

**North Lanarkshire Municipal Bank
Limited**

Report and Financial Statements

Year Ended

31 March 2019

Company Number: SC013128

Directors

Councillor J Hume
Councillor T Castles
Councillor J Ashraf
Councillor I McNeil
Councillor S Watson
Councillor T Fisher
Councillor N Pettigrew

Secretary and registered office

Elaine Kemp, Head of Business for Financial Solutions, Civic Centre,
Windmillhill Street, Motherwell, ML1 1AB

Company number

SC013128

Auditor

BDO LLP, 4 Atlantic Quay, 70 York Street, Glasgow, G2 8JX

Clearing Bank

Royal Bank of Scotland

Branches	Bank Hours	
	Monday to Thursday	Friday
10 Bank Street, Airdrie	9.00 to 16.30	9.00 to 16.00
26 Motherwell Road, Bellshill	9.00 to 16.30	9.00 to 16.00
Buchanan Centre, 126-130 Main Street, Coatbridge	9.00 to 16.30	9.00 to 16.00
2 Tryst Road, Cumbernauld	9.00 to 16.30	9.00 to 16.00
9 Parkfoot Street, Kilsyth	10.15 to 13.45	10.15 to 13.45
Blackwoods Crescent, Moodiesburn	10.15 to 13.45	10.15 to 13.45
Dalziel Building, 7 Scott Street, Motherwell	9.00 to 16.30	9.00 to 16.00
162 Station Road, Shotts	10.15 to 13.45	10.15 to 13.45
135 Burnhead Street, Viewpark	10.15 to 13.45	10.15 to 13.45
Houldsworth Centre, Kenilworth Avenue, Wishaw	9.00 to 16.30	9.00 to 16.00

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Introduction

The directors are pleased to report that the company has had a successful performance during the 2018 / 2019 financial year.

Business review

During the year to 31 March 2019, the Municipal Bank continued to monitor its investment strategy within its existing banking structure and operations, to ensure adequate protection against interest rate risk.

A periodic review of the level of customer balances, comparative interest rates and movements in the Bank of England base rate was undertaken, providing the bank with a firm base to establish its own interest rate policy for interest payable to customers. During the year, there was an interest rate change from 0.30% to 0.55% in November 2018.

The directors intend to continue with the company's existing activities, to continue to promote the current services offered and to achieve natural growth by continuing to offer competitive interest rates.

Principal risks and uncertainties

The principal risks and uncertainties facing the company are:

- Competition from high street banks
- Loss of key financial and administrative staff
- Legislative and Regulatory changes

These principal risks and uncertainties are mitigated by the following review processes.

The company maintains its competitive advantage, meeting the challenge from its high street competitors by offering a competitive interest rate, which is usually a small margin above the interest rates offered by its competitors. To ensure this margin is maintained, interest rates offered by competitors are continually monitored with regular interest rate review reports presented to directors at their meetings, which will also take into account the outlook for interest rates based on the latest economic forecasts. A monthly analysis of depositor balances is also undertaken, which informs whether there are any potential issues with the interest rates being offered, in particular, if balances are falling significantly, providing an early indicator that the interest rate environment may have changed and the company's competitive position altered.

The company currently utilise key financial and administrative staff under an agreement with its controlling local authority, the company benefiting from highly qualified and experienced staff, its IT infrastructure and risk control arrangements. In the event that the current key point of contacts were no longer available, the Council has a significant staff resource of accountants and reconciliation staff that would enable it to provide the same level of support with many of the current tasks procedural in nature.

The company also benefit from accessing the most up to date information affecting the banking sector and the legal and regulatory framework as the management and administrative functions are carried out, primarily by the Councils Treasury Management team. This team receive daily / weekly / monthly updates on all matters which affect the banking, legal and regulatory framework from their Treasury Management advisors and other networking partners, including banking service providers, money market brokers and other local authority and government partners.

Key performance indicators

Balance due to customers has decreased from £41.080m to £28.383m.

The amount of temporary loans repayable on demand is £28.405m (2018: £41.103m).

Interest received from monies advanced to the Council has increased to £0.311m (2018: £0.287m)

Interest paid to customers has increased to £0.141m (2018: £0.122m).

