

# North Lanarkshire Council Report

## Finance and Resources Committee

approval  noting

Ref KS/CM/JQ

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## North Lanarkshire Municipal Bank Ltd – Annual Oversight Report 2017/18

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### Executive Summary

This report is presented in accordance with the previously approved Performance Monitoring Framework for the Council's arm's length bodies and outlines the performance of North Lanarkshire Municipal Bank Ltd against its' business objectives, Council priorities and financial expectations for the financial year ending March 2018. This report also provides information in respect of governance and Council oversight arrangements to enable members to ascertain how effectively Council obligations are being satisfied. In addition, an update on the on-going service review of the bank is provided.

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### Recommendations

Members are asked to:

- (1) Note the governance and scrutiny arrangements currently in place within North Lanarkshire Municipal Bank Ltd;
- (2) Note the organisation's 2017/18 performance;
- (3) Note the current status of the service review;
- (3) Identify areas of activity requiring further consideration by this Committee; and,
- (4) Otherwise note the report.

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### Supporting Documents

**The plan for North Lanarkshire** North Lanarkshire Municipal Bank primarily supports the "Improve North Lanarkshire's Resource Base" priority.

**Appendix 1** North Lanarkshire Municipal Bank Ltd Overview 2017/18.

## **1. Background**

- 1.1 North Lanarkshire Municipal Bank Ltd was founded by the former Burgh of Motherwell and Wishaw in 1924. In July 1974 the Bank changed its name to Motherwell District Municipal Bank Ltd to reflect local government re-organisation and went through a similar process in March 1996 when it again changed its name to become North Lanarkshire Municipal Bank Ltd as a result of the introduction of unitary authorities through the Local Government etc (Scotland) Act 1994.
  - 1.2 The Bank's main function is that of a savings bank with deposits and withdrawals made using a passbook, historically providing a safe place for local residents to deposit money where other banking facilities may not have been available. The Council per legislative requirements, as the controlling authority, has recourse to these monies as a source of finance. Traditionally the cost of this source of finance is comparable to other sources of finance the Council can access, although this is currently being monitored due to reducing balances and the cost base of the bank.
  - 1.3 The bank offers a competitive rate of interest and a level of financial assurance for customers because North Lanarkshire Council guarantees all deposits per the definition of a "municipal bank" under Section 103 of the Banking Act 1987 prior to its repeal under SI 2001 no 3649.
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## **2. Report**

- 2.1 The Performance Monitoring Framework approved by the former ALEOs and External Bodies Monitoring Committee in May 2016 introduced a schedule of performance monitoring for individual arm's length external bodies that is proportionate to the scale of activity and likely level of risk to the Council. North Lanarkshire Municipal Bank Ltd is subject to annual reporting given the Head of Financial Solutions' responsibility for operational management, the appointment of elected members to serve on the Board of Directors and further opportunities for additional reporting as appropriate during the course of the year through the existing Treasury Management reports.
- 2.2 The annual oversight reports provide an opportunity to highlight where the Municipal Bank's activities are contributing to the Council's strategic direction and supporting delivery of the Plan for North Lanarkshire's priority outcomes.
- 2.3 The Council appoints 7 members to serve on the Board of North Lanarkshire Municipal Bank with directors responsible for governance and maintaining oversight of the Bank's operations including the setting of interest rates. The Annual General Meeting is held in the early spring to consider the statutory accounts, auditor's report and the appointment of auditors for the incoming financial year.
- 2.4 Members should note that during 2018/19 an instruction was issued by the Bank of England requiring credit unions to remove funds from municipal banks. As a result a number of withdrawals have been made from the Bank with the level of customer balances reduced. This may impact upon the Bank/Council lending relationship compared to using alternative sources of finance. The interest rate relationship between the Bank and the Council is currently being monitored due to reducing balances and the cost base of the Bank.

