

# North Lanarkshire Council

## Report

### Policy and Strategy Committee

approval  noting

Ref KH/LJ

Date 19/03/20

### North Lanarkshire Municipal Bank Ltd: Service Review Report

**From** Katrina Hassell, Head of Business Solutions

**Email** hassellk@northlan.gov.uk

**Telephone** 01698 302235

#### Executive Summary

The purpose of this report is to provide the Committee with the findings and recommendations from the service review of North Lanarkshire Municipal Bank Ltd (NLMB and 'the Bank'). The report details the review process and key findings, including organisational strengths and areas where improvement could be made and also examines the environment within which the Bank operates.

To ensure that the current method of service delivery remains the best option for the council and in line with this Committee's Terms of Reference, an options appraisal examined current service delivery within the context of the future direction of the banking sector, the council's Digital NL strategy and wider Plan for North Lanarkshire. The options appraisal identified a number of significant challenges facing the long-term sustainability of the Bank - most notably: declining customer base and reducing balances; digital transformation; and, legislative restrictions which prohibit significant expansion. Notwithstanding these limitations, customer satisfaction levels are high. The review therefore recommends that customer trends are closely monitored for a further twelve months with the resultant data analysed to inform future service delivery and potential viability considerations.

#### Recommendations

It is recommended that the Policy and Strategy Committee:

- (1) Notes the overall findings of the North Lanarkshire Municipal Bank service review completed within the final phase of the ALEO Review Programme;
- (2) Notes the feedback received from the Municipal Bank Board of Directors regarding the review findings, referenced at paragraph 2.38 of the report;
- (3) Notes that while the Municipal Bank is performing satisfactorily and delivering against its founding objectives, its long-term sustainability is severely impacted by demographics, limitations on the range of banking products deliverable and increasing trends towards online banking and cashless transactions;
- (4) Maintains current banking operations and service provision, but in acknowledging the longer-term sustainability issues, requests officers monitor customer numbers and sums deposited for a further 12 months, thereafter reporting details to committee *circa* June 2021; and,
- (5) Otherwise notes the contents of the report.

#### The Plan for North Lanarkshire

Priority	Improve North Lanarkshire's resource base
Ambition statement	(25) Ensure intelligent use of data and information to support fully evidence based decision making and future planning

## 1. Background

- 1.1 The review of North Lanarkshire Municipal Bank (NLMB) was undertaken in conclusion of the former ALEOs and External Bodies Monitoring Committee's Three Year Review Programme, approved in May 2016 in support of its remit to ensure that ALEOs remain the best option for service delivery.
- 1.2 NLMB's service review was structured to comply with the council's previously approved review methodology and completed by a corporate review team. Review stages included: Scoping; Analysis; Stakeholder Engagement; Assessment (including options appraisal); Findings / Recommendations; and concludes with this report.
- 1.3 Review activity was undertaken between December 2018 and October 2019.
- 1.4 The findings and recommendations from the review are submitted to this Committee for consideration given its delegated authority and specific remit to, *"Periodically review ALEOs to ensure that they remain the best option for service delivery and represent best value in delivering against the relevant Council priorities and objectives, and to determine on behalf of the council, all recommendations within such reports."*

---

## 2. Report

### Company Formation and Objectives

- 2.1 North Lanarkshire Municipal Bank Ltd was founded by the former Burgh of Motherwell and Wishaw in 1924. The Bank has subsequently changed its name as appropriate to reflect local government re-organisation, most recently in March 1996 when it became North Lanarkshire Municipal Bank Ltd.
- 2.2 The Bank's primary function is that of a savings bank with deposits and withdrawals made using a passbook. The Bank has traditionally offered a competitive rate of credit interest and a level of financial assurance for customers as 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 The Financial Services and Markets Act 2000 (Consequential Amendments and Repeals) Order 2001.
- 2.3 This legislation permits the council, as controlling local authority, to draw on municipal bank funds as a source of finance. The Act further stipulates that substantially all the funds lent by a municipal bank are lent to the controlling local authority. Traditionally the cost of this finance has been comparable to other sources of finance accessible to the council, although this is currently being monitored due to more competitive borrowing available as a result of the historically low Bank of England base rates.
- 2.4 Members should note that while the Bank's operations are governed within a legislative framework, there is no statutory duty on the council to provide a municipal bank.

## NLMB Service Delivery Areas and Responsibilities

- 2.5 NLMB is co-located in each of the First Stop Shops with staff fulfilling the dual role of Customer Officer and Bank Teller. Branches in the six larger towns are open Monday to Friday between 9.00am and 4.30pm, and the smaller branches (Kilsyth, Shotts, Moodiesburn and Viewpark) are open between 10.15am to 1.45pm.
- 2.6 The Municipal Bank is granted an exemption from regulation by the Financial Conduct Authority (FCA) due to the nature of its activities. Although this provides some favourable exemptions, the absence of such regulation, coupled with legislative restrictions, limits the range of banking services that can be offered.

Product/Service	NLMB Yes / No	Additional Information
Savings facility	Yes	Cash or cheque deposits, subject to the cheque being payable to the account holder.
Interest on savings	Yes	Interest rate kept under review and revised as necessary by the Board of Directors.
Personal cheque book	No	FCA exemption prohibits this.
Withdrawals	Yes	Cash withdrawals paid in person to customer at any branch. NLMB will raise cheques if customers make such a request in advance (generally 2 – 4 days' notice). Prior notice may be required for larger withdrawals.
Debit /cash withdrawal card	No	FCA exemption prohibits this.
Salary / DWP benefit, <sup>1</sup> Universal Credit <sup>2</sup> and/or pension payments	Yes	Customers' salaries and regular savings can be paid in via BACS (Banks Automated Clearing Services) or standing order.
Overdraft facility	No	FCA exemption prohibits this.
Direct Debit payments to 3 <sup>rd</sup> party	No	FCA exemption prohibits this.
Online/Telephone banking	No	FCA exemption prohibits this.

<sup>1</sup> The procedure to pay benefit payments into an individual's account requires manual intervention since the Municipal Bank does not have access to the banks' automated clearing system. Daily verification is required to check if funds have been lodged by the DWP and then a matching exercise, using National Insurance numbers (where previously provided) or Child Benefit / Tax Credit / Child Tax Credit references is completed.

<sup>2</sup> The procedure for Universal Credit payments is further complicated because the DWP does not provide a consistent reference number or customer name. Details of Universal Credit funds, received by the Municipal Bank, are forwarded to the First Stop Shop and the customers looking for payment must present in person and provide reference details. There is a high risk of monies being credited to the wrong bank account and accordingly a significant number of payments are returned to the DWP unpaid resulting in subsequent delay and potential hardship for the customer. To date during this financial year, the Municipal Bank has received 33 Universal Credit payments, however, a payment received may be for a number of customer accounts. Existing capacity within the Bank and First Stop Shops would need to be considered should there be further expansion of Universal Credit.

- 2.7 Customers can authorise the deduction of Council Tax and housing rent payments from their individual Municipal Bank accounts, however, the number of customers using this facility is small and sums received by the council are only a very small proportion of the overall Council Tax and housing rent collected.
- 2.8 Any enhancement of the Municipal Bank's operations (where these are legally permissible) to address the service restrictions identified above would require significant investment with the risk of potential challenge to the council's own banking business relationship since the Municipal Bank operates on a platform using the council's banking service provider.
- 2.9 Appendices 1 and 2 illustrate financial and operational trends over the past 3 to 10 years.

