community capability focused on applying commercial skills to a broad range of community objectives locally, regionally and ultimately state and even countrywide.

From a Bendigo Bank commercial perspective, this can be seen as a quantum shift in its approach to benefiting from its investment in community banking as a major

[1] The bulk of Bendigo's business is still within the state of Victoria so that new institutional arrangements tend to be implemented in that state first.

driver for the growth of its banking business. It is a move from relying on goodwill within individual communities, as people understand the "virtuous circle" of the relationship between community banking business and community grants to a more structured approach. What is now happening is shifting the emphasis towards the power of networks, both among community banks themselves, and with major, especially public sector[2], stakeholders in the well-being of communities.

Another way of considering the shift is from a relatively vulnerable business model - replicating a franchise approach to the ownership of individual bank branches is relatively straightforward - to a business model which should be both significantly more remunerative from the bank's perspective in terms of its potential to drive growth, and much harder to replicate. Amongst the factors which look likely to entrench Bendigo's position are the network of relationships on which the new model is based (building public sector trust has clearly taken some years), the strength and uniqueness of Bendigo's own organisational culture (how many bank chief executives would find it natural to describe the Bank as "a specialist community engagement company" something which Bendigo's CEO did recently?), and the growing recognition of the complementarity between the kind of commercial skills which the Bendigo network can provide through community banking, and public sector skills, as tools for project development and management at a community level.

[2] Throughout this report the term 'public sector' is used to encompass the different tiers of government (in Australia, federal, state and local) including their related organisations and entities.

5. Community Enterprise - Widening the Net

Community banking began with a very specific focus: the provision of banking services within a community through a partnership between Bendigo Bank and a local community owned branch. That focus has begun to broaden not just through a new emphasis on networks as discussed at the end of the previous section (and later in this section), but through finding different ways of engaging communities.

Rather than speaking solely of community banking, it is now becoming common to speak of community enterprise as a means of widening the net of activity beyond the original branch banking approach.

This is developing in two different but complementary expansions from the original activity. The first is a response to requests from communities which either may not have the size to establish a stand-alone community banking branch, or are in an area already served by a company owned branch[3], but do want to partner with the Bendigo Bank in sharing the benefits from community banking activity. The second is a broadening of the perceived role of individual community bank branches and the network itself.

Community partnering

Communities which may not be able to establish a full community banking branch now have the alternative of creating what is known as a community enterprise company in a partnership relationship with Bendigo Bank. The legal form is a not-for-profit company limited by guarantee.

Typically, the motivation is the community's interest in accessing the combination of benefits which are now seen as associated with community bank branches - a community owned commercial capability coupled with a sustainable cash flow available for grantmaking purposes.

The first community enterprise company to be established, Strathfieldsaye Community Enterprise, was formed some 3 1/2 years ago with the principal objective of establishing a multiuse recreational facility in Strathfieldsaye, a community on the outskirts of the City of Bendigo itself. The project, as currently scoped, has an expected capital cost of $A3.5 million.

[3] Currently it is not part of the Bendigo approach to offer company owned branches for sale to the communities they serve - and the relative success of the community enterprise model now being developed is likely to offset any pressure from communities that Bendigo should be prepared to sell branches into a community banking structure.

There was already an established company owned Bendigo Bank branch in the area so that the option of establishing a community bank branch was less feasible. Instead, with support from Bendigo, the community enterprise company was established as a form of partnership between the Bank and the community. Customers of the Bank, or Bendigo's associated telecommunications company (see below) could "tag" their account(s) with the result that the community enterprise company receives a margin on those transactions in much the same way as would a fully fledged community bank branch.

The returns have been considerable - in excess of $A 100,000 per annum on banking transactions and $A 10,000 on telecommunications business. This has provided the community enterprise company with the seed capital required to leverage funding from other sources to complete the recreational facility (the state government is providing $630,000 and the local council $2.6 million). This kind of leverage is increasingly characteristic of the way in which grant funding available through the Bendigo network is applied in practice. The Bank itself estimates that the community enterprise company has generated $40 million of banking business for its local branch.
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Five additional community enterprise companies have been successfully established and a further six are in varying stages of development.

Broadening the role

The Bendigo Bank itself, individual community bank branches, and the communities they serve are increasingly acting on the basis that what has been built is more than just a branch banking capability.

> There is a shift taking place to seeing the capability of individual community banks, and of the community banking network, as a broad-based inherently commercial capability which the community can employ to address a wide range of issues.