- 2.5 Currently, the Bank operates from ten locations across North Lanarkshire, however, the office rationalisation proposals within the approved Asset Review and Rationalisation report considered by the Policy and Strategy Committee on 28 February 2019 may potentially impact on four locations.
- 2.6 North Lanarkshire Municipal Bank is currently undergoing a service review conducted by Business Solutions as part of the former ALEOs and External Bodies Monitoring Sub Committee's approved three year ALEO Review Programme. A review team, comprising of officers with appropriate skills and knowledge from across the Council and including officers from Financial Solutions, are currently reviewing the Bank's activities and performance. Key documents have been reviewed and benchmarking undertaken. Future work will include an assessment workshop, a board workshop and an options appraisal assessment, following which recommendations for future Bank activity will be made to both the Council's corporate management team and the Council. This exercise is scheduled to be concluded in the autumn 2019.
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### **3. Implications**

#### **3.1 Equality and Diversity**

##### **3.1 Fairer Scotland**

There are no considerations that require to be assessed at this time, however, members are advised that a combined Equality Impact Assessment will be completed as part of the options appraisal exercise referenced above to ensure that potential impacts under the Fairer Scotland Duty and the Equalities Act are identified and addressed when considering any recommendations in relation to future service delivery.

##### **3.2 Equality Impact Assessment**

As above.

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### **4. Implications**

#### **4.1 Financial Impact**

The financial statements of the Bank are prepared on a going concern basis in accordance with the United Kingdom Generally Accepted Accounting Practice (UK Accounting Standards and applicable laws). The Bank manages its relationship successfully with the Council by ensuring that it maintains a low cost base, whilst still offering attractive interest rates to customers. This has resulted in the Council historically being able to use the Bank's customer balances at a competitive interest rate in line with its Treasury Management strategy. However in recent times, as described section 2.4 above, due to decreasing customer balances, managing the interest rate relationship between the Bank and the Council and at the same time offering competitive interest rates to customers, is likely to become more challenging and is being monitored carefully. The Bank is required to complete a certificate of assurance on corporate governance and internal financial controls, adopting the same guidelines as North Lanarkshire Council

#### 4.2 **HR/Policy/Legislative Impact**

There are no policy, legislative or Human Resource impacts for the Council arising from this report.

#### 4.3 **Environmental Impact**

There are no environmental implications to the report at this point.

#### 4.4 **Risk Impact**

##### 4.4.1 Competition from High Street Banks

The Bank has traditionally maintained a competitive advantage, meeting the challenge from high street banks and building societies by offering an attractive interest rate usually a small margin above the interest rates offered elsewhere. At present the interest rate compares favourably to establishments offering similar products e.g. instant access, passbook savings account. However, the increasing popularity of online accounts with better rates of interest represents a challenge to the Bank. In addition, a number of high street banks now offer simple bank accounts for those who traditionally had difficulty opening a bank account – these accounts provide a cash card facility which is a service the Municipal Bank is unable to offer due to the nature of its operation and legal restrictions.

##### 4.4.2 Legislative and Regulatory Changes

As discussed in section 2.4 (above) a recent instruction was issued by the Bank of England requiring credit unions to remove funds from municipal banks – this has resulted in a reduction in customer balances and may potentially impact upon the interest rate offered to customers to manage the Bank/Council lending relationship.

##### 4.4.3 Office Rationalisation

As identified in section 2.5 (above) the Bank currently operates from ten locations across North Lanarkshire however, it is anticipated that the office rationalisation findings and recommendations arising through the Asset Review and Rationalisation report are likely to result in some locations closing, reducing the Bank's presence and may lead to some customers closing accounts.

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### 5. **Measures of success**

- 5.1 Appendix 1 demonstrates where the North Lanarkshire Municipal Bank supports delivery of the strategic priorities overall and is meeting the Council's continuous improvement expectations.



