

PART 1 - PUBLIC

Decision Maker: Resources Portfolio Holder

Date: For pre-decision scrutiny by Executive and Resources PDS Committee on 7th July 2016

Decision Type: Non-Urgent Executive Non-Key

Title: FORMAL CONSULTATION ON OUTLINE SERVICE PROPOSALS AND PROCUREMENT STRATEGY - 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 2017. It is proposed to re-tender the contract for a period of five years, with an option to extend for a further two years. With a potential seven year contract term, the total value of the contract is estimated to be approximately £560k (based on current levels) and, in accordance with the Council's Contract Procedure Rules, the approval of the Resources Portfolio Holder is therefore required to enable the procurement process to commence.

2. RECOMMENDATION(S)

Following consideration by the Executive and Resources PDS Committee, the Resources Portfolio Holder is requested to agree:

2.1 that the contract for the Council's banking services be tendered;

2.2 that the contract length will be for a period of five years with the option to extend for a further two years.

Corporate Policy

1. Policy Status: Existing policy. Section 151 of the Local Government Act 1972 requires that Authorities make arrangements for the proper administration of their financial affairs.
 2. BBB Priority: Excellent Council.
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Financial

1. Cost of proposal: Estimated cost £80k per annum (at current levels)
 2. Ongoing costs: Recurring cost.
 3. Budget head/performance centre: Miscellaneous Financial Accounting Expenses
 4. Total current budget for this head: £92k (2016/17 Budget for Bank Charges)
 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: approx. 3.5 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? N/A.
2. Summary of Ward Councillors comments: N/A - Council Wide

3. COMMENTARY

- 3.1 The Council's contract with HSBC (formerly Midland Bank) for the provision of banking services began in April 1997, having originally been awarded for five years with an option to extend 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).
- 3.2 The service was tendered under EU procedures in 2008/09 and a new contract was awarded to HSBC for an initial period of four years from 1st April 2009 with an option to extend for a further two years. That option was exercised under delegated authority in 2013 taking the contract expiry date to 31st March 2015.
- 3.3 Following consideration by the Executive and Resources PDS Committee on 12th March 2015, the Resources Portfolio Holder agreed that the contract be extended for a further two years and the current contract therefore expires on 31st March 2017.
- 3.4 The main elements of the banking service include:
- Receipt of payments to the Council through a number of sources including cash, cheque, direct debit, standing order and credit/debit cards;
 - Clearance of payments by the Council to staff, pensioners and suppliers through a variety of processing methods including cheque, CHAPS, BACS and direct debit;
 - HSBC's electronic banking system (HSBCNet) which provides on-line access to bank statements, balances and transactions as well as the facility to make electronic payments (CHAPS and BACS).
- 3.5 Over recent years, the nature of transactions has been changing significantly. The use of cash and cheques, which are relatively costly to handle, is declining and being replaced by faster and simpler methods such as internet banking and direct debits. Given this shift, there may be benefits arising from a full tendering exercise involving a review of the Council's banking arrangements and associated costs.
- 3.6 Officers have explored the possibility of using a framework agreement but the only one available appears to be a framework placed jointly by the Eastern Shires Purchasing Organisation (ESPO) and the Yorkshire Purchasing Organisation (YPO). Whilst this framework is available for use nationally by local authorities and other public sector bodies, there are only three banks listed (Lloyds, Barclays and RBS Group). Additionally, the framework is due to expire on 20th May 2017 and, although there appears to be an option for a one year extension, this is a little too close to our contract award date to provide sufficient flexibility to allow for any unforeseen or unexpected events that may arise.
- 3.7 It is proposed to seek tenders for a period of five years from 1st April 2017 to 31st March 2022 with an option to extend for a further two years. As the total contract value is in excess of the EU threshold, the process must comply with EU Public Procurement Rules. This will involve running the tender under a negotiated process including advertising the contract in the Official Journal of the European Union (OJEU) and on Contract Finder, both of which are mandatory and will also obtain the widest possible coverage. Further details about the recommended procurement strategy are shown in section 9 below.

