

**North Lanarkshire Municipal Bank  
Limited**

Report and Financial Statements

Year Ended

31 March 2021

Company Number: SC013128

**Directors**

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

**Secretary and registered office**

Elaine Kemp, Head of 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

<b>Branches</b>	<b>Bank Hours</b>	
	<b>Monday to Thursday</b>	<b>Friday</b>
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 2020 / 2021 financial year.

## **Business review**

During the year to 31 March 2021, 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.

## **Compliance Review of Anti-Money Laundering and Financial Crime**

After the balance sheet date, in May 2021 the Royal Bank of Scotland (RBS) contacted the North Lanarkshire Municipal Bank requesting a review of the customer due diligence, anti-money laundering (AML) and protection against financial crime arrangements. A meeting was held in June 2021 with the RBS compliance team, which was subsequently followed up by the completion of a questionnaire. This provided RBS with additional information around the municipal bank's arrangements in relation to protection against money laundering, counter terrorism financing, sanction screening and due diligence around know your customer.

Whilst the municipal bank has many controls in place, RBS concluded these required to be upgraded including:

- dedicated staff resource to anti-financial crime and anti-money laundering
- greater automation and screening
- improved customer due diligence process
- the need for annual independent audits of controls

After consideration of the financial impact of implementing the proposed upgrade requirements, including significant investment in staffing/IT systems and additional administrative cost burdens, it was decided the costs of the bank were no longer sustainable over the medium to longer term. Therefore at a meeting of the directors on the 20 October 2021 the directors agreed unanimously that steps be taken to progress the cessation of banking services, with the preparation of a detailed wind-up delivery plan and associated timeline of these process to be completed by the 30 September 2022. This decision also encompassing other challenges, risks and uncertainties facing the bank highlighted within the ALEO review exercise undertaken in 2019/20 and which were due for further review during the next 12 months.

## **Going concern**

As described above, the directors have made the decision to cease trading in September 2022. These financial statements have therefore been prepared on a basis other than that of a going concern. No changes were required to the financial statements.

## **Other Principal risks and uncertainties**

Other 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

Other Principal Risk and Uncertainties (continued)

infrastructure and risk control arrangements. In the event that the current key points of contact 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 benefits 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 Council's Treasury Management team. This team receive regular 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.

COVID-19

The company has considered the implications of COVID-19 and the impact on operational capability, market demand and structural finance.

North Lanarkshire Municipal Bank Ltd reduced its opening hours during the first six months of 2020/21 in response to the pandemic, however, as COVID-19 restrictions were lifted, banking operations and customer services were increased to almost business as usual and continued to operate at these levels for the remainder of the financial year. The company has no employees, as staff are employees of North Lanarkshire Council ('NLC') and have been able to continue working under Government health and safety guidance. The Directors are monitoring the operational situation regularly and are adopting a prudent approach.

Marked-based demand for the company's products has been unchanged. There has been no significant change to the level of deposits held by the bank since COVID-19 arrived in the UK and based on current customer activity.

'Brexit'

The company continues to monitor the potential impacts of the UK's exit from the European Union. So far, Brexit has not lead to a material change in demand for the company's products.

### **Key performance indicators**

Balance due to customers has decreased from £21.873m to £21.845m.

The amount of temporary loans repayable on demand is £21.871m (2020: £21.898m).

Interest received from monies advanced to the Council is £0.200m (2020: £0.259m)

Interest paid to customers £0.043m (2020: £0.093m).

**Accounts****Customer accounts repayable on demand**

During the year, there was an increase of £16,168 (2020: £6,483,986 decrease) in net deposits taken from customers. The following is a summary of business transacted during the year:

	<b>2021</b>	<b>2020</b>
	<b>£</b>	<b>£</b>
Balance due to customers at start of year	<b>21,872,539</b>	<b>28,382,824</b>
Interest accrued at start of year	<b>(82,525)</b>	<b>(108,824)</b>
Interest accrued at end of year	<b>38,558</b>	<b>82,525</b>
	<b>21,828,572</b>	<b>28,356,525</b>
Net increase in deposits during the year	16,168	(6,483,986)
<b>Balance due to customers at year end</b>	<b><u>21,844,740</u></b>	<b><u>21,872,539</u></b>

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 2021.