## **Review Process**

### Format and Engagement

- 2.10 The review, following established ALEO review processes, included desktop analysis of key documents associated with the Bank's formation and subsequent operations, along with engagement with the Board of Directors and Financial Solutions and Housing staff, who provide management and operational support.
- 2.11 Further engagement with Board members was undertaken in June 2019 to discuss review progress and emerging findings. Directors, while noting the legislative restrictions on the Bank:
- Commented on the convenience and the valuable savings facility provided to customers;
  - Suggested that there may be opportunities to increase the Bank's customer base and total deposits held by targeted marketing to young and older people;
  - Considered the future role of the Bank, within the context of declining high street banking facilities and channel shift, both overall and within the council through Digital NL;
  - Acknowledged that a shift towards digital service delivery and expanding the range of banking products offered would be difficult given the legislative restrictions and wider policy direction of the council;
  - Noted that barriers to enhancement of the banking services may also be encountered with the council's banking service provider; and
  - Emphasised the importance of seeking customer views to inform any future considerations regarding the continued operation of the Municipal Bank.
- 2.12 During the workshop directors also observed that the Bank differs significantly from other ALEOs in that it is principally an inherited legacy service rather than a service delivery method developed by the council in response to an identified requirement or policy decision.

### Benchmarking

- 2.13 Benchmarking opportunities are limited since North Lanarkshire and West Dunbartonshire Councils are the only remaining Scottish local authorities providing

a municipal bank. West Dunbartonshire’s bank is significantly smaller in scale and the focus of its operations is predominantly in Clydebank.

- 2.14 West Lothian, East Dunbartonshire, and North Ayrshire Councils previously operated municipal banks, however, these have all closed during the period December 2015 to August 2018. In each case the decision to cease banking operations was based on the banks’ inability to match the level and range of banking products on offer elsewhere, cost considerations, declining customer numbers and operations being unsustainable in the medium to longer term

Gateway Reviews

- 2.15 Gateway Reviews with members of the Transformation and Digitisation Gateway Review Panel were held during the assessment stage and at the conclusion of the options appraisal. The Review Leader provided a summary of emerging findings along with the rationale and outcome of the options appraisal. At the end of each Gateway Review members confirmed progression of the review to the next stage.

**Detailed Review Findings**

Overview and Summary of Findings

- 2.16 The Review Team assessed the extent to which the Municipal Bank is meeting its business objectives and performing at a satisfactory level. While the Bank was found to have satisfactory levels of compliance overall, with only a small number of immediate improvement areas identified<sup>3</sup>, its long term sustainability is subject to challenge and uncertainty due to a number of external and internal factors as detailed below.

<b>North Lanarkshire Municipal Bank Challenges, Risks and Uncertainties</b>	
Declining customer base	The number of customers reduced by 16.3% in the period 2016 to 2019
Ageing customer base	Customer survey analysis illustrates that 58% of respondents are aged 65+, followed by 23% aged between 55 and 64
Limited use of service	Bank customer transactions within the First Stop Shops represents only 2.9% of the total cash transactions during 2018/19.
Reducing customer balances	The total value of deposits reduced year on year between 2015/16 and 2018/19 with an overall reduction of 35% over the period.
Alternative provision	North Lanarkshire residents have access to and are using alternative banking services. The Scottish Household Survey <sup>4</sup>

<sup>3</sup> Identified Improvement Areas included:

- The need for a business plan setting out strategic and financial planning goals and in particular, how the Bank may address the emerging challenges arising through increased use of digitised service delivery and a reducing customer base; and,
- Increased use of customer engagement to inform service developments

<sup>4</sup> The Scottish Household Survey (SHS) is completed annually with results published the following year. Following the 2017 survey, it was agreed that the question about holding a bank or building society account would only be asked biennially. As such, the question was not asked in 2018. The 2019 survey is due to be published in the autumn 2020. The 2018

	illustrates that 91% of respondents (or their partners) holds a bank or building society account (based on 2017 data). This equates to 309,364 of North Lanarkshire's population, with less than 2% of these living in North Lanarkshire and holding an account with the Municipal Bank <sup>5</sup>
Legislative restrictions	Legal restrictions and regulatory exemptions, curtail the Bank's ability to extend its product offer.
Resource requirements	To provide service developments, such as marketing activity or extended opening hours at the smaller branches, there is a high likelihood that the Bank would be required to finance these costs through reductions in customer interest rates. This may impact upon competitiveness.
Regulation	National anti-fraud and anti-terrorism initiatives, coupled with developments to combat serious organised crime, could require full registration and compliance by the Municipal Bank on all matters under the Financial Conduct Authority with current exemptions that are beneficial to the council's operation of the Bank removed.
Channel shift	Changing banking trends, with a shift towards online service delivery and cashless transactions, coupled with the council's own commitment to service transformation through DigitalNL.
Office Rationalisation	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 the Municipal Bank's existing co-location in the First Stop Shops.

- 2.17 The above factors are further compounded by the Bank of England's ruling, in December 2018, prohibiting credit unions from depositing their funds within municipal banks. This has resulted in 8 North Lanarkshire based credit unions either closing their accounts or reducing significantly the amounts held with the Municipal Bank to minor working balances. Overall, this contributes to a 31% reduction in the customer balance total at 31 March 2019 compared to the same point in 2018. The single most significant impact of this is the reduction in the level of available finance that the council may borrow from the Municipal Bank and this, coupled with more competitive sources of finance being available on the open money market, makes the Bank a less expedient financing option for the council.
- 2.18 To secure Best Value within its Treasury Management Strategy, the council must borrow at the most advantageous rate available on the open money market. In order to match these rates, which are acknowledged as being historically low due to the Bank of England base rate, the Municipal Bank must retain customer balances at a sufficiently high level, while also monitoring the interest rate payable to customers and reducing this accordingly to maintain the equilibrium. This may be evidenced through the recent decision by the Bank's Board of Directors to reduce the interest rate from 0.55% to a prudent 0.20% (from 1 December 2019) in response to the reduction in customer balances referenced above coupled with

---

survey results identified that 69% of adults, who accessed the internet, used it for online banking. The SHS is based on only a sample of the population. As such the results, although accurate, will be subject to variation.

<sup>5</sup> Bank customer numbers totalled 6,416 in 2017 with 643 of these living outwith North Lanarkshire.

anticipated increases in operating costs. Appendix 3 illustrates the interest rate and lending relationship between the Municipal Bank and the council.

### Governance Findings

- 2.19 Governance arrangements were found to be satisfactory. Membership of the Municipal Bank comprises North Lanarkshire Council's elected members with each elected member automatically enrolled as a shareholder for the duration of his or her term of office as a councillor. In February 2014 the Local Government Boundary Commission Review increased the number of electoral wards in North Lanarkshire to 21 which increased the number of elected members from 70 to 77. As a result the Bank's Articles of Association were amended by written resolution on 7 July 2017 to remove the restriction limiting the number of shareholders to 70 and replace this with the stipulation that, "*The number of members of the company shall not exceed the total number of members of North Lanarkshire Council as laid out by the Local Government Boundary Commission or any successor body at election.*" The number of members was thereafter duly increased by the Bank's Board of Directors agreeing to allocate the additional 7 shares giving a total membership of 77 and a called up share capital of £3.85.
- 2.20 The council appoints 7 elected members to serve on the Board of the NLMB with directors responsible for governance and maintaining oversight of the Bank's operations. The council's Head of Financial Solutions fulfils the role of Company Secretary. The Bank's Memorandum and Articles of Association are appropriate for the company's operation and Board meetings, generally held 2 – 3 times per year, are quorate with directors receiving information on the Bank's operations, turnover and any material developments during the reporting period.
- 2.21 While Board members highlighted a requirement for bespoke training, linked to the Bank's operations and objectives, the current complement of directors collectively possess considerable relevant skills and experience.
- 2.22 Filing returns to Companies House are undertaken diligently and timeously, including the annual submission of year end accounts. Although directors have given some consideration to the potential future direction and promotion of the Bank, the Review Team identified that a formal business plan setting the strategic direction, together with supporting actions, is not in place.