This is happening in at least three ways. The first is the extension of the community owned approach to the provision of banking services to other services. The second is drawing on the capabilities of individual community bank branches to facilitate community objectives which require a commercial, rather than or as well as a public sector, capability. The third is drawing on the capabilities of the network to become involved, often in a lead role, in the development and implementation of larger scale community-based projects.

The first of these is dealt with in this section. The other two are discussed in the next section "from community banking to community planning".

Related services

Bendigo Bank is building on the same community support which underpins the community banking network to facilitate access to other services on favourable terms, again on the basis of profit-sharing with local communities.

Two services are involved at the moment; energy and telecommunications. The Bendigo Bank itself, through its community enterprise arm, negotiates terms of supply, using the leverage potential of a large customer base. In each case purchase is then facilitated through the local community bank branch or, alternatively, community enterprise company (as is the case with Strathfieldsaye).

6. From Community Banking to Community Planning

An emerging theme within local government, worldwide, is how best to facilitate engagement between councils and the communities they serve. This is placed in the context not just of the traditional role of local authorities, but of what is now described as "place shaping", working with communities to determine their preferred future direction and the steps involved in getting there.

It also reflects the impact of what some observers term "glocalisation", a response to globalisation which results in people placing increased value on the quality of the immediate community in which they live.

Arguably one result of these trends is an increased emphasis on the "local" and how to enhance the quality of life at that level. This shift can be seen within the way engagement between individual community banks and their communities has been evolving. In the early days of community banking, that engagement was limited to a relatively simple grantmaking function: the community bank made it known that it had funds available for local grants, organisations who were interested applied, and the Bank then did its best to spread available funds across those applications with one eye on the relationship between the applicant and the Bank.

More recently, there has been a growing recognition that the community bank is not just a source of funds for a miscellaneous range of community projects but, and perhaps much more significantly, a pool of capability within the community. Traditionally, when communities or community organisations have looked for support for a community project, they have looked to volunteers to provide the human resource, and to local government, other tiers of government, or the philanthropic sector for funding. Whilst this has often been an effective approach, there are at least a couple of weaknesses which can work against achieving the community's objectives.

The first is that reliance on government grants creates a dependency relationship. Typically grants are time-limited, raising real issues of ongoing viability beyond the end of the grant period[4]. Next, increasingly the types of projects communities wish to engage with require a broader mix of skills than those available through purely public sector organisations.

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[4] The problem is at its worst for funding intended to support the ongoing operations of a voluntary or community sector organisation, or a programme which offers. Withdraw the grant and the organisation may either collapse or need to downsize significantly, or terminate the programme. From a community perspective this means that the future of an initiative which may be very highly valued is subject to potentially arbitrary decision-making by outside parties.

The community banking model carries within it the prospect of addressing both of these concerns. First, the community bank itself has an ongoing sustainable cash flow which the community knows it can rely on for the foreseeable future so long as it continues to support the Bank itself. It also knows that there is a direct relationship between the size of that cash flow and the volume of business which members of the community place through the Bank, thus creating something of a "win-win" relationship between the community and the Bendigo Bank itself. Next, the community bank represents a repository of commercial skills within the community with the capability to engage in quite significant community initiatives. The benefits of the community banking model include:

- A physical presence well supported by capable staff and related resources including IT.

- A predisposition to providing logistical support for community projects not just because the Bank is community owned but because the costs of doing so can be quite legitimately seen as another form of grant support for the community - in kind rather than in cash.

The emerging model can be represented schematically as follows. On many issues, the community requires access both to public sector skills and capabilities and to the private sector equivalent. Traditionally, the only skill set which has been consciously focused on providing support for community activity has been the public sector. What is happening with community banking is the emergence of an equivalent private sector skill set through individual community banks and the community banking network so that the community now sits between the two and can draw on both (although, as the model seeks to indicate, there is still a much greater total capacity on the public sector side than there is on the private sector).

How is this happening in practice?

The term "community planning" is now starting to be used quite widely within the community banking network. In part it reflects a maturing of the experience of individual community bank branches as they realise how much more effective they can be through a strategic approach to grantmaking, including where possible working with local councils. In part it is a consequence of the Bendigo Bank itself placing an increased strategic focus on the potential of the network as a change agent within the community (the establishment of the Community Enterprise Foundation, the development of Community Enterprise initiatives, and Community Sector Banking, a recent joint-venture enterprise with a number of leading NGOs to develop specialist services for the voluntary sector, are examples of this). In part it is a consequence of public sector organisations (at all tiers of government within Australia) beginning to understand the potential.