- 3.8 The cost of banking services should not be the only factor and consideration of the potential resource implications, and associated costs, of any transfer from one bank to another would also be required. This will need to be carefully reflected in the detailed tender specification.
- 3.9 A change of banks can involve considerable disruption to the Council's financial arrangements and also impact on our suppliers and members of the public. Although it has never been formally quantified, a significant amount of officer time was required when the Council last changed banks in 1997 in preparing for and implementing the transfer and dealing with problems that arose in the early months of the new contract. Regardless of this, banking related costs can be high and there may well be benefits arising from a full tendering exercise.
- 3.10 The Council is entitled to take account of costs connected with a change of banks in determining the most financially advantageous tender. These may include:
- development work to change print programme for cheque production;
 - printing of other stationery (eg. invoices, dunning letters, paying in books, council tax and NNDR bills);
 - changing banking arrangements for Liberata, remaining schools and imprest accounts;
 - changing set up details in financial systems;
 - re-writing of IT/financial system interfaces;
 - training for new electronic banking system;
 - temporary resource(s) to manage the transition (including run down of existing bank account, dealing with initial queries in first few months of new contract, updating bank signatories, communications with all account users regarding new bank details).
- 3.11 It will be important to ensure that the tender process enables flexibility within the contract to take account of the Council's commissioning agenda and potential further outsourcing of services. Whilst this may result in significant changes to the profile and volume of activity, prices per transaction will be fixed and the overall price will vary depending on the volume/value of transactions. Officers will need to ensure that this is fully reflected in the service specification.

4. SERVICE PROFILE / DATA ANALYSIS

- 4.1 A summary of activity levels for the period January to December 2014 is attached at appendix 2. HSBC will be required to provide updated volume and activity data for inclusion in the tender documentation.

5. CUSTOMER PROFILE

- 5.1 The Council makes payments to a wide range of customers including employees (payroll and pensions), housing benefit claimants, foster carers, direct payments, HMRC (tax and VAT), and external providers.
- 5.2 Income received includes council tax payers, businesses rates, government grants and general customer/client receipts.

6. MARKET CONSIDERATIONS

- 6.1 When the banking contract was last tendered in 2008 four expressions of interest were received but only two tenders were received by the submission deadline, both of which included proposed terms and conditions that did not comply with the Council's specification. The contract was awarded following negotiation and agreement on the final terms and conditions to be put in place.

6.2 Although the contract has not been tendered for some time, the local authority banking market has historically been quite restricted and experience would indicate that only two banks would be likely to submit a tender. In each of the last two tender exercises only HSBC and National Westminster (RBS) submitted bids and, on both occasions, the two prices quoted were similar.

7. STAKEHOLDER CONSULTATION

7.1 This is a corporate Council contract that does not materially affect the way services are provided to our stakeholders. No formal consultation is required in advance of a tendering exercise.

7.2 Should a change of banks be required, users of the Council's banking facilities will need to be fully engaged in the transfer (Liberata, Schools, Election Accounts, Mayor's Charity Account).

7.3 A full communication strategy would also be required as part of the project plan to ensure that relevant parties (eg. customers who pay the Council) are informed of any change to banking details.

8. SUSTAINABILITY / IMPACT ASSESSMENTS

8.1 This proposal has been judged to have no or a very small impact on local people and communities.

9. OUTLINE PROCUREMENT STRATEGY & CONTRACTING PROPOSALS

- **Estimated Contract Value**

9.1 £80k per annum (based on current levels);
£400k total contract value over five year period / £560k over seven year period.

- **Other Associated Costs**

9.2 The tendering will be done within existing resources at no additional cost.

9.3 As set out in para. 3.10, should the outcome of the tendering exercise result in a change of banks, there will be cost and resource implications associated with the transfer. Although difficult to quantify, a survey of other London boroughs carried out in 2008 suggests this could be in the region of £50k to £75k (this would be absorbed over the life of the contract).

- **Proposed Contract Period**

9.4 Five years with an option to extend for a further two years.

- **Procurement Project Plan**

9.5 The invitation to tender will require tenderers to complete a pricing schedule based on actual transaction volumes over the last year and to answer a range of questions on services provision (quality, ability / willingness to comply with Council requirements, experience, etc.).

9.6 The tenders will be evaluated on the basis of 60% pricing and 40% quality of service and will be carried out using the Council's standard CIPFA evaluation model.