### Financial Performance Findings

- 2.23 The financial statements of the NLMB are prepared on a going concern basis in accordance with the United Kingdom Generally Accepted Accounting Practice (UK Accounting Standards and applicable laws). Year-end accounts are independently audited and the Bank has received unqualified auditor reports for each of the reporting periods covered by this review. Financial Solutions submit an annual Governance and Assurance Statement and checklist to the council's Audit and Risk Manager and the Bank is included in the council's Group Accounts as a subsidiary company controlled by the council.
- 2.24 Income generated by the Bank through interest charged on temporary loans to the council has decreased over the past four years from £526k in 2016 to £311k in 2019 – a reduction of 41%. While operating costs remained fairly static during this period, the staffing and support recharge levied by the council to the Bank

increased significantly in 2017 due to a change in practice whereby operational costs were charged directly as opposed to previously being netted-off the annual interest charge from the Bank to the council. Expenditure overall reduced slightly by just under 3% between 2017 and 2018 with a small increase for year ending 31 March 2019 reflecting inflationary increases.

- 2.25 As at 31 March 2019 audited year-end figures show income and expenditure during the year to be broadly comparable with the previous financial year with the movement in the interest paid and interest received primarily reflecting the increase in interest rate from 0.30% to 0.55% from 1 November 2018. Although the Bank seeks to maintain a cost neutral position when reviewing its interest rates, reducing customer balances are impacting on the Bank's ability to generate income through providing temporary finance to the council and this, coupled with albeit fairly static overheads as referenced above, is clearly having a resultant impact on the interest rate passed on to customers. The total credit interest paid to customers reduced overall by £290k (67%) in the period 2016 to 2019. While this is in part due to reduced customer numbers and balances, the interest rate was reduced to 0.3% from 1 January 2017 to 1 November 2018, when it was increased to 0.55%. While the Bank was previously seen as providing attractive interest rates to customers this is becoming increasingly challenging. Interest rate fluctuations are shown below.

<b>1 January 2016</b>	<b>to</b>	<b>1 January 2017</b>	<b>to</b>	<b>1 November 2018</b>	<b>to</b>	<b>1 December 2019</b>
0.60%	↓	0.30%	↑	0.55%	↓	0.20%

#### Operational Performance Findings

- 2.26 An early task for the Review Team was to review operational trends and business performance. The Municipal Bank provides individual and joint accounts, along with accounts for societies or organisations. As at October 2019 the Bank had 5,400 customers. Operational trends demonstrate a reduction in the numbers of cash transactions for both deposits and withdrawals. Appendix 4 illustrates key customer account metrics and trends.
- 2.27 The Bank does not employ its own staff and customer facing services are provided by First Stop Shop staff who are trained in the delivery of NLMB services. As with other council staff, First Stop Shop staff participate in the council's Performance Review and Development programme and have the opportunity to make suggestions on the Bank's operations through weekly team meetings. Financial management and oversight, including reporting, business planning and financial forecasting is undertaken by Financial Solutions. The council recharge to the Bank for provision of staff support is £124.6k per annum and the accommodation recharge is £20k per annum.

#### Customer Engagement Findings

- 2.28 As requested by directors at the workshop referenced at 2.11 above, the Review Team completed a customer survey to inform the options appraisal process. A paper survey was sent by post to each customer's address excluding dormant accounts. Customers who hold more than one account in their own name, or where multiple accounts had the same correspondence address received a single

survey, whilst accounts previously marked as “*no correspondence to be issued by mail*” were also excluded. This resulted in 3,686 surveys being issued along with a pre-paid reply envelope.

- 2.29 A total of 988 responses were received by the closing date of 26 July 2019, giving a response rate of 27% and demonstrating strength of opinion and customers’ desire to contribute to the engagement and feedback process. A summary of the key findings is provided at Appendix 5 with the full survey results provided to Financial Solutions to support and inform further business management and service improvement.
- 2.30 The survey results were extremely positive with high levels of customer satisfaction – 94% of respondents confirmed that they are either ‘Extremely Satisfied’ or ‘Satisfied’ with only 1.2% of respondents either ‘Dissatisfied’ or ‘Extremely Dissatisfied.’ A number of respondents praised the efficiency, helpfulness and customer care provided by the staff and others singled out the benefits of a passbook and savings facility. Where respondents expressed their dissatisfaction, criticisms included: comments about the limitations of the service in terms of no direct debit or electronic payment facilities; poor interest rates; and, the opening hours being too restrictive.
- 2.31 More than half of all respondents were in the 65+ age range (58%), followed by 23% aged between 55 and 64. Only 5% of respondents were under 45, with less than 1% under 21 (0.4%).
- 2.32 The survey results illustrated that long term and short term saving were the most common uses of Municipal Bank accounts. Further analysis within the economically active age bracket (i.e. Under 21 to 64 and excluding Group Accounts) showed that within this age range 79% used their Municipal Bank account for savings and only 8% used their account for receipt of salary, benefits or pensions. This suggests that these customers have alternative banking arrangements for personal and everyday transactions. Overall, 14.4% of respondents used their accounts for the purposes of receiving salary, pension and benefit payments, with the highest percentage of these respondents being in the 65+ age group (12%).
- 2.33 89% of respondents had access to another bank account held in their own name, however, of the 107 respondents who did not have access to an alternative bank account, 73 were aged 65+ (68%). Of these, 37 respondents (51%) had their pension(s) paid into their Municipal Bank account.

### **Options Appraisal**

- 2.34 While the service review confirms that the Bank is performing satisfactorily and customer engagement indicates high levels of customer satisfaction, the ALEO Review Terms of Reference require review teams to ensure that the arm’s length service delivery arrangements remain relevant and continue to deliver against expectations. To this end, and in order to assess the Bank’s ability to support The Plan for North Lanarkshire and shared ambitions, a series of potential service options were identified and considered through the Gateway Review process and the Corporate Management Team, before being discussed with the Municipal Bank’s Board of Directors at the engagement workshop held in June 2019. Thereafter, an options appraisal workshop was held on 1 August 2019.

- 2.35 During the workshop Review Team members considered 3 separate options linked to: retaining the Bank in its currently form; seeking to grow the customer base and total savings held; and, ceasing operations. The risks, benefits and uncertainties likely to arise from implementing each of these options were identified and thereafter assessed against the following strategic goals:
- Alignment with The Plan for North Lanarkshire and shared ambitions;
  - Minimising future risks to the council;
  - Obtaining cost effective and affordable service delivery; and,
  - Maintaining influence regarding service delivery and performance.
- 2.36 In line with the service review findings, the options appraisal confirmed that significant factors are now impacting on the Bank's future operations and its capacity to continue to provide an attractive interest rate to customers, while also contributing to the council's Treasury Management Strategy.
- 2.37 It was recognised that the passbook savings facility is highly valued by a number of customers, however, the Bank does not meet modern day banking requirements and is limited in the range of products it can offer customers. The options appraisal identified:
- Customer numbers and balances are declining;
  - The range of services offered are limited through the FCA exemption;
  - Significant resources would be required to market and expand existing services in the face of declining customer trends and market competition;
  - Risk of potential state aid issues, where council resources are deployed to enhance performance and growth; and,
  - Risk of potential failure by the council to reflect Best Value in securing the most competitive interest rates for finance advanced to the council.
- 2.38 Review findings, customer survey results and outcomes from the options appraisal were considered by the Bank's Board of Directors at a special meeting on 3 September 2019. Board members reinforced the value and role of the Bank in providing a savings facility, particularly to elderly customers and those on low incomes and highlighted the levels of customer satisfaction expressed through the survey. The Board requested more detailed information on the lending relationship between the Municipal Bank and the council, along with associated borrowing costs. Overall, directors suggested that the review does not provide a sufficiently compelling business case at this point in time to consider withdrawal of the Municipal Bank service. The Board of Directors concluded that it would be their preference for the Bank to remain operating in its current capacity. Directors further agreed that, in order to mitigate any potential financial risks to either the Bank or the council, customer interest rates should continue to be regularly reviewed and reduced as necessary to offset all operating costs incurred by the Municipal Bank.