Working with local government

On a practical level, these changes are being played out in a number of different ways. First, it is increasingly common for the Bendigo Bank itself to ask community banks for their community business plan - how will they work with their communities to maximise the benefits of the community banking model. Secondly, local councils are increasingly recognizing the role community banks can play in helping achieve objectives the council itself sees as important for the community.

Mount Alexander Shire is a rural council based some 40-50 km outside the city of Bendigo. It is the location of one of the earliest community banks, the Maldon community bank branch which was established in 1999 as a direct response to the loss of banking services. The Shire itself played an important role in its establishment, providing funding for the feasibility study and acting as an advocate to the Maldon community to support the Bank's establishment. It remains an investor in the Bank as it converted the feasibility funding, rather than seeking its repayment.

The Shire Council has adopted an objective of reducing year 2010 greenhouse gas emissions by 30% from 2000 across the entire Shire. One of the council's own initiatives is to convert its machinery and plant to operate on biofuel (it is quite a significant owner because of the extent of its roadbuilding and maintenance functions). The council wants to see that initiative picked up by the wider community which means creating a commercial biofuel operation within the Shire. It recognizes that this requires skills which the council does not have and so has turned to the community bank to take the lead.

As another example, focused more directly on community planning, the council is part way through the development of a community plan through a process of "appreciative enquiry". The Bank has been an active participant in this and will be identified as one of the parties with the lead responsibility in implementing some of the activities contained in the plan.

Developments of this kind are now leading the community bank sector to reflect on how it actually undertakes its own planning. There is a wish to avoid duplication of effort and in particular, having different bodies going back to the same community for broadly the same purpose. The obvious solution, which is starting to emerge, is that local government and community banks, where they exist, should collaborate in community planning.

In early 2006 the Bendigo Bank itself approached three Melbourne area councils for advice on how the community banking sector could best assist with community projects. The focus was on projects which might go beyond the area of an individual community bank, or which were on a scale larger than a community bank would normally undertake.

The outcome was the establishment of what is known as a community partnerships forum linking together a local council (the one considered in this discussion is Bayside City Council, a metropolitan fringe Council in Melbourne), the Bendigo Bank (represented by its regional manager), the Department of Planning and Development and what is known as the Area Consultative Committee (ACC). The local ACC is one of 56 committees established across Australia to administer a federal grant scheme which is funded through the Department of Transport and Regional Services (DOTARS, the Federal Department which has responsibility, at that level, for local government and regional Australia). The scheme part funds community projects and requires that projects be developed on a partnership basis. ACC's reported motivation for being involved was the difficulty it has had in identifying suitable projects largely because of a lack of project development and management capability at the community level.

The community partnerships forum itself is convened by Bendigo Bank and chaired by the bank's regional manager. This in itself can be seen as a significant development in the way in which Bendigo Bank is perceived as it is extremely unusual for what is essentially a public sector/community partnership to be convened by a private sector entity.

The first project considered by the community partnerships forum was the development of a hydrotherapy pool based on an existing secondary school swimming pool to provide a facility for older people and people with disabilities. The forum was able to evaluate the project, and bring together the required funding. Strong leadership was provided by the chair of the local community bank, but also with good involvement from the council's community and leisure services branch, State government (through the health sector) and ACC. Contributions to the total project cost of $600,000 came from Bayside City Council ($50,000) the local community bank ($150,000), Community Health (effectively State government funding \$50,000), local fund raising (\$50,000) and regional partnerships, the fund administered by the ACC on behalf of DOTARS (\$300,000).

The involvement of the Bendigo Bank, and the local community bank branch, had another and unanticipated benefit. It was seen by DOTARS as demonstrating that there was an integrated community partnership supporting the project, thus satisfying an important criterion for the regional partnerships contribution.

The community partnerships forum has already launched its second project, Smart Kidz, which is aimed at assisting those families with children who find it difficult to meet some of the costs associated with education expenses in primary and secondary schools (often children from public housing estates). This has been developed in conjunction with the Community Enterprise Foundation, using the facility it has developed to attract individual tax-deductible donations through the Bendigo Bank network.

Bendigo Bank's regional manager has been closely involved, securing the commitment of ten community bank branches to support Smart Kidz. A third project, the renovation of a major youth centre, at a likely cost in the order of \$A 2.5 million, is currently under development.

