

## AGENDA

A meeting of the **Board of Directors** of **North Lanarkshire Municipal Bank Ltd** will be held **23 October 2020**.

1. Present
2. Apologies
3. Minutes of meeting held on the 12 March 2020
4. Report and Financial Statements year ended 31 March 2020, including Letter of Representation
5. Resolution to re-appoint Auditors. BDO LLP offer themselves for re- appointment in accordance with the Companies Act 2006.
6. Interest rate review

**NORTH LANARKSHIRE MUNICIPAL BANK LTD**

**MINUTES OF BOARD OF DIRECTORS MEETING**

**12 March 2020 AT 11.30pm**

**CIVIC CENTRE MOTHERWELL**

1. Present

Councillors: R Burrows, J Hume, T Castles, I McNeil, S Watson, N Pettigrew, J Ashraf

In Attendance

E Kemp (Company Secretary)

J Quinn (Treasury Manager)

2. Apologies

None

3. Approval of Minutes of Previous Meeting

The minutes of the meeting held on 11 October 2019 were approved.

4. Directors Briefing note issued 13 December 2019

This briefing was formally noted having been previously issued by email on 13 December 2019

6. ALEO Review: NLMB

(i) Letter: ALEO Review team to Company Strategy

Directors noted the comments contained within the letter.

(ii) Policy and Strategy Committee to March 2020: NLMB Service Review

The contents of the proposed report were noted. Councillor Watson highlighted paragraph 2.38 and wished to make it clear that although the wording included reference that 'the review does not provide a sufficiently compelling case at this point in time' that all directors were strong in their opinion that the municipal bank should not close regardless of the timing. Given the recommendation to review numbers/balances in June 2021 both Councillor Watson and Councillor Ashraf supported a proposal to kick off a marketing strategy as soon as possible and despite reservations by other Directors regarding greater promotional activity whilst uncertainty continued surrounding the long term sustainability, it was agreed that

1) An advert be placed in the Wishaw Press given the recent and proposed local banking closures in that area and that discussion take place with Council's Corporate Communications team to develop an appropriate longer term marketing strategy.

2) An update to be provided at the next meeting as to how providing NLMB banking facilities can be absorbed within the Community Hub Model and future strategy direction for first stop shops. It was highlighted that the future community hub design will be developed in conjunction with communities therefore plans are still being developed. It was also noted the municipal bank has a shared cost model with NLC with its presence within the first stop shops and staffing provided by NLC. A stand-alone model within the Community Hubs may not be financially sustainable due to bank location specifications for safety of cash per insurance requirements, security carrier costs and also employment of bank staff at each of the locations to provide the service. Costs in operating the bank directly influence the interest rate that can be offered to customers and the lending relationship with the Council

5. Interest Rate Review

A report outlining the position regarding the interest rates and customer balances was presented to the Directors. Those Directors who hold a Municipal Bank account declared an interest in the matter under discussion. J Quinn provided a brief summary of the report and it was agreed to retain the interest rate at current levels at 0.20%.

8. Sponsorship

In line with previous years, the board approved the following list of anticipated requests for sponsorship subject to formal requests in writing being received.

Kilsyth Civic Week (June 2019)	£1,000
St Patrick's Festival Week (March 2020)	£1,000
Motherwell Football Club (August 2019)	£1,500
Albion Rovers Football Club (August 2019)	£750

Councillor Burrows declared an interest and did not participate in the approval process. It was agreed in light of the proposed marketing /advertising approach that they should be advised that this approval was for the period requested only and that future awards are no longer be guaranteed

To: Board of Directors North Lanarkshire Municipal Bank Ltd		Subject: Interest Rate Review
From: Company Secretary		
Date: 23 October 2020	Ref: EK/JQ	

## 1. Purpose

1.1 The purpose of this report is to provide an update following the previous interest rate review in March 2020. To review the interest rates currently being offered, in comparison to other financial institutions, whilst managing the inter-lending relationship between the bank and the Council and the outlook for interest rates and the impact of COVID19 (the pandemic).

