

Subject: Procurement of Corporate Banking Services
Date of Meeting: 13 February 2014
Report of: Executive Director of Finance & Resources
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Wards Affected: All

FOR GENERAL RELEASE

1. PURPOSE OF REPORT AND POLICY CONTEXT:

- 1.1. The report seeks approval to procure the contract for the provision of corporate banking services for Brighton & Hove City Council following the recently announced withdrawal of the current provider from the local authority sector.
- 1.2. The Council's Financial Inclusion Strategy was adopted at Policy and Resources Committee in April 2013. The procurement of a new corporate banking service offers opportunities to further enhance the aims of the strategy by procuring a banking provider that engages with the Council's new Basic Banking Forum and Charter and works in partnership to promote financial inclusion for vulnerable residents.

2. RECOMMENDATIONS:

That the Policy & Resources Committee:

- 2.1. Authorises the procurement of the corporate banking services contract, following the timeline and evaluation criteria set out in the report with a contract term of 5 years from 1 April 2015 to 31 March 2020 with an option to extend for a further 2 year period to 2022.
- 2.2. Grants delegated authority to the Executive Director Finance & Resources to:
 - 2.2.1. award the contract for 5 years following the recommendations of the evaluation panel and the results of the tendering process; and
 - 2.2.2. extend the contract for 2 years subject to satisfactory performance of the provider in respect of the initial 5 year period.

3. CONTEXT/BACKGROUND INFORMATION:

- 3.1. Since 1997 Brighton & Hove City Council has contracted with the Co-operative Bank to provide an effective, efficient and innovative banking service ensuring the safe and secure custody, collection, payment and movement of Council funds.
- 3.2. The current contract with the Co-operative Bank is due to expire in March 2015 having been awarded through competitive tender in 2010 for a period of three years

with the subsequent take-up of an optional two year extension. The value of the current contract is approximately £231,000 per annum.

- 3.3. The Co-operative Bank informed the Council that, following a review of their core business, a decision had been made to cease providing services to the local authority sector and that it would not seek to renew, extend or retender existing contracts. The Bank has further advised that, should the Council seek to terminate the existing contract early, it would fully support the Council in any retendering process and would not invoke early termination clauses within the existing contract.
- 3.4. There are currently 80 local authorities using the Co-operative Bank with contracts due to expire either on or before April 2015. These authorities will be equally affected by this decision and therefore it would be beneficial to the Council to start the retendering process earlier than anticipated to secure wider interest across the bank network, secure competitive tariffs and allow for an appropriate implementation period.
- 3.5. Currently, 7 local authorities within the South Coast region will also be affected by the Co-operative Bank's announcement. These authorities have been invited to join the Council's procurement process to share resources, processes, documents and best practice.
- 3.6. The current contract commenced on 1 April 2010 and will expire on 31 March 2015. Following the announcement by the Co-operative Bank that it was withdrawing banking services from the local authority market, the Council has been exploring the best path to ensure a smooth transition to a new provider along with ensuring that a cost effective, efficient, innovative and inclusive service that meets the Council's business, customer and service needs is in place by April 2015.
- 3.7. Although the Council has no choice but to re-procure its banking services, there are options regarding the approach and timing of the retender process. Three options were considered, as discussed in section 4, with option 3 (for the Council to undertake an early retender process) being the preferred retender route.
- 3.8. In accordance with option 3, the proposed timeframe for appointing a new provider from April 2015 is set out in the below table:

Activity	Date
Identification of most appropriate procurement route	Completed January 2014
Issue of tender documents	21 February 2014
Tenders returned	16 April 2014
Technical & Financial Evaluation	22 April 2014 – 25 April 2014
Presentations	28 April 2014 – 1 May 2014
Clarification Period	05 May 2014 – 16 May 2014
Contract Award	1 September 2014
Contract Commencement	1 April 2015

- 3.9. The timeframe is of necessity extremely tight given the number of authorities affected by the Co-operative Bank's announcement and to ensure maximum implementation time to effectively manage the complex transfer of the wide range of business requirements and banking processes required by a unitary authority.

- 3.10. Returned tenders will be evaluated on a number of key service requirements aimed at meeting the Council's current and future business and community needs; these will be weighted based on price and quality. Quality of banking services, including proven technical and service experience in the local authority sector, is important to ensure compliant, secure, efficient and effective services. It is proposed that the weighted element for quality will be 50% and will be split (i.e. sub-weighted) across technical ability, previous experience, flexibility and ethical/environmental polices.
- 3.11. Price will be evaluated against volumes and values in 2012/13, and tenderers will be asked to submit additional prices for an increase/decrease in volumes by 10%. The proposed weighted element for price will be 50%. The price weighting for the banking services procurement is lower than might be expected due to the weighting applied to the quality and flexibility of services provided which, if not of a high standard, can have major financial, security, customer service and regulatory implications for the council. In addition, the quality criteria recognises the importance of support for the council's environmental and ethical objectives. However, it should be noted that ethical standards in this contract are not related to and do not have any bearing on treasury management and investment decisions under the Council's Annual Investment Strategy.
- 3.12. The proposed weighting for the award of the contract is as follows:

