

Key Decision Required:	Yes	In the Forward Plan:	Yes
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CORPORATE FINANCE AND GOVERNANCE PORTFOLIO HOLDER

26 FEBRUARY 2020

REPORT OF THE HEAD OF FINANCE, REVENUES AND BENEFITS

A.1 EXEMPTION FROM PROCUREMENT RULES / AWARD OF NEW BANKING CONTRACT

(Report prepared by Richard Barrett / Wendy Borgartz)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To seek an exemption from procurement rules and to agree to the appointment of the Council's existing bankers for a further 5 year term.

EXECUTIVE SUMMARY

- The Council's current bankers are Lloyds who were appointed in November 2014 for an initial period of 3 years with an option to extend for a further 2 years.
- This extension option was exercised in 2017 with the contract therefore remaining in place until November 2019.
- Since November 2019, the contract has been 'held' over whilst negotiations with Lloyds were concluded and a decision taken as to the award of a new banking contract with them or not.
- Through negotiation, Lloyds have provided a final pricing / fee schedule set against the various banking transactions the Council is likely to need access to. The pricing schedule is based a contract period of 5 years.
- Based on existing transaction volumes the revised pricing schedule generates a total annual cost of £27,100, which is £10,100 more than the existing contract.
- However, Lloyds are offering an initial 6 month free banking period which would mean that the estimated overall cost over the 5 year period would be £121,950. (equivalent to an £7,000 increase per annum over existing prices)
- Based on the good service the Council is currently receiving, the potential disruption moving to a new banking provider is likely to incur and that there are no procurement frameworks available at the present time, it is proposed to continue with the Lloyds for a further period of 5 years.
- Given the overall cost of the proposed 5 year contract, an exemption from procurement rules is required.

RECOMMENDATION(S)

That the Portfolio Holder for Corporate Finance and Governance agrees:

- a) to an exemption from procurement rules to enable the Council to directly appoint bankers following the expiry of the previous 5 year contract; and
- b) subject to a) above, to the appointment of Lloyds Bank to undertake the banking services for the Council for a period of 5 years.

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

The appointment of bankers forms an integral part of the Council's wider treasury management / cash flow management activities.

FINANCE, OTHER RESOURCES AND RISK

Finance and other resources

As set out elsewhere in the report, the total estimated annual contract cost is £24,390. (a £7,000 increase over the existing contract based on the same level of activity / transaction volumes)

The total current annual base budget is £20,240, therefore the total estimated cost of the new contract would exceed this amount by just over £4,000. This cost will be met in the short term (2019/20 and 2020/21) from existing budgets within the Finance, Revenues and Benefits Service. In terms of the longer term position, this will be considered as part of the wider long term forecast and will need to reflect the volume of banking transactions in the future which may differ to those experienced now due to the on-going digital transformation programme.

Risk

There is only a limited financial risk with extending the contract for a further 5 year period, as the Council can terminate the contract at any time with a one month notice period.

If the Council did decide to exercise the right to terminate the contract before the expiry of the proposed 5 year term, then the risks could potentially be greater and would be associated with the Council's reputation given the complex stages involved in moving over to a new supplier and potential disruption to customers and service users. However it is accepted that such a process can be successfully managed but would have to take into account the capacity of the service at various times of the year as it may be challenging to undertake a move to a new banking provider at times such as the end of year processes, budget setting or if supporting major corporate projects.

LEGAL

How the Council works with and interacts with the appointed bank are set out in Treasury Management Practices.

Procurement rules (part 5.72) require contracts above a total value of £50,000 to be subject to a tender process. However exemptions from these procurement rules (para 2.2 part 5.67) are available via the agreement of the Corporate Finance and Governance Portfolio Holder (a formal decision is required for procurement activity totalling between £50,000 and £250,000)

OTHER IMPLICATIONS

Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.

Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected / Consultation/Public Engagement.

There are no direct implications.

PART 3 – SUPPORTING INFORMATION

BACKGROUND

On 1 November 2014 the Council entered into a contract with Lloyds Bank to provide banking services, using an ESPO Framework. This was because the Cooperative Bank (the Council's bankers at that time) had given notice they were withdrawing from providing banking services to local authorities.

At the time, Lloyds were keen to win local authority customers and they were the only bank that actually bid for the contract. In the last full year the Council banked with Coop, which was 2013/14, bank charges totalled £31,517.11. When the decision was taken to award the contract to Lloyds for three years with an option to extend for two years, it was anticipated the likely cost for three years would be £57,100 (£19k per annum). This was felt to be an advantageous deal for the Council and the option was taken in 2017 to extend for the two years. This extension period has now expired with the existing contract 'holding' over until a longer term decision is made as set out in this report.

PROPOSALS

Given the success of the current contract with Lloyds, they were approached to explore the terms that they would be willing to offer for a longer term contract. Lloyds have provided revised pricing they are willing to offer us over a five year deal. It is not surprising that this represents an increase over current charges given the background set out above.

The new prices have been challenged by officers and Lloyds have provided a more favourable pricing schedule with the overall costs set out below. (Total annual price is based on current volumes of transactions across the range of banking activities undertaken by the Council)

Total Current Annual Costs based on EXISTING PRICES	£16,921.40
Total Estimated Annual Costs based on REVISED PRICING	£27,066.48
<i>Increase in annual charge for the same activity</i>	£10,145.08

Although this represents an increase in costs, the expected total expenditure will still be less than the charges the Council was paying Coop in 2013/14 (last year of that contract) so it still represents value for money.

Lloyds are offering these prices fixed for 5 years and with free banking for an initial period of 6 months. This period of free banking would reduce the initial cost highlighted above. Based on these levels, the charge for 4.5 years (with 0.5 years free) at £27,100 per annum would come to £121,950 (approx. £24,390 per annum). This is below the current OJEU limit of £181,302 and is just over £7,000 per annum more than under existing prices). It is also worth highlighting that the prices for high volume transactions have only seen limited increases in unit prices, which further reduces the risk going forward. Some unit prices have actually reduced such as those associated with more modern / digital methods of banking, e.g. internet banking transactions, which is the direction of travel the Council is currently moving in via the digital transformation programme.

Changing banks is a very disruptive process involving a significant amount of officer time, therefore a balance needs to be struck between price and looking to move to a potentially new supplier. It is also worth highlighting that if the Council undertook a tender exercise, there is no guarantee Lloyds would replicate these revised prices. There are no frameworks available at present for banking services and the ESPO one used in 2014 has now expired and has not been replaced.

Based on the above, on balance it is recommended that an exemption from procurement rules is agreed and the Council accepts the final revised pricing provided by Lloyds and agrees to remain with Lloyds for the next 5 years (to 31 October 2024) at a total estimated cost for the period of approx. £121,950.

In addition to the above, the Council is not aware of any significant issues within the banking market that would significantly impact on the decision proposed.

It is also important to highlight that the Council can terminate the contract at any time with a one month notice period. This provides a useful backstop should the volumes of transactions change over the life of the contract that based on the proposed pricing schedule, increases costs to a level that is difficult to continue with. Such a situation would also have to take into account the potential pricing structures of alternative bankers as the whole market may have moved giving the Council limited choice in the future, but ultimately this could be 'tested' via a tender exercise.

BACKGROUND PAPERS FOR THE DECISION

Revised pricing schedule provided by the Council's current bankers
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APPENDICES

None