### **Service Review Recommendations**

- 2.39 This service review and options appraisal confirm that while the Municipal Bank is delivering against its founding objectives, its sustainability in the long term is severely impacted by demographics and an ageing customer base coupled with: limitations on the range of banking products that it can offer; and, increasing trends towards online banking and cashless transactions.

- 2.40 Internally, the council's DigitalNL Strategy and asset rationalisation proposals will bring about a significant shift in how customers and service users interact with the council. The operating model of the Municipal Bank is not aligned to support this vision for increased online service delivery and self-service.
- 2.41 Financial modelling, based on average trends over financial years 2015/16 to 2017/18<sup>6</sup> and existing operations, illustrates that over the current and future two financial years, customer balances are forecast to fall by a further 8.9% and customer numbers will reduce by 14.5% to *circa.* 4,877. The review therefore recommends that, in order to provide members with definitive data against which any future service delivery considerations may be taken, officers undertake close monitoring over the next 12 months of customer numbers, deposits, withdrawals and total balances.
- 2.42 The monitoring activity findings, along with analysis of trends, will be reported to committee on completion of the exercise.

---

### **3. Equality and Diversity**

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

- 3.1.1 NLMB supports the socio-economic themes of *Low Wealth, Material Deprivation* and *Area Deprivation* within the Fairer Scotland Duty by providing access to a savings facility for North Lanarkshire residents across 10 locations.

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

- 3.2.1 The Review Team completed initial Equalities Impact Assessments (EIAs) to identify any significant factors which may prohibit consideration of individual option(s) at the outset. These assessments identified the need for more detailed customer profiling to identify whether any individuals would be more affected than others by specific decisions in relation to the Municipal Bank. This was reinforced by the Bank's Board of Directors who requested that detailed customer survey work should be undertaken to inform the options appraisal. Accordingly the Equalities Impact Assessments were revisited and updated to reflect findings from the customer survey. The final assessments are summarised below.

##### **Option 1 – Retain the Bank as it currently operates**

No impact. Services retained in current format.

##### **Option 2 – Market the Bank to increase customer base and assets**

Customer survey illustrates that a proportionately higher percentage of older people use the Municipal Bank and are satisfied with the service. Conversely, fewer young people and council employees use the Bank so there may be some opportunity to promote the service amongst these groups. Retaining the Municipal Bank could contribute to addressing area deprivation and low income within the Fairer Scotland Duty by:

- maintaining existing banking facility within local communities; and,

---

<sup>6</sup> Financial modelling did not include 2018/19 year-end figures to reflect potential distortion as a consequence of the credit union account closures.

- providing a savings facility with no minimum requirements in terms of the level or frequency of savings.

### **Option 3 – Withdrawing the Municipal Bank service**

Withdrawing the Municipal Bank could have a negative impact on area deprivation and low income, however, alternative banking facilities, offering more accessible and customer focused products, are available locally. The customer survey identified that 89% of respondents have access to another bank account. The EIA identified that the Bank provides opportunities for social interaction, especially amongst older people, but this is not its primary purpose and the council could continue to provide this ancillary function through alternative, more targeted support. Resources currently used to support the Municipal Bank could be redirected to support priority groups and the council's shared ambitions. A clear requirement for effective customer engagement, particularly with older customers and those most likely to be impacted was identified should the council take any decision to withdraw banking operations.

---

## **4. Implications**

### **4.1 Financial Impact**

- 4.1.1 There are no immediate financial implications arising from the recommendations within this report. The customer monitoring activity will be undertaken by Financial Solutions within existing resources.

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

HR Implications

- 4.2.1 There are no HR implications arising from the recommendations in this report since, as referenced above, the customer monitoring activity will be undertaken within existing resources.

### **4.3 Environmental Impact**

- 4.3.1 There are no environmental impacts requiring member consideration at this time.

### **4.4 Risk Impact**

- 4.4.1 The review team completed a detailed risk assessment, scoring each option against the following risk categories:

- Service delivery;
- Financial;
- Human resources;
- Legal; and
- Reputational.

- 4.4.2 Retaining the Bank as it currently operates was found to have the lowest risk score across all categories, although the assessment identified that existing service delivery is not aligned to The Plan for North Lanarkshire.

- 4.4.3 Expanding the Bank, through increasing the number of customers and potentially extending opening hours, or introducing new technology and banking products, was identified as having potential financial risks. There may also be regulatory costs linked to the wider product offer. Staff training and heightened control measures would be required to mitigate against the risk of money laundering or serious organised crime.
- 4.4.4 The option to withdraw the Municipal Bank was found to have the highest individual risks –although, these were assessed as ‘Moderate’ overall. The requirement for legal advice, including external specialist advice, was identified, along with potential HR risks. One-off costs would be required to contact customers, trace dormant account holders and undertake further customer engagement and publicity activities. Reputational risks were also identified including press interest and potential adverse public perceptions.

---

## **5. Measures of success**

- 5.1 The council has satisfactory assurances that the review of the Municipal Bank has been completed in accordance with the prescribed ALEO Review Programme and wider council project management procedures.
- 5.2 The council, whilst acknowledging the review’s findings, also recognises high levels of customer satisfaction and feedback from the Bank’s Board of Directors, and accordingly agrees to note the position meantime to allow for further monitoring of customer trends over the next 12 months.