Accounts

Customer accounts repayable on demand

During the year, there was a decrease of £12,695,850 (2018: £2,116,090 decrease) in net deposits taken from customers. The following is a summary of business transacted during the year:

	2019 £	2018 £
Balance due to customers at start of year	41,080,484	43,282,801
Interest accrued at start of year	(110,634)	(196,861)
Interest accrued at end of year	108,824	110,634
	<u>41,078,674</u>	<u>43,196,574</u>
Net decrease in deposits during the year	(12,695,850)	(2,116,090)
Balance due to customers at year end	<u>28,382,824</u>	<u>41,080,484</u>

The opening accrued interest was settled in the period, with the closing balance sheet accrual being outstanding and included within creditors, 'customer accounts repayable on demand' as at 31 March 2019.

Number of accounts

The number of active accounts at 31 March 2019 was 5,706.

The table below indicates the number of accounts since the year ended 31 March 2009:

	Customers
31 March 2009	8,442
31 March 2010	8,307
31 March 2011	8,144
31 March 2012	7,925
31 March 2013	7,702
31 March 2014	7,476
31 March 2015	7,142
31 March 2016	6,821
31 March 2017	6,416
31 March 2018	6,099
31 March 2019	5,706

Key performance indicators (continued)

Accounts (continued)

Interest on deposits

The rates of interest paid to customers during the year were as follows:

From 1 April 2018 until 31 October 2018

£1+	0.30%
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From 1 November 2018

£1+	0.55%
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The current interest rate of 0.55% is paid on sums deposited for a minimum of one calendar month. The minimum deposit is £1 and fourteen days' notice of withdrawal may be required. All customer accounts have interest paid gross.

Future Developments

The directors intend to continue with the company's existing activities and have no plans to enter into new business activities.

By order of the board



J Hume
Director
11 October 2019

The directors present their report together with the audited financial statements for the year ended 31 March 2019.

Results and dividends

The Statement of Comprehensive Income is set out on page 12 and shows the result for the year of £nil (2018: £nil). The directors did not recommend a dividend payment in the year.

Principal activities

The company's principal activities are the accepting of deposits and the investing of those funds (with the exception of working balances) with North Lanarkshire Council.

Directors

The directors of the company during the current year were as follows:

Councillor J Hume
Councillor T Castles
Councillor J Ashraf
Councillor I McNeil
Councillor S Watson
Councillor T Fisher
Councillor P Hogg (resigned 20 December 2018)
Councillor N Pettigrew (appointed 20 December 2018)

Each director is required to hold one Ordinary share of 5p. This Ordinary share must be relinquished on retiral as a director. The remaining shares are held by councillors that make up the North Lanarkshire Council.

Status of the company

The company is a municipal bank as defined by Part 1, Section 3 of the Payment Services Regulation 2009 and as such is exempt from the prohibition comprised in Section 19 of the Financial Services and Markets Act 2000 ("the Act"), by means of Exemption Order (SI 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.

Going concern

The directors have prepared the financial statements on a going concern basis and are aware of the current financial position of the bank. With the intended continued financial support from North Lanarkshire Council, the bank intends to continue with the company's existing activities.

Directors' responsibilities

The directors are responsible for preparing the strategic report, the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the preventions and detection of fraud and other irregularities.

Financial statements are published on the dedicated NLMB Ltd webpages within North Lanarkshire Council's website, www.northlan.gov.uk, in accordance with legislation in the United Kingdom, governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of these webpages is the responsibility of the directors, which also extends to the ongoing integrity of the financial statements contained therein.

Disclosure of information to the auditor


Each of the persons who are directors at the time when the directors' report is approved has confirmed that:

- so far as the directors are aware, there is no relevant audit information of which the company's auditor is unaware; and
- that directors have taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditor is aware of that information

Auditor

BDO LLP has expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

By order of the Board


J Hume, Director
11 October 2019

INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF NORTH LANARKSHIRE MUNICIPAL BANK

Opinion

We have audited the financial statements of North Lanarkshire Municipal Bank ("the Company") for the year ended 31 March 2019 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity, the cash flow statement, and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2019 and of its result for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the strategic report and the report of the directors. Our opinion on the

financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and report of the directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and report of the directors have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report and director's report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion;

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Report of the directors, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's website at:

<https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Mark McCluskey (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Glasgow, UK

17 October 2019

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Statement of comprehensive income for the year ended 31 March 2019

	Note	2019 £	2018 £
Interest receivable:			
North Lanarkshire Council – short term advances	4	310,792	286,588
Interest paid to customers	5	141,258	122,471
Net interest income		169,534	164,117
Administrative expenses:			
Management expenses		2,152	3,210
Audit fee and expenses		9,850	8,729
Printing and stationery		5,822	1,788
Payment to Agencies and Other Bodies		124,600	124,600
Publicity campaign		7,110	5,790
Rental of premises		20,000	20,000
		169,534	164,117
Profit on ordinary activities before taxation		-	-
Taxation on profit on ordinary activities		-	-
Profit for the financial year		-	-
Total comprehensive income for the year		-	-

All amounts relate to continuing activities for the current and prior year.

