

PART 1 - PUBLIC

Decision Maker: Resources Portfolio Holder

Date: For pre-decision scrutiny by Executive and Resources PDS Committee on 12th March 2015

Decision Type: Non-Urgent Executive Non-Key

Title: EXTENSION TO BANKING CONTRACT

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Chief Officer: Director of Finance

Ward: All

1. Reason for report

The Council's current contract with HSBC for the provision of banking services is due to expire on 31st March 2015. This report recommends an extension for two years from 1st April 2015 to 31st March 2017.

RECOMMENDATION(S)

The PDS Committee and the Portfolio Holder are asked to agree that the contract with HSBC for the provision of banking services be extended for two years from 1st April 2015.

Corporate Policy

1. Policy Status: Existing policy. The Council's banking contract provides for the receipt of payments to the Council through a number of sources, including cash, cheque, direct debit, standing order, etc., the clearance of payments by the Council to staff, pensioners and suppliers through a variety of processing methods, including cheque, direct debit and BACS, and other services, including HSBC's electronic banking system (HSBCnet). The service was tendered under EU procedures during 2008/09 and a new contract for banking services was awarded to HSBC for a period of four years from 1st April 2009 with an option to extend the contract for a further two years thereafter. The current contract expires on 31st March 2015.
 2. BBB Priority: Excellent Council.
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Financial

1. Cost of proposal: Estimated cost £89,210 pa
 2. Ongoing costs: Recurring cost. £89,210 pa
 3. Budget head/performance centre: Miscellaneous financial accounting expenses
 4. Total current budget for this head: £89,210 in 2014/15 budget
 5. Source of funding: General Fund
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Staff

1. Number of staff (current and additional): 0.1 fte (current)
 2. If from existing staff resources, number of staff hours: c3.5 hours per week
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Legal

1. Legal Requirement: No statutory requirement or Government guidance.
 2. Call-in: Call-in is applicable
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Customer Impact

1. Estimated number of users/beneficiaries (current and projected): n/a
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Ward Councillor Views

1. Have Ward Councillors been asked for comments? No.
2. Summary of Ward Councillors comments: N/A

3. COMMENTARY

- 3.1 The Council's relationship with HSBC (formerly Midland Bank) for the provision of banking services began in April 1997, originally for five years, with an option for a further two years. This option was taken from 1st April 2002 and further extensions were subsequently agreed by Members from 1st April 2004 (for 2 years), 1st April 2006 (for 2 years) and 1st April 2008 (for 1 year). The service was tendered under EU procedures during 2008/09 and a new contract for banking services was awarded to HSBC for a period of four years from 1st April 2009 with an option to extend the contract for a further two years thereafter. That option was exercised under delegated authority in 2013 and the current contract expires on 31st March 2015.
- 3.2 Major elements of the service include:
- Receipt of payments to the Council through a number of sources, including cash, cheque, direct debit, standing order, etc.
 - Clearance of payments by the Council to staff, pensioners and suppliers through a variety of processing methods, including cheque, direct debit and BACS.
 - Other services, including HSBC's electronic banking system (HSBCnet), which provides on-line access to bank balances and transactions and the facility to make electronic payments direct to recipients' accounts (CHAPS and BACS).
- 3.3 Officers have been considering whether a contract extension for a period of one year, using appropriate officer delegations, would provide sufficient time to factor in the significant change arising from the Council's transformation agenda. This would require a full tendering exercise to be undertaken during 2015/16 for a new contract to be effective from 1st April 2016. Given the scale of change and likely timescales for implementation, however, officers consider it would be more appropriate to seek approval for a longer extension, which requires the approval of the Resources Portfolio Holder. This should allow for a full tendering exercise to be undertaken (in 2016/17), which better reflects the Council's longer term service delivery model. The Council is satisfied with the service provided by HSBC and a new two year contract extension would appear to both provide value for money and best meet the Council's service needs at this time.
- 3.4 While New Public Procurement Regulations came into place on 26th February, contracts placed under the previous 2006 Regulations still fall under its requirements. In this case, the change issues identified in the report arguably allow for the use of the provisions included in the 2006 Regulations for Negotiations without Prior Notice, which provide for direct negotiation where unforeseen circumstances (i.e. the Council's change programme implemented to meet budget reductions required by central government), cannot be carried out separately from those provided under the original contract without major inconvenience to the contracting authority. Where this provision is used, the aggregate value of the additional services should not exceed 50% of the value of the original contract. The value of the original contract (6 years, including the two-year option) was £524,760 and the value of a two-year extension would be £178,420 (34% of the original contract value).
- 3.5 As well as the preference to bring a tender process in line with the Council's change programme, a change of banks would involve considerable disruption to the Council, its contractors and members of the public and would require a major input from staff in Finance and in other departments. Although it was not formally quantified at the time, a significant amount of officer time was spent when the Council last changed banks in 1997 in preparing for and effecting the change and in resolving problems that arose in the early months of the new contract. A survey of other London authorities carried out when we last tendered the banking service (in 2008) suggests that this would probably have cost between £50,000 and £75,000 at that time.

3.6 The local authority banking market is quite restricted – although there are plenty of banks, experience indicates that only two would be likely to submit tenders if we went to the market. In each of the last two tender processes, only HSBC and National Westminster (RBS) have submitted bids and, on both occasions, the two prices quoted have been very similar. In evaluating the tender submissions, the Council would be entitled to take account of costs connected with a change of banks in arriving at the most financially advantageous tender. Given that, it is very unlikely that a tender process would be advantageous in any way.

4. POLICY IMPLICATIONS

4.1 Section 151 of the Local Government Act 1972 states that each Local Authority “shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs”. Bromley’s Section 151 officer is the Director of Finance and secure banking arrangements come under his list of responsibilities.

5. FINANCIAL IMPLICATIONS

5.1 The 2014/15 budget for bank charges is £89,210 and HSBC have confirmed that they are both happy with the proposed extension and that their charges will remain at their current level. Over the two-year period of the proposed extension, bank charges totalling £178,420 would be payable. The proposed annual fee of £89,210 would match the current and future budget figure.

5.2 Contract procedure rule 13.1 allows for the requirement for competitive quotes to be waived subject to the agreement of the Director of Corporate Services and Director of Finance and, where the value exceeds £100k, following approval from the relevant Portfolio Holder.

6. LEGAL IMPLICATIONS

6.1 EC tendering rules apply to the provision of banking services. The Commission will wish to be satisfied that the Council is not disaggregating the service (i.e. splitting it up into smaller components) or letting it for such periods deliberately to avoid the effect of the EC tendering thresholds and process.

6.2 The preference is to bring a tender process in line with the Council’s current change programme and a change of banks would involve considerable disruption to the Council, its contractors and members of the public and would require a major input from staff in Finance and in other departments.

6.3 As the contract value falls below the EC threshold, Members have to consider the effect of the Council’s Financial Regulations and Contract Procedure Rules (see paragraph 5.2).

Non-Applicable Sections:	Personnel Implications
Background Documents: (Access via Contact Officer)	Current contract with HSBC (November 2008)