---

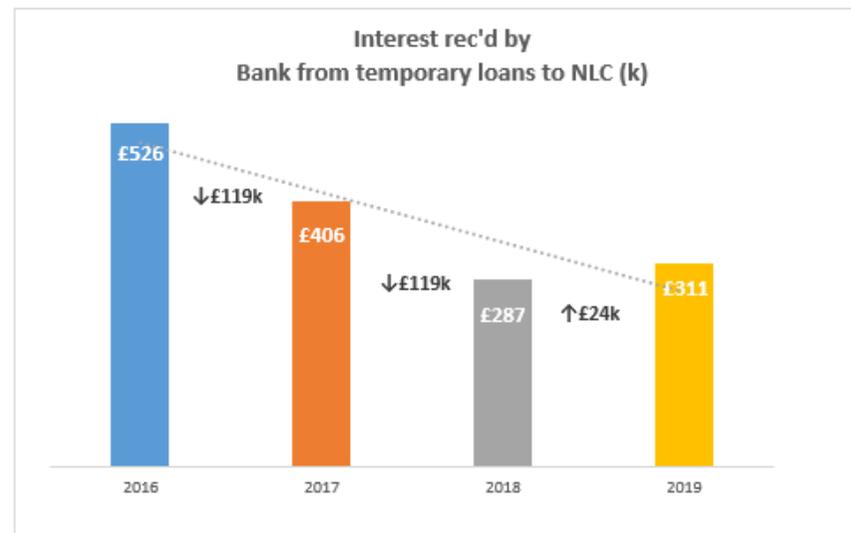
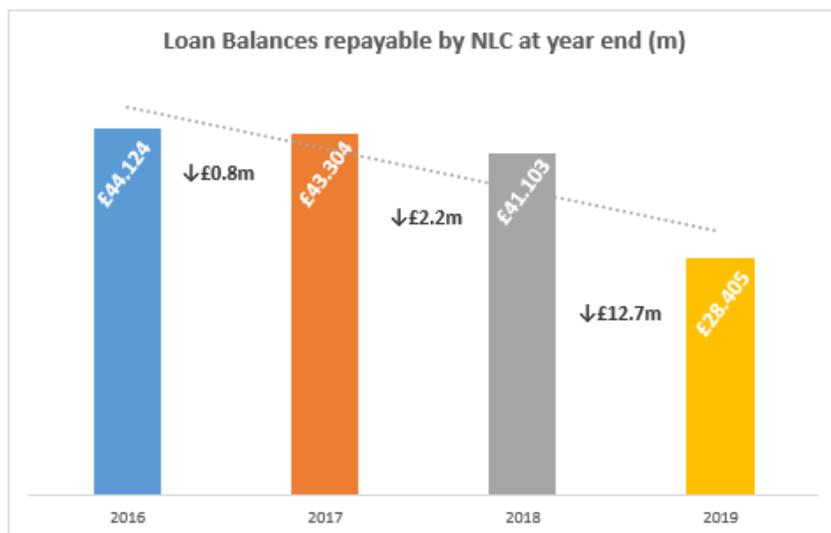
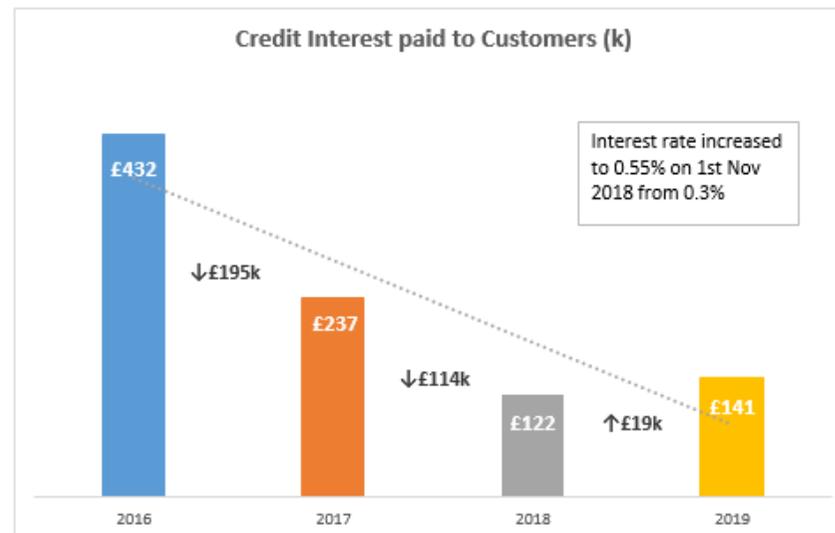
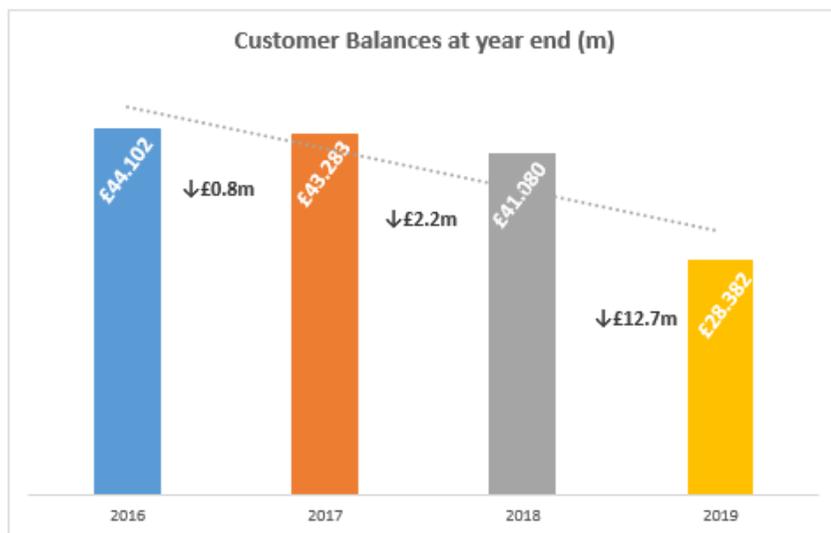
## **6. Supporting documents**

- 6.1 Appendix 1 – NLMB Financial Analysis
- 6.2 Appendix 2 – Customer Numbers and Balances – 10 Year Overview
- 6.3 Appendix 3 – NLMB and North Lanarkshire Council Lending Relationship
- 6.4 Appendix 4 – NLMB Operations and Customer Trends
- 6.5 Appendix 5 – Customer Survey Analysis

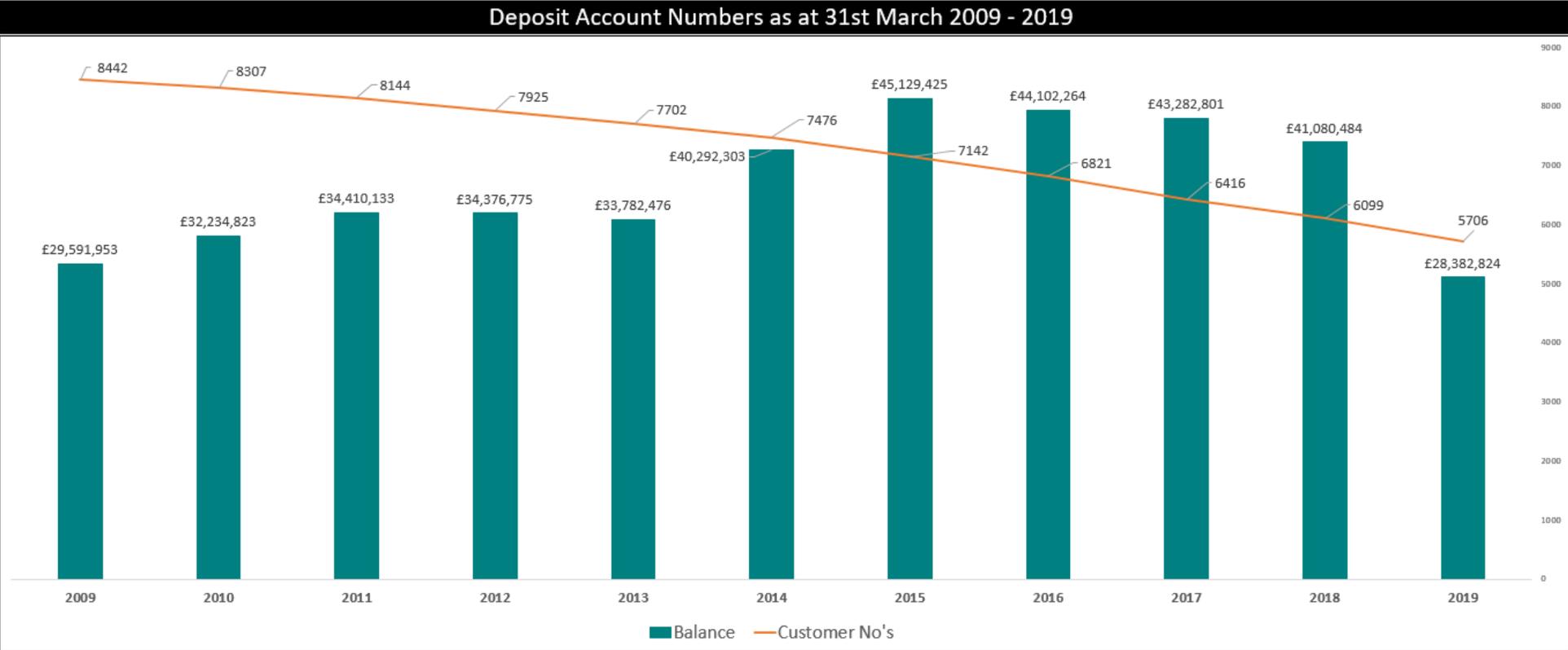


**Head of Business Solutions**

## NLMB Financial Analysis 2016-2019



Customer Numbers and Balances – 10 Year Overview



Since 31st March 2009 the number of deposit accounts has declined from 8442 to 5706 as at 31st March 2019 . This is a 32.4% reduction in account holders over the 10 year period.