## 2. Background

2.1 On 11 March 2020 and 19 March 2020, following special meetings of the Monetary Policy Committee, the Bank of England cut the base rate from 0.75% to 0.25% and again to 0.10% respectively to manage the impact of the pandemic. There has been no change to the base rate since. The following table shows the NLMB current interest rate:-

Bank of England Base Rate	Interest Rate Bandings	NLMB Ltd Gross Interest Rate
0.10%	£1+	0.20%

Table 1: NLMB Interest Rate applicable from 1 December 2019

## 3. Customer Balances

3.1 Table 2 below highlights the movements in customer balances since 31 March 2020.

Month Ended	No of Accounts	Monthly Movement in Number of Accounts	Customer Balances (£)	Monthly Movement in Customer Balances	% Monthly Movement in Customer Balances
31-Mar-20	5,321		21,790,015		
30-Apr-20	5,316	-5	21,940,825	+150,810	0.69
31-May-20	5,136	-180	21,971,059	+30,234	0.14
30-Jun-20	5,122	-14	22,115,883	+144,824	0.66
31-Jul-20	5,108	-14	22,062,175	-53,708	-0.24
31-Aug-20	5,089	-19	21,912,734	-149,441	-0.68
30-Sep-20	5,070	-19	21,775,850	-136,884	-0.62
<b>Cumulative Movement</b>		<b>-251</b>		<b>-14,165</b>	

Table 2: Movement in Customer Balances

3.2 Since 31 March 2020, there has been a small decrease of £14,165 (0.06%) in customer balances, the decrease partially offset by interest due and credited to customer accounts on the 30 April 2020 of £86,125. There was a decrease of 251 in customer accounts which includes a reduction of 166 related to accounts deemed to be dormant (with no movement within 5 years holding a balance of less than £10), therefore 85 accounts were closed directly by customers.

## 4. Interest Rate review

4.1 In carrying out an interest rate review, the bank considers the following:

- interest rates for comparable accounts being offered by other financial institutions;
- the inter-lending relationship between the Council and the Bank;

## **5. Comparable Accounts & Competitor rates**

- 5.1 The interest rates for a range of accounts of other financial institutions are compared to the bank's rates. The comparator range is the closest account type identified when compared to the services available within the bank.
- 5.2 Appendix 1 demonstrates that NLMB interest rates are comparatively more attractive, as other financial institutions have reduced their interest rates significantly, reflecting the impact of Covid19 and are now marginally above zero. This comparison does not include internet based accounts, which generally offer higher interest rates, however, the account terms and conditions vary significantly from those offered by the NLMB. The comparator range being the closest account type identified when compared to the services available within the NLMB.

## **6. Lending Relationship between the Bank and North Lanarkshire Council**

- 6.1 As part of the interest rate review, the bank considers the relationship for investing customer balances with North Lanarkshire Council (the Council) per the legislation governing municipal banks, which requires that all funds are lent to the Council.
- 6.2 These funds provide the Council with an alternative to borrowing from other sources, maintaining an interest rate profile that facilitates the bank charging the Council a competitive rate attractive to both parties.
- 6.3 This arrangement enables the bank to cover its costs and manage its investment, interest rate and liquidity risks, whilst the Council achieves value for money and manages associated treasury management risks, including the underlying guarantee.
- 6.4 Appendix 2 shows, that if current customer balances are maintained and interest rates kept on hold, including overheads, the estimated average annual charge to the Council would equate to 0.97% for sourcing the bank's balances throughout the year.
- 6.5 This charge is currently higher than the 6 month to 1 year London Interbank Offer rate (LIBOR) of 0.56%, which is the average daily rates for period 1 April to 30 September 2020 and considered an acceptable benchmark for comparison purposes, based on the behaviour patterns for withdrawals and deposits by customers. (See Appendix 2)
- 6.6 NLC is currently incurring higher charges than if it obtains similar funds from alternative sources available. This situation primarily arising due to the aforementioned Bank of England cuts to the base rate from 0.75% to 0.10% to manage the impact of the pandemic and the correlational impact upon short term interest rates offered by financial institutions, with speculation surrounding moving in to negative interest territory.
- 6.7 To re-establish the equilibrium in the borrowing and investment relationship between the bank and NLC, a reduction in the interest rate payable to customers is required from a positive 0.20% to a negative interest rate of 0.21%, with further detail provided within Appendix 2. This would mean a charge being imposed on customers to deposit their monies, which given the customer base, status and services offered by the bank and potential reputational damage, would not be deemed a realistic option.
- 6.8 To close the interest rate gap a reduction in the 20/21 Council overhead charge could be considered, given the reduced branch opening hours to implement Scottish Government health and safety guidance for COVID19. However, the banks share of the counter service recharge element of the overhead, based on the percentage of bank transactions to the total transactional activity is likely to have increased, given the significant reduction in the other counter services normally offered by First Stop shops since March 2020.
- 6.9 Notwithstanding the above, it is recognised in these extra-ordinary times, that the functioning interest rate relationship between the Council and the municipal bank has become skewed and therefore temporary arrangements must be put in place to reflect this. Therefore it is recommended that there is no change to the current interest rate with the Council managing the impact of the higher interest costs currently incurred, for utilising municipal bank balances, by achieving other Treasury Management efficiencies from other short term borrowing sources.