9.7 Marks awarded for quality of service have yet to be finalised but are likely to include areas such as:

- provision of banking services required (as specified);
- number of bank accounts required to be maintained;
- paying in facilities;
- reconciliation services;
- BACS facilities;
- credit facilities;
- electronic banking services/systems;
- technical requirements;
- relationship management;
- contingency and support arrangements;
- managing the transfer.

9.8 It is expected that the new contract will be awarded by the end of January to allow for a 2 month lead in period in the event that the contract is awarded to a new provider. A summary draft timetable is attached at appendix 1.

10. POLICY CONSIDERATIONS

10.1 Section 151 of the Local Government Act 1972 states that “every 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”. The Director of Finance is the Council’s Section 151 Officer.

11. COMMISSIONING & PROCUREMENT CONSIDERATIONS

11.1 Due to the way this sector works and the previous unwillingness to engage on standard terms and conditions at the last tender, it is proposed to use a competitive procedure with negotiation with the commentary and mark up of the Council’s contract forming part of the evaluation process.

12. FINANCIAL CONSIDERATIONS

12.1 The 2016/17 budget for bank charges is £92k.

12.2 The total annual cost is variable as it is dependent on activity levels and, since 2008, has ranged from £72k to £90k. The average yearly cost over the same period is £83k. It is not possible, at this stage, to assess whether a new contract would realise any significant savings.

12.3 Based on current levels the annual cost would be approximately £80k giving a total contract value over a five year period of £400k. Should the optional extension be agreed, the total contract cost would be £560k over a seven year period.

12.4 For contracts with a total value of between £500k and £1m, the approval of the relevant Portfolio Holder is required to enable the procurement process to commence.

12.5 Financial implications may include the potential cost of transferring to a new provider should HSBC be unsuccessful or not wish to re-tender for the service. In evaluating tender submissions, the Council is entitled to take account of costs connected with a change of banks in determining the most financially advantageous tender.

13. PERSONNEL CONSIDERATIONS

- 13.1 There are no personnel implications to consider with regard to the tendering of this service.
- 13.2 Should the outcome of the tendering exercise result in a change of banks, there will be significant resource implications to be considered in facilitating the transfer.

14. LEGAL CONSIDERATIONS

- 14.1 This report seeks the approval of the Resources Portfolio Holder to procure a contract for the provision of Banking Services for a period of 5 years with an option to extend for a period or periods of up to 2 years and an estimated total value of £560k.
- 14.2 Rule 5 of the Contract Procedure Rules provides that for a contract with a total value of £500k or more, the relevant Portfolio Holder will be formally consulted on the intended action and contracting arrangements.
- 14.3 The Public Contracts Regulations 2015 apply to this contract and the Council will need to comply with these Regulations. Procuring the contract using a competitive procedure with negotiation is a compliant procedure. Regulation 65 requires that at least 3 candidates must be invited to tender.
- 14.4 The report author will need to consult with the Legal Department regarding the contract terms and conditions.

Non-Applicable Sections:	None
Background Documents: (Access via Contact Officer)	Extension to Banking Contract (Executive and Resources PDS Committee 12 th March 2015)

Completion of Authorisation Process and Contract Documentation Draft Timetable		
		note (1)
Issue of OJEU Contract Notice	1 st Aug 2016	1 st Aug 2016
Receipt of Expressions of Interest	6 th Sep 2016	6 th Sep 2016
<i>Pre-qualification Process</i>		
Issue ITT to Shortlisted Organisations	21 st Sep 2016	21 st Sep 2016
Receipt of Tenders	24 th Oct 2016	24 th Oct 2016
<i>Evaluation and Review Processes</i>		
Identification of Final Bidder	7 th Nov 2016	21 st Nov 2016
Final Tender Price Established	23 rd Nov 2016	7 th Dec 2016
Executive & Resources PDS Committee (for pre-decision scrutiny of Resources Portfolio Holder Decision)	4 th Jan 2017	4 th Jan 2017
<i>Standstill / Call-in Period</i>		
Contract Award	25 th Jan 2017	25 th Jan 2017

- 1) should a re-iterative process be required as part of the evaluation and review process, a further 14 days will be required.