There were no items of other comprehensive income for the current and prior year.

The notes on pages 16 – 20 form part of these financial statements.

North Lanarkshire Municipal Bank Limited

Balance Sheet as at 31 March 2019

Company number: SC013128

	Note	2019 £	2018 £
<u>Financial Assets measured at amortised cost</u>			
Loans and advances to North Lanarkshire Council repayable on demand	7	28,405,233	41,103,475
Sundry Debtors		2,291	-
		28,407,524	41,103,475
<u>Liabilities</u>			
Customer accounts repayable on demand	8	28,382,823	41,080,484
Accruals and deferred income	9	24,697	22,987
		28,407,520	41,103,471
<u>Equity</u>			
Called up share capital	11	4	4
		28,407,524	41,103,475

The financial statements were approved by the Board and authorised for issue on its behalf on 11 October 2019.



Jim Hume
Director

The notes on pages 16 – 20 form part of these financial statements.

Statement of changes in equity for the year ended 31 March 2019

	Share Capital £	Retained earnings £	Total equity £
As at 1 April 2017 and 1 April 2018	4	-	4
Profit for year	-	-	-
Other comprehensive income for the year	-	-	-
As at 31 March 2018 and 31 March 2019	4	-	4

The notes on pages 16 – 20 form part of these financial statements.

Statement of cash flow for the year ended 31 March 2019

	Note	2019 £	2018 £
Cash flows from operating activities			
Profit for the financial year		-	-
Adjustments for:			
Interest receivable	4	(310,792)	(286,588)
Interest payable	5	141,258	122,471
Sundry debtor		(2,291)	-
Increase in trade and other creditors		1,709	1,515
Decrease in deposits by customers		(12,695,850)	(2,116,090)
Decrease in loans advanced to NLC		12,698,242	2,200,801
Net cash generated from operating activities		(167,724)	(77,891)
Cash flows from investing activities			
Interest paid		(143,068)	(208,698)
Interest received		310,792	286,588
Net cash (used in) / generated from investing activities		167,724	77,890
Net cash generated before financing activities		-	(1)
Cash flows from financing activities			
Allotment of shares		-	1
Net Cash flow from financing activities		-	1
Net increase/(decrease) in cash and cash equivalents		-	-

The notes on pages 16 – 20 form part of these financial statements.

1 Accounting policies

North Lanarkshire Municipal Bank Limited (SC013128) is a private company registered in Scotland under the Companies Act 2006. The address of the registered office is given on page 2 and the nature of the company's principal activities is set out in the directors' report on page 7.

The financial statements have been prepared in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland and with Companies Act 2006.

The preparation of the financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement and estimation in applying the Company's accounting policies. Details of the judgement and estimates are disclosed in note 2 below.

The presentational currency is GBP and nearest £ has been applied to the figures within the financial statements.

The following principal accounting policies have been applied.

Interest receivable

Interest is charged on short term advances provided to North Lanarkshire Council and is recognised by the bank in the period in which the interest is earned.

Interest payable

Interest is paid on customer accounts based on the minimum monthly deposit held by the customer throughout the year. Interest payable is recognised on an accruals basis and applies only to those customer accounts with greater than £1 in their deposit account. Interest rate is set based on Bank of England Base Rate plus an additional nominal rate to allow the bank to remain competitive.

Debtors

Short term debtors are measured at transaction price, less any impairment.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and call deposits and other short term, highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk in change of value.

Creditors

Short term creditors are measured at transaction price.

Financial instruments

The company enters into basic financial transactions that result in the recognition of financial assets and liabilities such as other liabilities and accruals and deferred income.

In respect of financial liabilities represented by customer deposits repayable on demand, interest is paid on customer accounts based on the minimum monthly deposit held by the customers throughout the year. Interest payable is recognised on an accruals basis and applies only to those customer accounts with greater than £1 in their deposit account.

Financial assets, represented by short term advances provided to North Lanarkshire Council are repayable on demand, are measured at amortised cost in accordance with IFRS9 Financial Instruments and are assessed at the end of each reporting period for expected credit losses and objective evidence of impairment. The level of credit risk is assessed to identify the credit losses particularly where risk has increased significantly since initial recognition. Credit loss in relation to a financial instrument represents cash shortfalls measured by the difference between the net present value of all contractual cashflows that are due to the bank in accordance with the contract for the instrument and the net present value of all the cashflows the bank expects to receive discounted at the original effective interest rate. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of Comprehensive Income. Interest is charged on these advances and recognised by the Bank in the period in which the interest is earned.