**Number of accounts**

The number of active accounts at 31 March 2021 was 4,998. The table below indicates the number of accounts since the year ended 31 March 2011:

	Customers
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
31 March 2020	5,321
31 March 2021	4,998

**Interest on deposits**

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

From 1 April 2020 until 31 March 2021

£1+	0.20%
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Interest is paid on sums deposited for a minimum of one calendar month. The minimum deposit is £1, where fourteen days' notice of withdrawal may be required. All customer accounts have interest paid gross.

### Future Developments

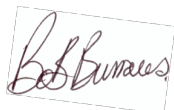
As mentioned above, at a meeting of the Directors on the 20 October 2021 it was agreed unanimously that steps be taken to progress the cessation of banking services. Therefore a detailed wind-up delivery plan will be created to facilitate the process being completed by the 30 September 2022. This plan prepared in conjunction with other appropriate council services, including Strategic Communications giving due consideration to providing support to existing customers during the transition period.

Recognising the reliance customers place on the banking services, the Board will ensure a sensitive approach to supporting customers will be adopted, with support for the most vulnerable customers and those who do not have access to alternative banking facilities. Appropriate proposals for engagement with customers will be developed, including signposting of alternative services and advice available within the local areas.

A dedicated helpline will be available to provide individual and tailored support in the account closing process/transfer of funds. Literature outlining details of similar bank accounts from other providers in the area will be available in each of the branches, sent out by post and promoted on Council digital platforms. This will include digital inclusion support if required.

It is expected over the coming months there will be a material reduction in balances as customer are notified of the closure plans and close their accounts and a suspension of new accounts being opened therefore the banks would anticipate a material change in balances at least 12 months from sign off or the cessation date whichever is the earlier.

By order of the board



**R Burrows**  
**Director**  
**10 February 2022**

The directors present their report together with the audited financial statements for the year ended 31 March 2021.

### **Results and dividends**

The Statement of Comprehensive Income is set out on page 12 and shows the result for the year of £nil (2020: £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 Ashraf  
Councillor R Burrows  
Councillor T Castles  
Councillor J Hume  
Councillor I McNeil  
Councillor N Pettigrew  
Councillor S Watson

Each director is required to hold one Ordinary share of 5p. This Ordinary share must be relinquished on retirement 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**

These financial statements have not been prepared on a going concern basis as it is the directors' view that the company will be unable to continue as a going concern for at least a period of 12 months from the date that these financial statements are approved. This view formed at a Directors meeting on the 20 October 2021 at which the directors agreed unanimously that steps be taken to progress the cessation of banking services, with the preparation of a detailed wind-up delivery plan and associated timeline of these process to be completed by the 30 September 2022. This decision taken following a compliance review of anti-money laundering and prevention of financial crime arrangements which was undertaken by the Royal Bank of Scotland, which highlighted weaknesses in procedures and processes. After consideration of the financial impact of implementing the proposed upgrade requirements, including significant investment in staffing/IT systems and additional administrative cost burdens, it was decided the costs of the bank were no longer sustainable beyond this horizon. This decision also encompassing other challenges, risks and uncertainties facing the bank highlighted within the ALEO review exercise undertaken in 2019/20 and which were due for further review during the next 12 months.

Notwithstanding the above decision, the company in the intervening period will rely upon the support of its parent, North Lanarkshire Council ('NLC'). The company has received a letter of support, that is legally binding, that confirms North Lanarkshire Council will continue to provide financial support which cover the point at which the bank will no longer requires this in line with the proposed cessation date



Going concern (continued)

within the next 12 months. The letter also confirms that NLC will repay amounts owed to the company when required. The directors consider that NLC have the wherewithal to provide this support.

As detailed in the Strategic Report, the Directors have also completed a thorough assessment of the impact of COVID-19 on the company. The Directors have assessed that the impact demonstrate that the company can continue to operate. Therefore, as there is a reasonable expectation that the company has adequate resources to continue in operational existence, the Directors have concluded this, notwithstanding the cessation decision above, does not represent a material uncertainty with regards to going concern.

However based on the decision outlined above, the directors believe that it is not appropriate for the financial statements to be prepared on a going concern basis.

**Financial risk management objectives and policies**

The company uses various financial instruments which include loans, cash, and various items, such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the company's operations. The existence of these financial instruments exposes the company to a number of financial risks, which are described in more detail below.

*Currency risk*

The company is not exposed to currency risk.