### Interest Rate Relationship: North Lanarkshire Municipal Bank (NLMB) and North Lanarkshire Council

The tables below reflect the inter-relationship between the NLMB rate to customers, the average interest rate cost to NLC for using NLMB balances in accordance with legislative requirements and the alternative Money Market interest rate available to the Council if borrowing from other external sources. These interest rates are monitored to ensure an equilibrium between the council's external borrowing rate, the interest rate it incurs borrowing from the NLMB whilst also endeavouring to offer a competitive interest rate to customers.

**Example 1: Current position:** 12 month projection based on average balances held since last interest rate change on 1 December 2019 at existing 0.20% interest rate; and, no change to NLC estimated borrowing costs.

NLMB Income & Expenditure					NLC Loan Charge Analysis			
Average Customer Balances since last interest rate change 1/12/2019	Current NLMB Interest Rate to Customers	Total Annual Interest Payable to Customers	Total NLMB Annual Overheads	Income Receivable from NLC for Use of Balances	Average Interest Rate Cost to NLC in accessing NLMB balances	Money Market Comparable Interest Rate (since 01.12.19) Average 6 – 12 month term	NLC Interest Rate Saving	Estimated Saving to NLC (£)
£21,973,028	0.20%	£43,946	£169,534	£213,480	0.97%	0.98%	0.01%	£1,636

**Based on the above, over a 12 month period, NLC would save £1,636 by borrowing from the NLMB compared to external sources. This is within tolerable limits, given volatility of interest rates and therefore there is currently no requirement to change the interest rates currently on offer to customers. This assumes overhead costs remain the same and there is no movement in the money market rates available from external sources.**

### **Example 2: Required change to NLMB customer interest rate (based on current average customer balances) to offer an interest charge to NLC to match equivalent Money Market Rate**

Breakeven interest rate is 0.2074% based on current average customer balances since last interest rate change on 1 December 2020 and to match Money Market interest rates available to NLC.

NLMB Income & Expenditure					NLC Loan Charge Analysis			
Average Customer Balances since last interest rate change 1/12/2019	Breakeven NLMB Interest Rate to Customers	Total Annual Interest Payable to Customers	Total NLMB Annual Overheads	Income Receivable from NLC for Use of Balances	Average Interest Rate Cost to NLC in accessing NLMB balances	Money Market Comparable Interest Rate (since 01.12.19) Average 6 – 12 month term	NLC Interest Rate Saving / (Cost)	Estimated Cost to NLC (£)
£21,973,028	0.2074%	£45,582	£169,534	£215,116	0.98%	0.98%	0.00%	0

### **Example 3: Level of NLMB customer balances required to maintain customer interest rate at 0.20% while ensuring the council's equivalent borrowing rate is matched to Money Market rates.**

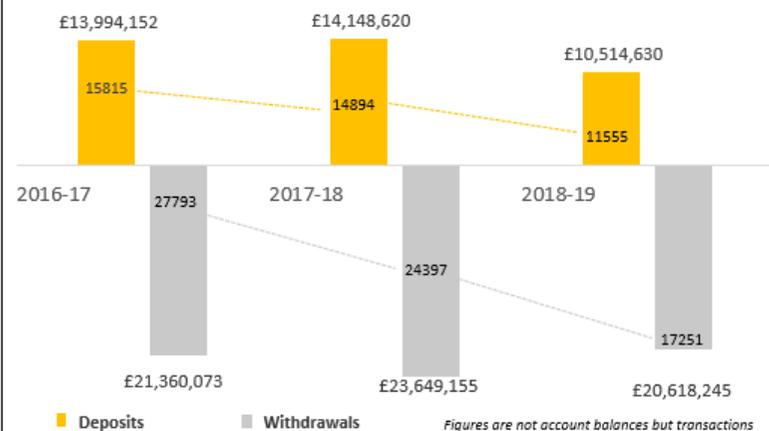
Breakeven customer balances of £21.763m required to maintain customer interest rate at 0.20% and to match Money Market interest rates available to NLC.

NLMB Income & Expenditure					NLC Loan Charge Analysis			
Breakeven Customer Balances	Current NLMB Interest Rate to Customers	Total Interest Payable to Customers	Total NLMB Overheads	Income Receivable from NLC for Use of Balances	Average Interest Rate Cost to NLC in accessing NLMB balances	Money Market Comparable Interest Rate (since 01.12.19) Average 6 – 12 month term	NLC Interest Rate Saving / (Cost)	Estimated Cost to NLC (£)
£21,763,000	0.20%	£43,526	£169,534	£213,060	0.98%	0.98%	0.00%	0

NLMB Operations and Customer Trends

North Lanarkshire Municipal Bank (NLMB) - Account Metrics

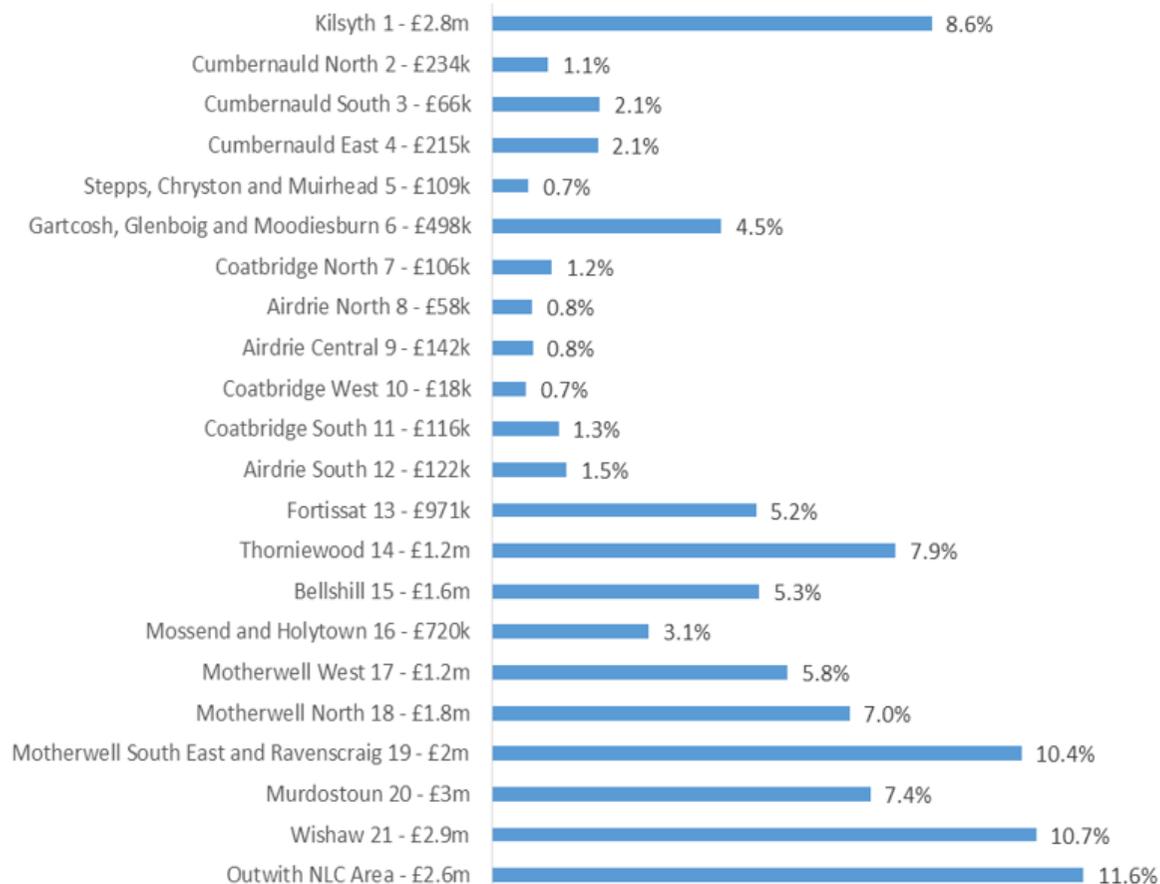
1. Deposits/Withdrawals by £ & No.