6.10 This approach is confirmed by the Council, providing a letter of support, that is legally binding, as requested by the banks external auditor, stating that the Council will continue to provide financial support for a period of at least 12 months from the date of approval of these financial statements, as the bank relies upon the support of its parent, North Lanarkshire Council.

## **7. Outlook for Interest Rates**

7.1 Given the current pandemic against a backdrop of uncertainty surrounding Brexit there is a strong possibility that the Bank of England Base rate will remain at historically low levels for longer. With the long term position of the UK economy largely dependent on the agreements the government secures with the EU and the possibility of a vaccine or improved drug treatment to manage the pandemic.

7.2 As a result, the general outlook remains highly uncertain and the savings rates trend remains weighted to the downside, with the UK domestic outlook likely to be weaker in the medium term.

## **8. Conclusion**

8.1 Appendix 1 shows that the bank is offering competitive rates when compared to the other financial institutions, therefore scope currently exists for a reduction in interest rates.

8.2 An interest rate reduction is required to re-establish the equilibrium in the borrowing and investment relationship between the bank and NLC and to reflect the current market interest rates being paid on the investment/borrowing of funds in the financial markets, which are at historically low levels as markets react to the pandemic.

8.3 However to achieve the optimum position, a reduction in the interest rate payable to customers is required from a positive 0.20%, to a negative interest rate of 0.21%, which would mean a charge being imposed on customers to deposit their monies.

8.4 Given the customer base, status and limited services offered by the bank and potential reputational damage, negative interest rates would not be a viable option for the bank and therefore the Council, as parent company, has agreed to provide temporary financial support, which will allow the existing interest rate to be retained.

## **9. Recommendation**

9.1 The Board is asked to note the report and agree to retain the interest rate at current levels, whilst at the same time monitoring movement in customer balances over the coming months, the comparator market/competitor interest rates and any changes required to the current interest rates to restore the equilibrium position and the removal of the financial support currently being provided by the Council on a temporary basis.



**E Kemp**  
Company Secretary

## Comparable Account Types

## Appendix 1

<b>Interest Rate Bandings</b>	<b>North Lanarkshire Municipal Bank Ltd</b>	<b>Lloyds/ Bank of Scotland</b>	<b>Santander UK</b>	<b>RBS</b>	<b>Barclays</b>
<b>£1 - £24,999</b>	<b>0.20%</b>	0.01%	0.01%	0.01%	0.01%
<b>£25,000 - £49,999</b>	<b>0.20%</b>	0.01%	0.01%	0.01%	0.01%
<b>£50,000 - £99,999</b>	<b>0.20%</b>	0.01%	0.01%	0.01%	0.01%
<b>£100,000+</b>	<b>0.20%</b>	0.01%	0.01%	0.01%	0.01%