*Liquidity risk*

The company seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs. The objective is to ensure a mix of funding methods offering flexibility and cost effectiveness to match the needs of the company. Short-term flexibility is achieved by amounts being due on demand.

*Interest rate risk*

The company finances its operations through borrowings. The company's policy is discussed in more detail in the financial statements.

*Credit risk*

The principal credit risk arises from its loan receivable and the directors have concluded that the counterparty has a worthy credit rating.

**Directors' responsibilities statement**

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.

Directors' responsibilities statement (continued)

- 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. As explained in note 1 of the financial statements, the directors do not believe the going concern basis to be appropriate and, in consequence, these financial statements have not been prepared on that basis.

**Directors' responsibilities statement**

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](http://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**

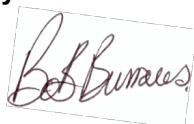
Each of the persons who are directors at the time when the directors' report is approved has confirmed that:

- 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 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**



**R Burrows, Director**  
10 February 2022

## **Opinion on the financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2021 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.

We have audited the financial statements of North Lanarkshire Municipal Bank Limited ("the Company") for the year ended 31 March 2021 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity, the statement of cash flows 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).

## **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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Independence*

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.

## **Emphasis of matter – financial statements prepared on a basis other than going concern**

We draw attention to note 1 - going concern to the financial statements which explains that the directors intend to cease banking activities by 30 September 2022. Accordingly, the financial statements have been prepared on a basis other than that of going concern as described in note 1 - going concern. Our opinion is not modified in this respect of this matter.

## **Other information**

The Directors are responsible for the other information. The other information comprises the information included in the Directors report and financial statements, other than the financial statements and our auditor's report thereon. 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.

### **Other Companies Act 2006 reporting**

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

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

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 or the Directors' 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 Directors' responsibilities statement, 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.

#### *Extent to which the audit was capable of detecting irregularities, including fraud*

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:


- performing analytical review procedures to identify unusual or unexpected relationships that may indicate risks of material misstatement due to fraud. Areas of identified risk were then tested substantively;
- assessing the design and implementation of the control environment to identify areas of material weakness to focus on the design of our audit testing;
- reviewing compliance with key laws and regulations which impact the business;
- assessing whether the accounting policies, treatments and presentation adopted in the financial statements are in accordance with 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 and whether there are instances of potential bias in areas with significant degrees of judgement such as setting interest rates;
- identifying whether there are instances of potential bias in areas with significant degrees of judgement and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business;
- addressing the risk of fraud through management override of controls by testing the appropriateness of a sample of journal entries and other adjustments; assessing whether judgements made in accounting estimates are indicative of a potential bias; and evaluating the business rationale of significant transactions that are unusual or outside the normal course of business;
- vouching balances and reconciling items in key control account reconciliations to supporting documentation as at 31 March 2021;
- obtaining direct confirmation of a sample of deposit balances and interest paid from depositors; and
- carrying out detailed testing, on a sample basis, of transactions and balances, agreeing to appropriate documentary evidence to verify the completeness, existence and accuracy of the reported financial statements.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on 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.

DocuSigned by:  
 16 February 2022  
C17EC688DFBB4C8...  
Mark McCluskey (Senior Statutory Auditor)  
For and on behalf of BDO LLP, statutory auditor  
Glasgow

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 2021

	Note	2021 £	2020 £
<b>Interest receivable:</b>			
North Lanarkshire Council – short term advances	4	200,281	258,525
<b>Interest payable:</b>			
Interest paid to customers	5	(43,004)	(93,378)
<b>Net interest income</b>		<b>157,277</b>	165,147
<b>Administrative expenses:</b>			
Management expenses		180	1,977
Audit fee and expenses	6	9,475	8,264
Printing and stationery		3,022	6,016
Payment to Agencies and Other Bodies		124,600	124,600
Publicity campaign		0	4,290
Rental of premises		20,000	20,000
		<b>157,277</b>	165,147
<b>Profit on ordinary activities before taxation</b>		-	-
Taxation on profit on ordinary activities		-	-
<b>Profit for the financial year</b>		-	-
<b>Total comprehensive income for the year</b>		-	-

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.

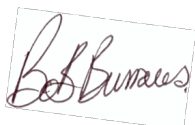
The notes on pages 18 – 23 form part of these financial statements.