Criteria		Weighting
Price		50%
Quality (sub-criteria):		
Technical Ability	25.0%	
Previous Experience	7.5%	
Flexibility	7.5%	
Environmental	5.0%	
Ethical	5.0%	
Total Quality Criteria		50%

- 3.13. The recommended process and timeframes comply with OJEU tender guidelines. Service requirements are included in Appendix 1.
- 3.14. It is intended that a subsequent report will be submitted to this committee in July 2014 with an update on the outcome of the procurement exercise and recommendations relating to the award of the contract to a new provider of banking services with effect from 1 April 2015.
- 3.15. The Council's Financial Inclusion Strategy includes a range of actions to support access to basic banking for all residents in the city. In order to take this forward a new Basic Banking Forum has been established which brings together representatives from the city's High Street Banks. The Forum has agreed to joint signature of a Basic Banking Charter which, as a voluntary agreement, provides a

framework of access to banking for all Brighton & Hove residents. The Charter is due for launch at the end of Spring 2014 and therefore will be available in time for the completion of the procurement process. We would seek to encourage our new banking provider to be an active and leading member of this work.

Potential Collaboration with other local authorities

- 3.16. Given the number of neighbouring authorities also affected by the Co-operative Bank's withdrawal, there may be potential benefits in a more collaborative procurement process for the new banking service. Initial meetings held by officers from the Council and neighbouring authorities suggest more favourable tariffs could be achieved through such collaboration along with the opportunity to share current and new practices and initiatives during the contract implementation period.
- 3.17. The timeframe for appointing a new banking provider has been discussed and shared with other local authorities, including East Sussex district and borough councils along with Mid Sussex, Adur and Worthing Councils. Further discussions are due to be held in February 2014.
- 3.18. The local authorities have been advised that the Council would take a lead role in the procurement process, have been provided with the Council's draft service requirements, and have been asked to identify any additional requirements to be included.
- 3.19. If a more collaborative approach is adopted, each authority joining the procurement process would have one representative to undertake the evaluation process. The Council would have three representatives ensuring that the successful provider fully meets the Council's service and business requirements. Authorities within any joint collaboration would be asked to 'sign up' to the Council's Invitation to Tender (with their own specific requirements included), evaluation process, and overall timetable.
- 3.20. Historically, bank contracts are priced on transaction volumes. Therefore if a more collaborative procurement were adopted, it would increase volumes and potentially reduce prices. This pricing structure will also mean that the inclusion of additional requirements for collaborating authorities would not be detrimental to the Council's overall contract provision or price.

4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTION(S):

- 4.1. The Council requires the services of a banking provider in order to carry out its financial affairs. The decision of the Co-operative Bank to withdraw its services from the local authority market leaves the Council with no alternative option but to re-procure its banking services.
- 4.2. In relation to the options for the procurement process, consideration has been given to the following options:
 1. Terminating the current contract with the Co-Operative Bank 6 months early and commencing a new contract with a new provider in September 2014. However, the timeframe required to achieve this would result in a very short implementation period which carries significant risks to the Council given the complexity of business needs for a unitary authority.
 2. Joining another authority that had already started the tender process to seek an alternative provider. This was discounted as the Committee's approval would have been required before key documentation was prepared or agreed,

therefore placing the Council at risk of committing to a contract that did not fully meet the Council's needs and was not endorsed by members.

3. Undertaking an early procurement process, ensuring that the market can be fully explored and that maximum implementation time is provided to ensure a safe and successful transition to the new provider. This includes exploring with neighbouring authorities the potential for a more collaborative procurement process led by this Council.

It is considered that option 3 will provide the Council with the most suitable contract and provider and allow for the most appropriate implementation time periods for both the Council and any other local authorities that wish to take advantage of a more collaborative procurement process.

5. COMMUNITY ENGAGEMENT & CONSULTATION

- 5.1. Key service users have been consulted across the Council in drawing up the service specification.
- 5.2. Other authorities in the region (as mentioned above) have also been consulted in relation to potential collaborative procurement.

6. CONCLUSION

- 6.1. Following withdrawal of the Co-operative Bank from the local authority sector, the early retender of the banking services contract is recommended to enable effective implementation and transfer. The process should be led by the Council to ensure best fit to our requirements but other authorities will be invited to join a collaborative procurement process, which would have potential benefits to all parties to the contract. The recommendations are therefore made to minimise the significant impact of changing banking providers and to secure the most cost efficient tariffs and services within the new contract.

7. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

- 7.1. The value of the current contract is £231,000 per annum. Given the long standing relationship the Council has experienced with the Co-operative Bank, it is possible that a new contract could attract higher transaction rates and therefore an increased contract price. However, it is anticipated that the approach to retendering recommended in this report will keep any increase to a minimum by undertaking an effective, well planned tender process with the further potential to include increased transactional volumes if a more collaborative procurement process is followed.

Finance Officer Consulted: James Hengeveld Date: 13/01/2014

Legal Implications:

- 7.2. The Policy & Resources Committee is the appropriate decision-making body in respect of the recommendations at paragraph 2 above, given that the value of the corporate banking services contract is likely to have corporate financial implications.
- 7.3. Further, the Council's Contract Standing Orders require that authority to enter into a contract valued at £500,000 or more be obtained from the relevant committee,

which in this instance is the Policy & Resources Committee due to the subject matter of the contract.

- 7.4. The value of the proposed contract means that the UK Public Contracts Regulations will apply in full to the procurement of the new contract. Relevant details will need to be advertised in OJEU. Tenders will be scored on the criteria of quality and price as part of the evaluation process.
- 7.5. If the intention is to seek a more collaborative procurement process with at least one other local authority, the most appropriate procurement model should be chosen which achieves the desired outcomes. To underpin the collaborative approach, the implementation of a cost/benefit analysis is recommended so that the Council is clear that the benefits of such an approach outweigh any disadvantages and any risks are minimised.
- 7.6. If the Council leads the procurement on behalf of other participating local authorities, a transactional banking processing and reporting model should be implemented that is common to each council but it should also recognise that some minor variations may be required to suit certain individual local authority requirements. If a framework agreement is identified as the most appropriate model, then the contract cannot be longer than 4 years in total. It is likely that separate contracts (call-off or otherwise) would be required between each council and the preferred tenderer.

Lawyer Consulted: Johann Wyllly

Date: 10 January 2014

Equalities Implications:

- 7.7. The specification for the tender and associated tender questions will contain requirements relating to financial inclusion and areas such as affordable credit and supporting people to manage money. Additionally, the tender has a dedicated Inclusion and Diversity section which confirms compliance with the Equality Act 2010 and requests information on policies relating to this area.

Sustainability Implications:

- 7.8. It is proposed that 15% of the Quality Weighting will be attributed to Ethical and Environmental questions. Bidders will be asked to identify the key areas relating to sustainability that the delivery of the banking service will impact on and to propose methods for reducing any negative impacts. Ethical concerns such as arms trading, human rights and corporate responsibility will be directly addressed in tender questions and bidders will be expected to commit to paying a Living Wage.

Crime & Disorder Implications:

- 7.9. As part of the compliance checking for this tender, bidders will be asked questions relating to gross misconduct and history of litigation. As part of the evaluation, assessors will expect to be provided details on robust processes for dealing with fraud and associated crimes.

SUPPORTING DOCUMENTATION

Appendices:

Appendix 1 - Service Requirements Criteria

Documents in Members' Rooms:

None

Background Documents:

None

Appendix 1 – Service Requirements

Service Requirements Criteria

Technical Ability

Transactions/ Bank Account Management

The Contractor(s) must be an institution authorised under the Banking Act 1987.

The Council requires the facility to make deposits within a reasonable distance of schools or satellite offices; Satellite offices and Schools addresses are listed in appendix 1.

The Council requires the facility to make cash withdrawals up to £300 per week, via cheque drawn on their local school or imprest bank account, within a reasonable distance of schools or satellite offices.

The Council requires deposits and cash withdrawal facilities outside of the City boundaries. The contractor(s) must have the ability to make agency agreements with other banks where facilities are not available.

The Council requires access to the Pay Point network and operates its own Individual Identification Number for this purpose.

The Council requires income to be collectable via bar codes through the local post office network.

The Council requires a minimum overdraft facility of £2million (net limit) and £30 million (gross limit).

The Council's schools operate their own bank accounts which the contractor(s) must facilitate.

The contractor(s) must be able to make and receive transactions through CHAPS.

The contractor must have the facility to order foreign currency, drafts and bank transfers.

The Council requires all bank accounts within its corporate umbrella to be pooled daily for treasury management purposes.

The Council is seeking a maximum clearance period on credits of two working days at the following facilities:

- account holding branch
- bullion centre
- other branches
- local deposit facility
- other banks
- Pay Point facility
- Post Office via Bar Code

Electronic Banking

The Council operate automated bank reconciliation and management via downloadable data files, the contractor must be able to provide data file transfers for;

1. standard "one transaction equals one line" files for specific bank accounts including date; originator name, originator account number, customer reference, value and customer narrative;
2. specific defined file for treasury management interface into specific software;
3. ad hoc user writable and definable files as required.