1. Between 2016-17 and 2018-19, the overall £ value of deposits has declined by 25% from £13.9m to £10.5m. The reduction in the volume and £ value of withdrawals (3.4% from £21.3m to £20.6m) over the period shows a positive trend although this could also reflect fewer customers.

2. To the right, shows % split of accounts by NLC Ward based on account postcodes. The highest being Wishaw with 10.7%/£2.9m bal. The lowest being Coatbridge West with 0.67%/£18k bal. Outwith NL area, there are 11.6% of accounts with balances of £2.6m, these are spread from as far north as Perth to as far south as Torquay. The geographic split reflects the operation of municipal banks by the former Motherwell and Cumbernauld and Kilsyth District Councils.

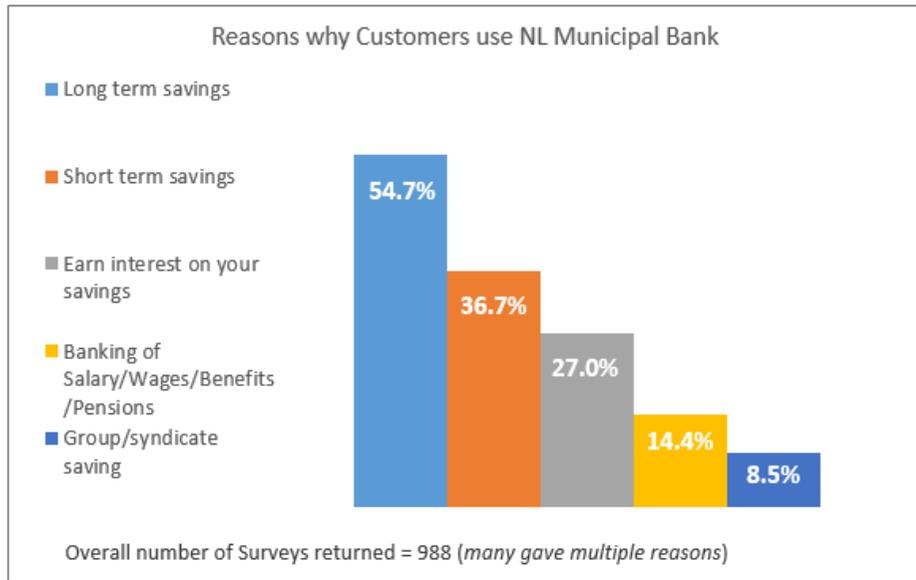
2. % Account Holders and £ value of accounts by NLC Council Ward



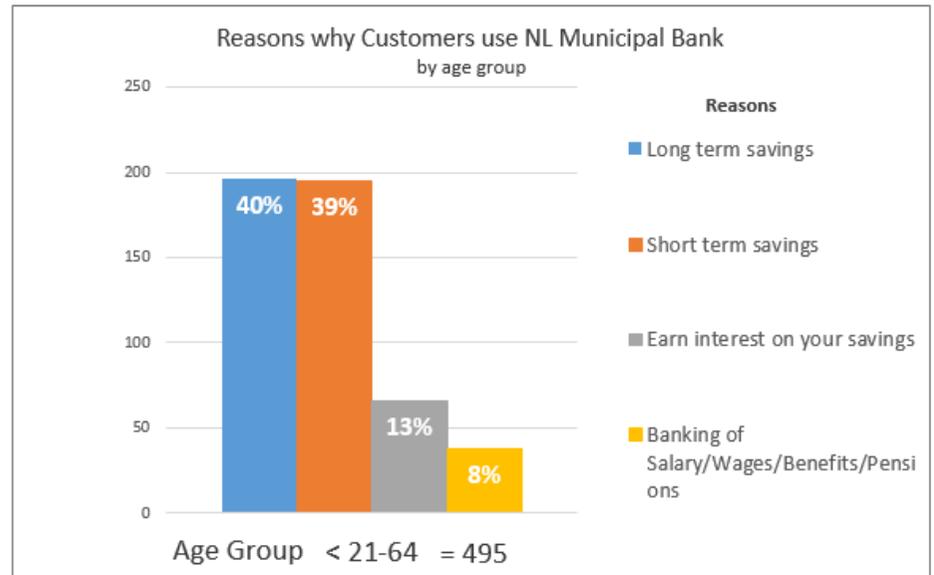
Customer Survey Results

NLMB Customer Survey Results

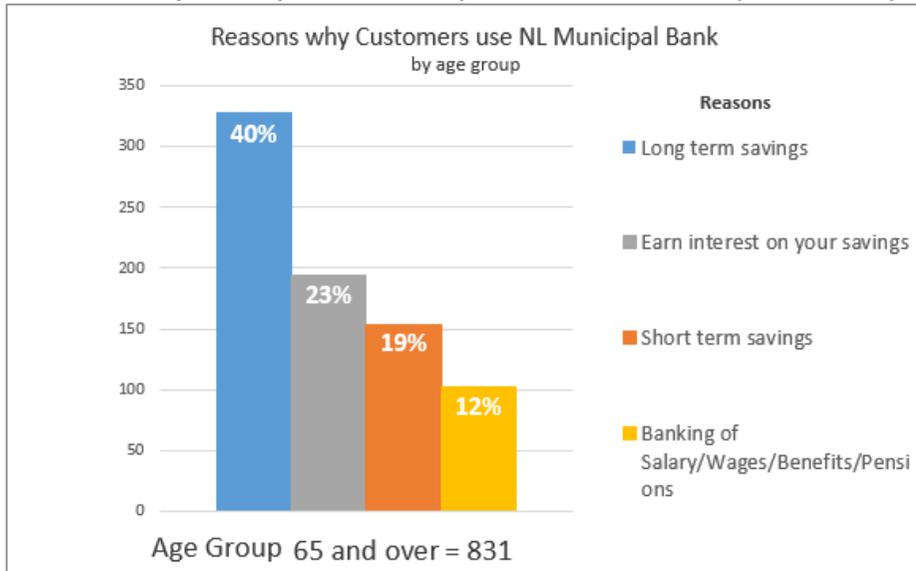
Q1. What do you use your NL Municipal Bank account for? (all age groups)