Balance Sheet as at 31 March 2021

Company number: SC013128

	Note	2021 £	2020 £
<b><u>Financial Assets measured at amortised cost</u></b>			
Loans and advances to North Lanarkshire Council repayable on demand	7	21,870,785	21,897,833
Sundry debtors		-	-
		<b>21,870,785</b>	<b>21,897,833</b>
<b><u>Liabilities</u></b>			
Customer accounts repayable on demand	8	21,844,741	21,872,539
Accruals and deferred income	9	26,040	25,290
		<b>21,870,781</b>	<b>21,897,829</b>
<b><u>Equity</u></b>			
Called up share capital	11	4	4
		<b>21,870,785</b>	<b>21,897,833</b>

The financial statements were approved by the Board and authorised for issue on its behalf on 10th February 2022



**Robert Burrows**  
Director

The notes on pages 18 – 23 form part of these financial statements.

Statement of changes in equity for the year ended 31 March 2021

	Share Capital £	Retained earnings £	Total equity £
As at 1 April 2019 and 1 April 2020	4	-	4
Result for year	-	-	-
Other comprehensive income for the year	-	-	-
<b>As at 31 March 2020 and 31 March 2021</b>	<b>4</b>	<b>-</b>	<b>4</b>

The notes on pages 18 – 23 form part of these financial statements.



## Statement of cash flow for the year ended 31 March 2021

	Note	2021 £	2020 £
<b>Cash flows from operating activities</b>			
<b>Result for the financial year</b>		-	-
Adjustments for:			
Interest receivable	4	(200,281)	(258,525)
Interest payable	5	43,004	93,378
Sundry debtor		-	2,291
Increase in trade and other creditors		750	594
Increase in deposits by customers		16,168	(6,483,986)
Decrease in loans advanced to NLC		27,048	6,507,400
<b>Net cash generated from operating activities</b>		<b>(113,310)</b>	<b>(138,848)</b>
<b>Cash flows from investing activities</b>			
Interest paid		(86,971)	(119,677)
Interest received		200,281	258,525
<b>Net cash generated from investing activities</b>		<b>113,310</b>	<b>138,848</b>
<b>Net cash generated before financing activities</b>		<b>-</b>	<b>-</b>
<b>Cash flows from financing activities</b>			
Allotment of shares		-	-
<b>Net cash flow from financing activities</b>		<b>-</b>	<b>-</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>-</b>	<b>-</b>

The notes on pages 18 – 23 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 rounding to the 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 charge 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.

**1 Accounting policies (continued)**

Financial assets, represented by short term advances provided to North Lanarkshire Council are repayable on demand, are measured at cost which is considered to be equal to its fair value and are assessed at the end of each reporting period for objective evidence of impairment. 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.

For the financial assets, the impairment loss is measured at the difference between an asset's carrying amount and the present value of estimated cash flows, discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate, which is an approximation of the amount that the company would receive for the asset if it were to be sold at the balance sheet date.

*Going concern*

These financial statements have not been prepared on a going concern basis as it is the directors' view that the company will be unable to continue as a going concern for at least a period of 12 months from the date that these financial statements are approved. This view formed at a Directors meeting on the 20 October 2021 at which the directors agreed unanimously that steps be taken to progress the cessation of banking services, with the preparation of a detailed wind-up delivery plan and associated timeline of these process to be completed by the 30 September 2022. This decision taken following a compliance review of anti-money laundering and prevention of financial crime arrangements which was undertaken by the Royal Bank of Scotland, which highlighted weaknesses in procedures and processes. After consideration of the financial impact of implementing the proposed upgrade requirements, including significant investment in staffing/IT systems and additional administrative cost burdens, it was decided the costs of the bank were no longer sustainable beyond this horizon. This decision also encompassing other challenges, risks and uncertainties facing the bank highlighted within the ALEO review exercise undertaken in 2019/20 and which were due for further review during the next 12 months.

Notwithstanding the above decision, the company in the intervening period will rely upon the support of its parent, North Lanarkshire Council ('NLC'). The company has received a letter of support, that is legally binding, that confirms North Lanarkshire Council will continue to provide financial support which cover the point at which the bank will no longer requires this in line with the proposed cessation date within the next 12 months. The letter also confirms that NLC will repay amounts owed to the company when required. The directors consider that NLC have the wherewithal to provide this support.