State government involvement

Bendigo Bank is in the very early stages of building a working relationship with the Department of Planning and Community Development (DPCD). The Department's responsibilities include local government (which is a state government responsibility under the Australian Constitution), planning and community development. The department works through a series of regional offices (the new regional structure for Bendigo Bank's relationship with community banking was designed to facilitate collaboration with DPCD in particular).

Discussions have been going on between the Bank and DPCD for approximately a year exploring how the capabilities of community banking and those of DPCD can be combined at a project level in order to produce better outcomes for the communities they both serve.

The research for this report included attendance at a presentation by the Bank to DPCD's regional office in Ballarat. The emphasis on the presentation was on the community engagement, grantmaking and project facilitation skills community banking could meld with DPCD's skills. It was very much a theme of combining the public sector skills and resources of DPCD with the community-based entrepreneurial resources of community banking.

The research also included an interview with a senior officer in the head office of DPCD. The principal focus of this was on the rationale for partnering between a government department and a private sector bank, something which on the face of it is somewhat unusual.

The response was very much along the lines of DPCD having been initially very cautious, partly because of experience with other institutions and partly (the report writer’s interpretation) because of the normal suspicion which public sector entities appear to have of the motivations of the private sector.

That initial caution is now clearly shifting to a recognition that government agencies focused on community development, and Bendigo Bank's various capabilities, including community banking but also the growing role of other initiatives such as the Community Enterprise foundation and Bendigo's other community enterprise activities have the potential to play complementary roles.

The relationship has been assisted by the fact that, over the past year or so, Bendigo Bank has employed people with strong public sector and voluntary/community sector experience, including a former member of the department's staff.

The nature of the relationship, in terms of whether it is specific to Bendigo Bank, or whether would DPCD work in the same way with any other private sector entity which appeared to have complementary skills and objectives is obviously an important factor. The position is very much that DPCD would work with any organisation which had the requisite resources, skills and organisational culture. Clearly DPCD is very well aware of the risk of being accused of favouritism and is going to some pains to make sure that its partnership approach is one which is open to any entity with the appropriate skills and interest.

At the same time, the official also expressed some doubt over whether other financial service providers would be able to demonstrate the same mix of skills and organisational culture. There was clearly an impression that Bendigo Bank over the years it has been involved in community banking has developed a quite unusual culture of community engagement which would be hard to replicate.

It is only in the past two years or so that Bendigo Bank has moved beyond supporting individual community bank branches as its principal means of community engagement, taking a more strategic approach through building on the capability of the network as a whole. As a preliminary assessment it appears to be establishing a unique set of relationships with communities, and with the various public sector agencies working with communities.

At the same time, Bendigo Bank has remained very clear that it is a private sector entity owned by shareholders to whom management owes a responsibility for optimising the value of their investment, and it also has a responsibility to ensure that the banking services delivered to its customers effectively meet their needs.

7. Implications for New Zealand: Community Banking as a Means of Promoting Community Well-Being

The first point to make is that it is still very early in the life of community banking to be making any definitive assessments of its long-term potential - it is only 10 years since the first community bank was established.

> More importantly the role and nature of community banking has gone through a major shift in the past 2-3 years from a "bring back the bank" motivation focused on individual communities to a new form of banking service focused on the strengths of a network.

The interest in assessing the implications for New Zealand of the Bendigo experience is very much in the potential of a new form of banking service, and the strengths of the community bank network, as those are now evolving. It seems certain that if the Bendigo Bank knew as much about community banking as it does now, when the first community banks were established, it would have taken a very different approach.

The early branches were all established in response to the withdrawal of banking services. The Bendigo Bank saw an attractive opportunity for a regionally-based bank to meet a niche need. It did not seem to have any expectation community banking would be viable outside rural and regional Australia - the first expressions of interest in establishing community bank branches within metropolitan Australia seem to have come as a complete surprise.

Bendigo's strategy for establishing community bank branches was one of developing the model and then letting communities come to it. One apparent consequence of this approach was the lack of emphasis on building sector relationships that could focus on how best to get value from community banking both for Bendigo and for communities. The obvious example is the lack of any systemic relationship with local government (the fact that the Victorian State government was in the middle of radical restructuring of local government at the time community banking was established may have played a contributing role).