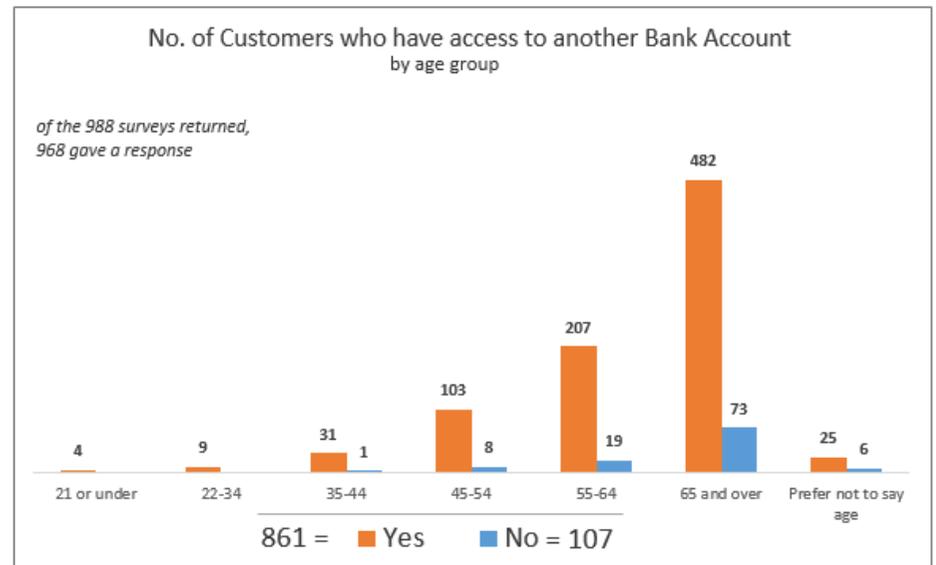
Q1. What do you use your NL Municipal Bank account for? (<21-64)



Q1. What do you use your NL Municipal Bank account for? (65 and over)

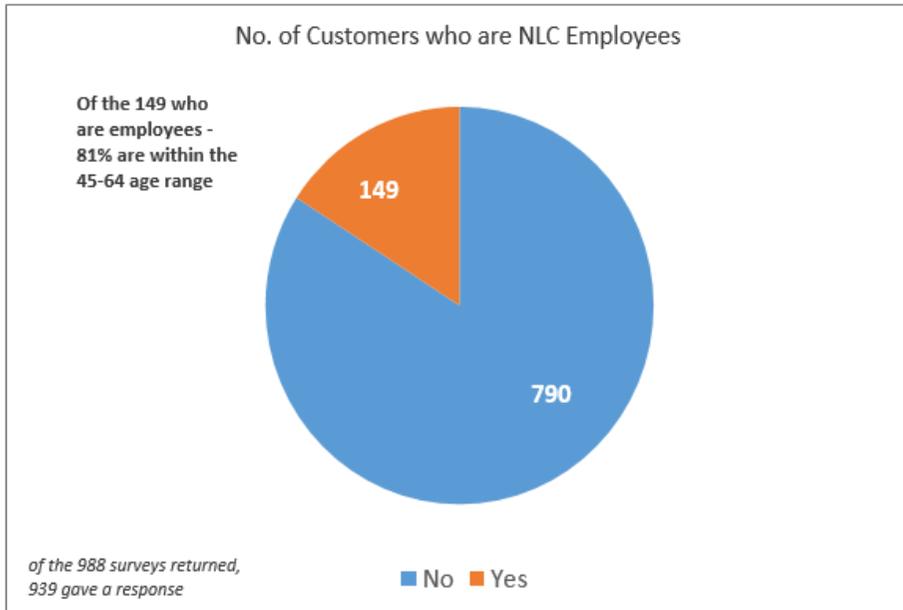


Q2. Do you hold a bank account in your name with any other bank(s)?

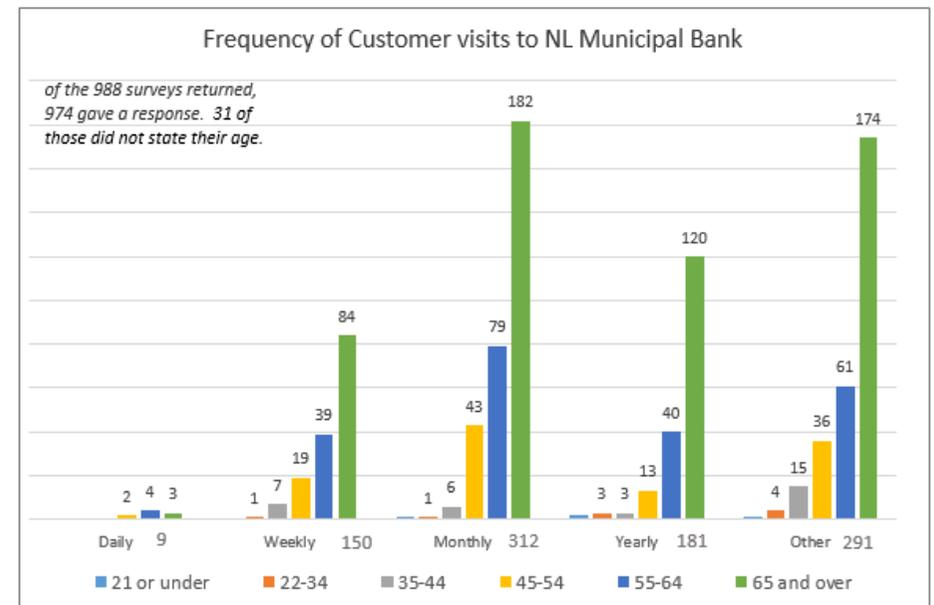


## Customer Survey Results - Continued

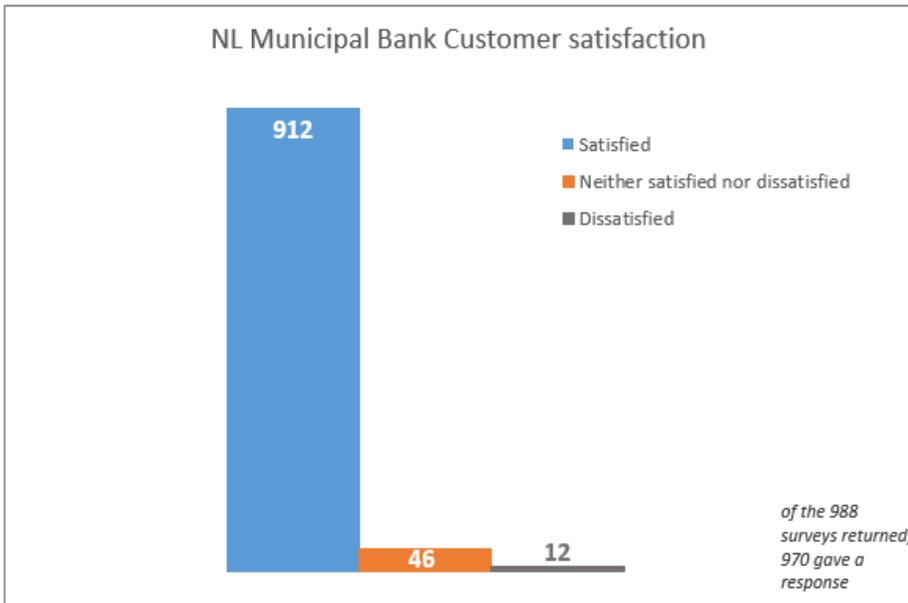
Q3. Are you an employee of North Lanarkshire Council?



Q4. How often do you visit NL Municipal Bank



Q5. How satisfied are you with the Service you receive from NL Municipal Bank?



Q6. Which age bracket are you in?

