

North Lanarkshire Council Report

Finance and Resources Committee

approval noting

Ref EK/CM/JQ

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North Lanarkshire Municipal Bank Ltd – Annual Oversight Report 2018/19

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Executive Summary

This report is presented in accordance with the previously approved Performance Monitoring Framework for arm's length bodies and the Council's Scheme of Administration. The report outlines the performance of North Lanarkshire Municipal Bank Ltd against its' business objectives, Council priorities and financial expectations for the financial year ending March 2019. 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.

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 2018/19 performance;
- (3) Identify any further areas of activity requiring consideration by this Committee; and,
- (4) Otherwise note the report.

The Plan for North Lanarkshire

Priority Improve North Lanarkshire's resource base

Ambition statement (24) Review and design services around people, communities, and shared resources

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. The Bank went through a similar process in March 1996 when it 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 provides a passbook based savings facility, 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 finance is comparable to other sources that 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 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 council previously approved a Performance Monitoring Framework and reporting schedule for individual arm’s length external bodies that was proportionate to the scale of activity and likely level of risk to the council. Under this Framework, 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.
- 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 The Bank operates from ten locations across North Lanarkshire and is co-located in the First Stop Shops. Members are advised that the branches are currently operating restricted opening hours in response to Covid-19 social distancing restrictions.
- 2.5 The fieldwork phase of ALEO service review of the Municipal Bank was undertaken during the period covered by this report with the findings reported to the Policy and Strategy Committee on 19 March 2020. The review found that the Bank is performing satisfactorily with high levels of customer satisfaction. A number of longer term sustainability challenges were identified, linked to declining customer numbers, digital transformation and legislative restrictions which prohibit significant expansion. Acknowledging these challenges, Committee agreed to maintain current banking operations and requested that customer numbers and total sums deposited should be

monitored for a period of 12 months with the findings reported thereafter, potentially around June 2021.

3. Equality and Diversity

3.1 Fairer Scotland Duty

There are no requirements to complete a Fairer Scotland Duty assessment as part of this report.

3.2 Equality Impact Assessment

As above.

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 competitive 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 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, has 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 Potential operational and financial risks are considered by directors at Board meetings. Previously, the single most significant risks facing the Municipal Bank were the increasing popularity of online banking and a declining customer base. 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 Acknowledging these challenges, directors recently agreed to introduce marketing strategies to raise awareness of the benefits of saving with the Municipal Bank. These include for example: security of funds; opportunity to save regularly with no monthly commitments or minimum amount to be deposited; and, opportunity for Council employees to save via payroll deduction.

4.4.3 Within the past few weeks, however, the longer term impact of the Covid-19 pandemic is increasingly identified as presenting potential risks to the Municipal Bank's future operating model, income and cash balances. Social distancing requirements,

lockdown restrictions and the economic shock may impact on the number of customer transactions and the levels of deposits. Early indications and information from both the UK and Scottish Governments indicate that the recovery phase will be incremental with a continued period of physical distancing. It is further anticipated that the rise in cashless transactions, introduced as a necessity due to Covid-19, will become more widespread, as will further adoption of online and telephone banking options and together these will have a direct impact on the Bank's business model.

- 4.4.4 The Board of Directors and council officers are paying close attention to the developing situation and are monitoring the potential impact.

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

6. Supporting documents

- 6.1 Appendix 1 – Governance, Remit and Financial Overview.



Elaine Kemp
Head of Financial Solutions

Appendix 1

<p>Remit:</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 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>Statutory Powers:</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>Board Membership:</p>	<p>The directors of the company during the financial year to 31 March 2019 were as follows:</p> <p>Councillor J Hume (appointed 18 May 2017) 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) Councillor N Pettigrew (appointed 20 December 2018)</p> <p>Current Board Members as at 30/4/20: Cllrs Ashraf, Burrows, Castles, Hume, McNeil, Watson and Pettigrew; Elaine Kemp, Head of Financial Solutions serves as Company Secretary.</p>
<p>Principal Activities:</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>

Key performance Indicators	<p>For the year ended 31 March 2019:</p> <p>Closing balance of customer deposits decreased by £12.7m to £28.4m (2018 = £41.1m)</p> <p>Interest paid to customers increased by £0.019m from £0.122m to £0.141m</p> <p>The outstanding balance of temporary loans advanced to North Lanarkshire Council at year end was £28.4m compared to £41.1m at 31/03/2018.</p> <p>Interest received from monies advanced to the Council increased by £0.024m (£311k in 2018/19 compared to £287k in 2017/18)</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>		
Contribution to The Plan for North Lanarkshire	✓ Improve North Lanarkshire's resource base		
Financial Overview:	2018		2019
	£		£
	Interest receivable:		
	286,588	North Lanarkshire Council - short term advances	310,792
	286,588	Total Interest Receivable	310,792
	Interest paid:		
	122,471	Interest paid to customers	141,258
	164,117	Net interest income	169,534
	Administration Expenses:		
	3,210	Management Expenses	2,152
	8,729	Audit Fee & Expenses	9,850
	1,788	Printing and Stationary	5,822
	124,600	Payments to Agencies & Other Bodies	124,600
	5,790	Publicity Campaign	7,110
	20,000	Rental of Premises	20,000
	164,117	Total Administration Expenses	169,534
	-	Profit/Loss for the financial year	-