**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 endeavouring to offer a competitive interest rate to customers.

**Table 1: Current position:** 12 month projection based on average balances held since 1 April – 30 September 2020 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 31/03/2020	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 01.04.20) Average 6 – 12 month term	NLC Interest Rate Saving / (Cost) (£)	Estimated Saving / (Cost) to NLC (£)
21,959,869	0.20%	£43,920	£169,534	£213,454	0.97%	0.56%	-0.41%	(£89,877)
<p><b>Based on the above, over a 12 month period, NLC incurring an additional cost of £89,877 by borrowing from the NLMB compared to external sources. This indicates that the lending /borrowing relationship between NLC and the Municipal Bank is operating sub-optimally and under normal operating conditions there would be a requirement to reduce 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.</b></p>								

**Table 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 a negative interest rate 0.21% (charge customers to deposit their monies) based on current average customer balances since 1 April 2020 and to match Money Market interest rates available to NLC.

NLMB Income & Expenditure					NLC Loan Charge Analysis			
Average Customer Balances since 31/03/2020	Breakeven NLMB Interest Rate to Customers	Total Annual Interest Payable by 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 01.04.20) Average 6 – 12 month term	NLC Interest Rate Saving / (Cost)	Estimated Cost to NLC (£)
£21,959,869	-0.21%	-£45,582	£169,534	£123,000	0.56%	0.56%	0.00%	0



**NORTH LANARKSHIRE MUNICIPAL BANK LTD**  
**MINUTES OF BOARD OF DIRECTORS MEETING**  
**HELD 23 OCTOBER 2020 AT 10.15AM**  
**VIRTUAL MEETING BY WEBINAR SESSION**

1. Present:

Councillors - R Burrows, T Castles, J Hume, S Watson - Directors

In Attendance:

E Kemp, Head of Finance for Business Solutions, J Quinn, Finance Manager, Treasury

2. Apologies:

I McNeil, J Ashraf N Pettigrew - Directors

3. Approval of Minutes of Previous Meeting:

The minutes of the meeting held on 12 March 2020 were tabled with point to note per item 6 (ii) it was agreed due to the pandemic to suspend

- a) planned developments around the long term marketing strategy
- b) considerations regarding the community hub model and the integration of the Municipal Bank

4. Letter of Representation, Report and Financial Statements year ended 31 March 2020

A set of audited accounts were tabled and circulated. It was noted that the draft accounts had previously been circulated. A brief summary of the main items was presented by J Quinn, with points raised regarding a "typo" in terms of interest paid to customers plus changes to data held on website page. Following this the directors unanimously agreed to the signing of the accounts and letter of representation and that they should be presented to all shareholders at the annual general meeting to be held in March 2021.

5. Resolution to re-appoint Auditors

BDO LLP offered themselves for reappointment in accordance with S385 of the Companies Act 1985. The directors unanimously agreed to the reappointment.

6. Interest Rate Review

J Quinn presented a review of the interest rates which considered the interest rates currently being offered to other financial institutions, the inter-lending relationship between the bank and the Council, and the outlook for interest rates.

In summary an interest rate reduction of the interest from 0.20% to a negative rate of -0.21% is required to re-establish the equilibrium in the borrowing and investment relationship between the bank and NLC. This reflects the current market interest rates being paid on the investment/borrowing of funds in the financial markets. It was noted by all directors that the Council, as shown within Appendix 2, is now providing temporary financial support to the bank of almost £90k based on current rates, level of depositor balances, overhead costs and alternative rates available from other markets. To mitigate this there was a general discussion around potentially reducing the rate to 0.10% but in light of the uncertainties around the pandemic it was unanimously agreed to retain current rates at 0.20%. It was highlighted by Councillor Watson that if current temporary financial support by the Council was to continue over a longer period this may adversely impact on the longer term sustainability of the bank. It was also requested that the next interest rate review include additional details regarding the overhead recharge and how service delivery and availability, as a result of the pandemic, may have impacted the amounts chargeable per transactional activity.