At 31 March 2019 the bank has assessed the impact of adopting the full accounting treatment for expected credit losses, and on the grounds of materiality and the strength of the counterparty credit rating, has decided not to recognise expected credit losses on financial assets and has not adjusted the carrying amount per the Balance Sheet which represents the gross amortised cost of the financial asset.

For Trade Receivables on the grounds of materiality the bank has not adjusted the carrying amount for sundry debtors in the Balance Sheet.

Going concern

These financial statements have been prepared on a going concern basis. It is the directors' view that the company will be able to continue as a going concern for at least a period of 12 months from the date that these financial statements are approved.

2 Judgements in applying accounting policies and key sources of estimation uncertainty

In preparing these financial statements, the key sources of estimation are based around the setting of interest rates. Interest received from North Lanarkshire Council (from the temporary loans) is generated at such a rate to ensure the profit and loss account reaches a £nil net position. The interest paid to customers aims to offer a stronger return than high street banks, in order to retain customers. The high street interest rate is considered by North Lanarkshire Municipal Bank whose aim is to offer a stronger rate.

3 Staff costs

The Bank's staff are employees of North Lanarkshire Council and their remuneration is incorporated into the staff costs of that Council. North Lanarkshire Council recharged an amount of £124,600 (2018: £124,600) in respect of staff costs.

North Lanarkshire Municipal Bank limited employs no employees (2018: nil).

The directors received no fees or other emoluments in respect of their services during the year (2018: £nil).

4 Interest receivable

	2019 £	2018 £
Short term advance interest	310,792	286,588

5 Interest payable and similar charges

	2019	2018
	£	£
Interest payable on customer deposits	141,258	122,471

Interest payable for 31 March 2019 £108,824 was accrued at the end of the year and interest for 31 March 2018 £110,634 was accrued in the prior year.

6 Auditor's remuneration

	2019	2018
	£	£
Auditor's remuneration – audit services	9,850	8,729
Auditor's remuneration – non-audit services	1,683	1,617

7 Short term advances repayable on demand

	2019	2018
	£	£
Short term advances repayable on demand	28,405,233	41,103,475

Short term advances represent amounts cash advanced to the related party and ultimate controlling party, North Lanarkshire Council, which are repayable on demand.

8 Customer deposits

	2019	2018
	£	£
Customer deposits repayable on demand	28,382,823	41,080,484

At 31 March 2019, the company's principal financial liabilities comprise customer deposits repayable on demand. All customer account balances are guaranteed by North Lanarkshire Council.

11 Called up share capital

	Allotted, called up and fully paid	
	2019 £	2018 £
77 Ordinary shares of 5p	4	4
	4	4

All North Lanarkshire councillors are automatically enrolled as shareholders of North Lanarkshire Municipal Bank Limited. The number of electoral wards in North Lanarkshire is 77, each councillor is allotted a share to the value of £0.05.

12 Related party transactions

During the year two directors held deposits within North Lanarkshire Municipal Bank Limited.

North Lanarkshire Municipal Bank was charged £124,600 (2018: £124,600) in the form of a management charge in relation to staffing and support costs and £20,000 (2018: £20,000) for rental of premises by North Lanarkshire Council. North Lanarkshire Municipal Bank Limited received £310,792 (2018: £286,588) in the form of interest from North Lanarkshire Council due to the temporary loan balance to North Lanarkshire Council. Expenses and repayments of customer deposits of £12,862,042 (2018: £2,154,686) were incurred by North Lanarkshire Council on behalf of North Lanarkshire Municipal Bank Limited, consisting of repayments, interest on customer deposits and admin expense payments. The balance owed by North Lanarkshire Council to North Lanarkshire Municipal Bank Limited at 31 March 2019 amounted to £28,405,233 (2018: £41,103,475) and is included within note 7 to these financial statements.

13 Financial risk management

A periodic review of the level of customer balances, comparative interest rates and movements in the Bank of England base rate was undertaken, providing the bank with a firm base to establish its own interest rate policy for interest payable to customers. The Directors approved an interest rate change from 0.30% to 0.55% from 1 November 2018.

14 Ultimate controlling party

The directors, who are all elected Councillors of North Lanarkshire Council, regard North Lanarkshire Council as the ultimate controlling party.