What this does mean is that, even today, the relationship between community banking and local government is extremely patchy. There are some, especially smaller, local authorities which have a very close relationship and a clear understanding of who has what capabilities and how to apply them. More generally, however, relationships where they exist are likeliest to be with the community and leisure services areas of a council rather than with corporate or financial people.

Although a number of councils have assisted with feasibility studies, and have co-funded projects, with one or two minor exceptions this as not yet developed into a banker/client relationship. This was partly explained by the comment that state government legislation requires local authorities to seek out the least cost options. However, that explanation seems inadequate. Any council taking a full cost/benefit approach in making decisions on banking services should take account of collateral benefits for the community as a result of those decisions.

The likelier explanation, which clearly has some support, is that community banking and its benefits are simply "off the radar screen" as far as the corporate and financial staff of local government are concerned.

Paradoxically, in assessing the potential of community banking, this is a positive factor. It makes it clear that community banking has been able to achieve its current level of success despite the lack of customer support from one of the most obvious sectors, and one which could bring very considerable additional business to the community banking sector. Any assessment of the potential for community banking in New Zealand needs to take this into account given that the initiative to explore its possible introduction is being led by local government.

Another factor which has arguably held back the growth of community banking is the failure to follow through on the important role of shareholders. They are clearly pivotal during the establishment phase, not just because they put up the capital of required to fund the community bank branch, but because they are also advocates for the branch encouraging people to do business with it.

Bendigo Bank itself has not provided community bank branches with any guidance on how they should relate to their shareholders other than to set the rules which govern the rate of return shareholders can receive. In practice most community bank branches treat their shareholders in the same way as any other public company. They receive the usual financial and other reports, are entitled to attend and vote at the annual general meeting, and otherwise are virtually invisible. Shareholders in turn act much as shareholders in other public companies do - most of them have very little to do with their community bank company with the average turnout at annual general meetings being in the order of 10%.

The existence of this gap seems strange. The original community bank model itself is based on getting widespread involvement and support through shareholding for the establishment of the community bank. The various restrictions on shareholder rights are designed to reinforce this.

When community banks hold their grant evenings (both their information and the distribution meetings), the community bank board is highlighted as the "heroes" even though the formal relationship will now often be through the Community Enterprise Foundation. The writer of this report asked why it was that shareholders were not also invited and given a similar profile - both to reward them for their support of a significant community initiative, and to re-enthuse them as ambassadors for the Bank. It seems that the merits of this approach have simply not been recognized because of the somewhat arm's-length approach which has been taking to community banking until comparatively recently.

In a sense, in evaluating the potential of community banking, this is another positive factor. If community banking has been able to succeed as it has, without continuing to reinforce shareholder support, remedying this represents another possible upside which would further increase the level of business through community banks.

The next point to make is the obvious one of the difference between the New Zealand and Australian banking environments. There is no real New Zealand equivalent to the withdrawal of banking services in Australia. Banking margins in Australia do seem higher than they are in New Zealand, perhaps supporting an argument that community banking purely as a means of replacing lost services would be less viable here than it has proved to be in Australia.

The real implications, for New Zealand, though are much more associated with the network issues than with the viability, on a stand-alone basis, of individual community bank branches (although their viability does matter).

The usual understanding of community banking, and one which seems to inform the understanding of those New Zealanders who are aware of the Bendigo experience, is focused on the fact that individual branches are community owned and profit share with their communities. This is a very inadequate understanding of the Bendigo model which now needs to be understood from a network perspective, especially when assessing the benefits for the Bank itself.

Perhaps the starting point is the chief executive's already cited description of Bendigo Bank as "a specialist community engagement company". This places the emphasis where it now properly belongs, on the impact of the network as a whole.

Important elements of this include:

- The emerging role of the Community Enterprise Foundation as a major philanthropic foundation underpinning the grantmaking activities of individual community banks, and providing a facility for fund raising for specific charitable purposes through the Bank's entire network.

- The new emphasis on regional collaboration across the community banking sector both as a means of engaging more effectively with public agencies, and to support larger scale projects of regional impact (Smart Kidz is a good example).

- The beginnings of what looks like being a long-term partnership relationship (best described as a "loose" partnership) between the Bank and state and federal government agencies with a mandate for community development and related activities.

From a community perspective the network approach brings a new and very valuable strength to the activities of individual community bank branches, for example, through improved grantmaking processes and more effective relationships with state and federal agencies. It also underpins the potential for other developments both in a business sense as with the telecommunications and energy initiatives, and at the community level to the extent that the Bank is able to leverage a stronger relationship with the local government sector.