As detailed in the Strategic Report, the Directors have also completed a thorough assessment of the impact of COVID-19 on the company. The Directors have assessed that the impact demonstrate that the company can continue operate. Therefore, as there is a reasonable expectation that the company has adequate resources to continue in operational existence, the Directors have concluded this, notwithstanding the cessation decision above, does not represent a material uncertainty with regards to going concern.

However based on the decision outlined above, the directors believe that it is not appropriate for the financial statements to be prepared on a going concern basis.

**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 (2020: £124,600) in respect of staff costs.

North Lanarkshire Municipal Bank Limited employs no employees (2020: nil).

The directors received no fees or other emoluments in respect of their services during the year (2020: £nil).

**4 Interest receivable**

	<b>2021</b> £	2020 £
Short term advance interest	<b>200,281</b>	258,525
	<u>                    </u>	<u>                    </u>

**5 Interest payable and similar charges**

	<b>2021</b> £	2020 £
Interest payable on customer deposits	<b>43,004</b>	93,378
	<u>                    </u>	<u>                    </u>

Interest payable for 31 March 2021 £38,558 was accrued at the end of the year and interest for 31 March 2020 £82,525 was accrued in the prior year.

**6 Auditor's remuneration**

	<b>2021</b> £	2020 £
Auditor's remuneration – audit services	<b>9,475</b>	8,264
Auditor's remuneration – non-audit services	<b>53</b>	1,830
	<u>                    </u>	<u>                    </u>

**7 Short term advances repayable on demand**

	<b>2021</b> £	2020 £
Short term advances repayable on demand	<b>21,870,785</b>	21,897,833

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**

	<b>2021</b> £	2020 £
Customer deposits repayable on demand	<b>21,844,741</b>	21,872,539

At 31 March 2021, the company's principal financial liabilities comprise customer deposits repayable on demand. All customer account balances are guaranteed by North Lanarkshire Council.

**9 Other creditors**

	<b>2021</b> £	2020 £
Accruals and deferred income	<b>26,040</b>	25,290

**10 Financial Instruments**

As at 31 March 2021, the company's principal financial instruments comprise short term advances and the receipt of monies held on deposit from account holders. The main purpose of the bank is to provide finance to North Lanarkshire Council at favourable interest rates.

The main risk arising to the company is interest rate risk. The company holds funds on behalf of its customer account holders which are subject to interest at predetermined interest rates set by the directors. The interest rates applicable on customer account balances held during the year ended 31 March 2021 are as follows:

From 1 April 2020 – 31 March 2021

£1+                      0.20%

Throughout 2020/21, the relationship for investing funds with North Lanarkshire Council remained prudent and met the requirements of the Financial Services and Markets Act 2000 (Exemption) Order 2001.

	<b>2021</b>	<b>2020</b>
	<b>£</b>	<b>£</b>
<b>Financial Assets</b>		
Financial assets measured at amortised cost	<b>21,870,785</b>	21,897,833
<b>Financial Liabilities</b>		
Financial liabilities measured at amortised cost	<b>21,870,785</b>	21,897,829

Financial assets measured at amortised cost comprise short term advances repayable on demand and mortgages repayable after more than one year.

Financial liabilities measured at amortised cost comprise customer accounts repayable on demand, accruals and other creditors. Customer accounts repayable on demand are considered by the directors to have a fair value equivalent to the treatment under amortised cost. Customer accounts are recognised at sterling value at the reporting date and include interest accrued in the period from 1 April to 31 March. All accounts must have at least £1 deposit, otherwise the account is closed automatically by the bank and no interest is accrued. Financial liabilities measured at amortised cost also include accruals and other creditors.

**11 Called up share capital**

	Allotted, called up and fully paid	
	2021 £	2020 £
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 (2020: £124,600) in the form of a management charge in relation to staffing and support costs and £20,000 (2020: £20,000) for rental of premises by North Lanarkshire Council. North Lanarkshire Municipal Bank Limited received £200,281 (2020: £258,525) in the form of interest from North Lanarkshire Council due to the temporary loan balance to North Lanarkshire Council. The balance owed by North Lanarkshire Council to North Lanarkshire Municipal Bank Limited at 31 March 2021 amounted to £21,870,785 (2020: £21,897,833) 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.

**14 Ultimate controlling party**

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

**15 Analysis of net debt**

	At 1 April 2020	Cash flows	At 31 March 2021
Cash at bank and in hand	-	-	-
Debt due within 1 year	21,872,539	(27,798)	21,844,742