

Report to Council

Subject: Waiver of Contract Standing Orders – Banking Service Contract

Date: 16 September 2015

Author: Corporate Director (Chief Financial Officer)

1. Purpose of the Report

To request a waiver of standing orders to enable the Council to enter into a new banking contract with HSBC.

2. Background

- 2.1 The current banking contract ends on 31 March 2016. The Council has been with its provider, HSBC, for nearly sixteen years and has enjoyed a successful relationship over this period.
- 2.2 The Council's contract standing orders require tenders to be invited where the estimated value or amount of a proposed contract exceeds £50,000, but exemption may be made by direction of the Council where it is satisfied that there are special circumstances. Such a waiver cannot be given where the contract value exceeds the EU threshold, unless an exemption is available under the EU procurement regulations.
- 2.3 The purpose of the Council's contract standing orders is to:
 - Achieve value for money
 - Be consistent with the highest standards of integrity
 - Ensure fairness in the allocation of contracts
 - Ensure compliance with legal requirements
 - Prevent fraud and corruption
 - Protect the interests of the Council and its employees
- 2.4 The estimated value of the banking contract is £21,000 per annum, making the total value of the current three-year proposal £63,000. Tenders should therefore be invited in accordance with standing orders 4,5,6,7,8 or 9.

3. Proposal

- 3.1 It is proposed that Council approves the waiver of contract standing orders to enable the agreement of a new banking contract with HSBC, commencing on 1 April 2016 for a period of three years, with an option to extend this for a maximum of five years.
- 3.2 Soft market testing provides evidence that transaction prices quoted by HSBC are competitive in the current market, and that they achieve value for money. Further detail is included in Appendix 1.
- 3.3 Extensive use is made of HSBC's electronic banking platform and accordingly the Financial Services team has developed a level of knowledge and skill that facilitates rapid resolution of most minor problems, and reconciliations being carried out promptly. A move to a new provider would require time to rebuild this knowledge, with the potential to impact adversely upon performance. Successful performance in respect of banking matters is also critically dependent upon a good quality working relationship with the banking provider and HSBC has been particularly effective in this respect over a long period. Performance with regard to reconciliations has improved substantially when compared to that under the previous provider, and this has particularly benefitted the closure of Council Tax and NNDR accounts.
- 3.4 The costs associated with a change of bank include external costs such as consultancy to amend interfaces to the Financial Management System, mailshots to all standing order payers, and migration charges for BACS service user numbers. Internal costs include input from the IT team for revisions to income system interfaces, and significant resources from Financial Services. The cost of change is estimated to be around £6,000.
- 3.5 A major upgrade of Agresso, the Council's Financial Management System, is already scheduled for the autumn of 2015 and is unavoidable due to support being withdrawn for the existing product. The migration of the Council's banking contract to an alternative supplier at the same time as the Agresso upgrade would multiply the risks of change in terms of both cost and capacity.
- 3.6 Treasury management decisions depend upon timely and reliable information flows, predominantly from the banking information. During a bank transition it is likely that reliability may temporarily reduce and regular information may not be available. In these circumstances additional caution may have to be exercised with regard to the Council's investments, potentially reducing the level of interest received. Such financial risk, especially when combined with the overall risks of undertaking two major upgrades concurrently, may require a review of reserves and balances. If it is felt necessary to hold additional reserves the amount available for investment in services may be less.
- 3.7 The original tender evaluation demonstrated that the service offered by

each of the banks is broadly similar and evidence obtained from soft market testing suggests that this is still the case.

- 3.8 In summary, when taken with the factors outlined above, soft market testing indicates that changing the provider of banking services would not offer improved value for the taxpayer. Furthermore, previous experience starkly demonstrates that whilst cost is indeed a key driver, a constructive banking relationship that allows timely reconciliations to take place is also essential.

4. Resource implications

The indicative annual cost of the proposed contract with HSBC can be accommodated within the existing base budget for banking services.

5. Appendices

Appendix 1 – Contract pricing information

6. Recommendation

It is recommended that Council agrees to waive contract standing orders to enable the agreement of a new banking contract with HSBC for a period of three years commencing 1 April 2016, with an option to extend this for a maximum of five years.