Service Requirements Criteria

The contractor(s) must have adequate on-line banking facilities that encompass:

- account management and functionality with at least;
 - individual account view
 - global account view
 - full search facilities on bank accounts, transactions, users and dates.
- ability to define and assign;
 - individual users functionality
 - individual bank accounts to specific users
 - appropriate approvers
 - monetary limits
 - individual account access.

The Council's schools require the facility to interface data files produced from locally managed software into the online banking software to generate three day delayed faster payments.

The Council operates bank accounts on behalf of clients; the contractor(s) must have electronic banking software that has functionality to provide access to client, school, and imprest bank accounts, globally, individually and with individual user profiles.

The Council completes bank account management online. The contractor(s) must have the following capability online:

- cheque management
- foreign transfers
- faster payments
- CHAPS payments
- document retrieval
- BACS recalls
- BACS trace

The contractor(s) must have software failure contingency and disaster recovery plans along with their business continuity arrangements.

Merchant Services

The contractor(s) must be able to support the Council's debit and credit card transactions through individual e-commerce, PDQ and Chip and PIN merchant numbers.

The contractor(s) must be able to support multi bank account merchant ID's for gross settlement to Council, Schools and Client's bank accounts.

The contractor must have PDQ machines available in terms of static and hands free.

The Council requires access to merchant data online.

The Council has a separate arrangement to accept American Express across all merchant IDs; The PDQ machines and e-commerce merchant ID's belonging to the contractor(s) must accept American Express cards.

BACS

The contractor(s) must be able to sponsor the Council in connection with BACS arrangements to facilitate direct credits and direct debits for the Council, Schools and clients using paperless and AUDDIS procedures.

The Council requires access to view and download BACS data files such as ADDACS, ARUCS, ARUDD, AUDDIS, AWACS, DDICA, Arrival, Live and Withdrawal reports at both individual and centralised

Service Requirements Criteria

administration level.

The Council requires the ability to submit BACS files Monday to Friday 8.00am to 5.00pm.

The Council is exploring becoming a BACS bureau to facilitate payments for local organisations and/or academies – it is expected that the Contractor would be willing and able to support this venture.

Purchasing Cards

The Council requires ability to issue and manage purchasing cards with individual transaction and card limits.

The Council requires automated interface files between on-line purchasing card data and general ledger.

The Council requires the ability to view, review and approve purchasing card transactions on-line.

The Council requires the ability to suspend, withdraw and amend code information within the purchasing card scheme.

Stationery

The contractor(s) must provide coin bags and note sleeves in connection with the banking of cash, with a simple and prompt ordering and delivery service for this stationery.

The contractor(s) must provide standard cheque book and deposit books.

The contractor(s) must support the Council's own cheque and deposit book printing option where applicable.

Service

The Council require prompt response times for the following query resolutions along with a suitable system for logging, monitoring and documenting these queries;

- BACS trace
- retrieval of copy documentation
- notification of banking discrepancy
- general query resolution
- missing deposits
- resolution of value discrepancy
- audit queries

The contractor must provide a service desk with adequate operating hours, contact methods and response times.

The contract must have service level agreements that are monitored on a regular basis.

The contractor(s) must be able to facilitate the following activities in a timely manner:

- opening new accounts
- closing accounts
- on-line bank access or cancellation
- new encashment facilities
- new deposit facilities
- new merchant numbers
- new PDQ machines
- terminate PDQ machines
- new purchasing/credit card

Service Requirements Criteria

Implementation

The Council requires a smooth implementation process should the Council be switching between service providers.

Previous Experience

The contractor(s) must be a direct member of the UK clearing bank system.

The Council's account holding branch must be within the City.

Flexibility

The Council requires a dedicated person to be responsible for the delivery of services covered.

Tenderers are requested to provide all service requirements as specified in the tender document during normal working hours (9am – 5pm).

The Council would like to be kept up to date with new initiatives and products from the contractor(s).

Ethical/Environmental

The Council has the creation of a more sustainable city as one of its corporate priorities. The Council is therefore keen to promote environmental, social and economic sustainability.

The Council has a strong ethical policy and is interested in suppliers' policies on arms trading, corporate responsibility and global trade, genetic modification, human rights, environmental impact, social enterprise and animal welfare.

The Council promotes the living wage strategy, and is therefore keen to ensure that contractor(s) have a similar policy in place.

The Council has adopted a financial inclusion strategy which aims to tackle the various ways in which people in the city might experience financial exclusion. The Council is therefore seeking to engage a contractor that actively promotes financial inclusion and works with us to achieve this. .

The Council has established a Basic Banking Forum to focus on the practical ways the Council and banking sector can work together to enable access to full transactional banking services for all. The Council would require the contractor to be an active, leading member of the forum which meets on a quarterly basis.