**Head of Business Solutions**

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## Appendix 1

<p><b>Remit:</b></p>	<p>The bank provides a savings facility for local residents, groups and associations with deposits and withdrawals made using a passbook. It has historically provided a safe place for local residents to keep their monies where a deposit taking facility may not have been available. The Council per legislative requirements, as the controlling authority, has recourse to these monies as an alternative to potentially other more expensive traditional sources of finance. The remit of the bank is limited due to its special status as a 'municipal bank' which provides benefits in terms of reduced bureaucracy and governance whilst restricting the ability of the bank to offer more of the traditional services offered by a bank e.g. personal loans, direct debit and cheque clearing facilities, out of hours access.</p>
<p><b>Statutory Powers:</b></p>	<p>The powers of the municipal bank are governed by Part 1 Section 3 of the Payments Services Regulation 2009. It is exempt from the prohibition comprised in Section 19 of the Financial Services and Markets Act 2000 ("the Act"), by means of Exemption Order (2001/1201) issued in accordance with Section 38 of the Act. It is not a banking company for the purposes of the Companies Act 2006. It is a 'municipal bank' under Section 103 of the Banking Act 1987 prior to its repeal under SI 2001 no 3649.</p>
<p><b>Board Membership:</b></p>	<p>The directors of the company during the financial year to 31 March 2018 were as follows:</p> <p>Councillor J Hume (appointed 17 May 2012)</p> <p>Councillor R Burrows (resigned 18 May 2017)  Councillor S Farooq (resigned 18 May 2017)  Councillor J Jones (resigned 18 May 2017)  Councillor H McKenna (resigned 18 May 2017)  Councillor P O'Rourke (resigned 18 May 2017)  Councillor A Spowart (resigned 18 May 2017)</p> <p>Councillor T Castles (appointed 18 May 2017)  Councillor J Ashraf (appointed 18 May 2017)  Councillor I McNeil (appointed 18 May 2017)  Councillor T Fisher (appointed 18 May 2017)  Councillor S Watson (appointed 18 May 2017)</p> <p>Current Board Members as at 29/05/19:  Cllrs Ashraf, Burrows, Castles, Hume, McNeil, Watson and Pettigrew.</p>
<p><b>Principal Activities:</b></p>	<p>The bank's principal activities are the accepting of deposits and the investing of those funds (with the exception of working balances) with North Lanarkshire Council.</p>

<b>Key performance Indicators</b>	<p>For the year ended 31 March 2018:</p> <p>Closing balance of customer deposits decreased by £2.2m to £41.1m. (£43.3m : 2017)</p> <p>Interest paid to customers decreased by £0.115m to £0.122m (£0.237m: 2017).</p> <p>The balance of temporary loans accessed by North Lanarkshire Council averaged £41.1m for the year ended 31 March 2018.</p> <p>Interest received from monies advanced to the Council fell by £0.119m to £0.287m (£0.406m: 2017).</p> <p>Relationship for investing funds with North Lanarkshire Council met the requirements of the Financial Services and Markets Act (2000) (Exemption) Order 2001.</p>		
<b>Contribution to The Plan for North Lanarkshire</b>	✓ Improve the Council's resource base		
<b>Financial Overview:</b>	2017		2018
	£		£
	Interest receivable:		
	406,082	North Lanarkshire Council - short term advances	286,588
	<b>406,082</b>	<b>Total Interest Receivable</b>	<b>286,588</b>
	Interest paid:		
	236,825	Interest paid to customers	122,471
	<b>169,257</b>	<b>Net interest income</b>	<b>164,117</b>
	Administration Expenses:		
	3,754	Management Expenses	3,210
	7,980	Audit Fee & Expenses	8,729
	5,833	Printing and Stationary	1,788
	124,600	Payments to Agencies & Other Bodies	124,600
	7,090	Publicity Campaign	5,790
	20,000	Rental of Premises	20,000
	<b>169,257</b>	<b>Total Administration Expenses</b>	<b>164,117</b>
	-	<b>Profit/Loss for the financial year</b>	-