From a Bendigo Bank perspective the focus on the network as a whole can be seen as considerably entrenching the competitive advantage it has obtained through community banking. In recent years the Bank has enjoyed above average growth in market share and profitability (albeit, particularly in respect of market share, from a relatively low base). There is clearly a widely held view within the Bank that support for community banking has contributed to a strongly positive image with benefits not just to its community bank branches but to its banking business as a whole.

Although Bendigo carefully guards its intellectual property in community banking, it seems a fair judgement that imitating the basic elements of the model at the individual branch level would not be particularly difficult. In one sense, it is just another franchise operation, and not the only one in the banking and financial services sector. The Bank of Queensland has an operating a franchise model for some years although in its case the franchisees are the branch managers, owning their own branch business, rather than the community. The Heritage Building Society has recently adopted an alternative community banking model with branches owned by not-for-profit companies limited by guarantee.

The difference among the different models lies not just in the formalities, but in the culture and commitment of the organisation and perhaps most importantly the various networks which are now entrenching the Bendigo approach. Although in theory another bank could seek to develop the same set of relationships with public sector organisations, a similar set of services to support grantmaking, design banking services for the community sector, build community enterprise initiatives and so on, this would be much more difficult to replicate than a pure franchise model itself. Indeed, one of the interesting conclusions from speaking with public sector people is their belief that Bendigo is effectively unique in the approach it has taken and thus the only practical partner from the financial services sector for a number of the initiatives government agencies are now involved with even although, as a matter of good policy, agencies remain open to partnering with anyone who can deliver what is needed.

The Bendigo Bank mantra is that *successful customers in successful communities create a successful bank - in that order.*

The Bank is and always has been quite open that its community banking strategy serves a commercial purpose, helping build the Bank's business and generating additional returns to shareholders.

The network approach represents a new era and one which seems likely to add significant value to the Bank's community banking initiatives. It is also the approach which any New Zealand equivalent would be well advised to adopt. The basic reason is the nature of the need which a community banking initiative would be addressing in New Zealand. As already commented, the original motive for community banking in Australia, the widespread closure of bank branches, is not present here.

The needs and opportunities are somewhat different and more aligned with the current network approach being developed by Bendigo. They include:

- Creation of a financial services partner able to work effectively with local government in the promotion of community well-being.

- Building capability at a community level, especially in the application of commercial and project management skills to community projects.

- Developing an additional and sustainable source of funding at a community level. New Zealand already has a number of significant community funders, including the community trust network, but none of these are genuinely community-based (community trusts are regionally based), and none are directly accountable to their local communities.

- Helping rebuild a significant New Zealand component within the country's banking sector.

A New Zealand initiative would start with some advantages which were not present when the Bendigo Bank began community banking. They include:

- A relevant history with regional trust banks of community controlled banking.

- Potentially influential partners in ensuring the successful launch of community banking including local government and, in all likelihood, community trusts themselves.

- An understanding from the Bendigo Bank experience of the benefits of a network approach as opposed to the somewhat ad hoc approach of building a model and waiting for the community to come.

- A potential motivation in the apparent widespread community concern at the implications of overseas ownership of most of New Zealand's banking system.

- The ability to draw on the experience of Bendigo Bank itself.

A final comment

Bendigo Bank's reputation in the public arena is largely based on an awareness of the role it has played in returning banking services to rural and regional communities which lost them in the wave of branch closures of the late 1990s.

That is now an entirely inadequate understanding, both of Bendigo Bank's own role and of the nature of community banking as it has evolved, especially over the past 2-3 years. A better way of comprehending the nature of community banking is to understand it as a potentially important innovation in the development of community infrastructure, creating a network of financial, technical, public sector and community resources to provide a new way of supporting community well-being.

At a community level, community banking is about handing back control - initially over the flow of funds through a community, and the profits which come from that. As community banking has started to mature, it has become much more - a community-based resource of commercial and other skills committed to helping the community achieve its goals.

At the level of the Bank itself, community banking is evolving into a powerful business model generating long-term and profitable banking relationships through changing public perceptions of what banking can be about. It is a model which carries with it a very powerful "first mover" advantage because of the depth and complexity of the relationships on which it is based.

Finally, community banking can be seen as a unique partnership between a network of communities focused on how best to ensure the futures they want, and a bank committed to "doing well through doing good", changing the nature of the banking relationship to the benefit of both its shareholders, its employees and the communities it serves.