

Brighton & Hove City Council

Policy & Resources Committee

Agenda Item 106

Subject: Corporate Banking Services

Date of meeting: 10 February 2022

Report of: Chief Finance Officer

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Ward(s) affected: All

For general release

1 Purpose of the report and policy context

- 1.1 The Council currently has a contract with Lloyds Banking Group to provide Corporate Banking Services, which is currently utilising its 2-year extension period due to end on 31st March 2022.
- 1.2 The purpose of this contract is to provide Brighton & Hove City Council with transactional banking services, merchant services and a corporate purchasing card scheme. However, it is proposed to extend each of these aspects for varying periods as per the table below:

Contract Provision	Time Frame	Estimated Value
Transactional Banking	31 st March 2026	£0.180m
Merchant Services	31 st March 2024	£0.500m
Commercial Cards	31 st March 2023	£0.005m
Total Value of Extension:		£0.685m

- 1.3 The varying extension periods provide sufficient time to explore procurement options to ensure that the Council can achieve value for money and maximise service provision in each of the areas based on the recommendations from a recent review of services and the market.
- 1.4 The contract is managed and monitored corporately by Business Operations on behalf of all council services and local authority schools in the city, alongside a number of external organisations that procure a managed service from the council.

2 Recommendations

- 2.1 That Policy & Resources Committee approves the extension of the council's current contract with Lloyds Banking Group as set out in paragraph 3.3.

3 Context and background information

- 3.1 In 2014 the Co-operative Bank chose to no longer support local authority banking contracts and therefore Brighton & Hove City Council took the opportunity to consolidate its corporate banking, merchant services and corporate card functions and tender for a complete corporate banking contract to provide all these services. The outcome of this process was to award the contract to Lloyds Banking Group on an initial term of 5 years, with a 2-year extension period which the council is now coming to the end of.
- 3.2 The service recently undertook a review of the market and the provision of these services, seeking professional advice from an external consultancy firm, 'Focus on Banking', who specialise in reviewing and tendering public sector banking and merchant acquiring arrangements. They reviewed the tariffs/costs charged by each provider and compared them to the most competitive tariffs that could be achieved either through a tender process or by using an appropriate framework agreement. The full report can be found at Appendix A and a summary of the findings/recommendations are given below:
- **Banking Contract** – the current arrangements are considered to be very competitive. It is likely that costs will increase for the new contract (i.e. in 2022) regardless of which procurement route is taken. Consultants advise that the Council is likely to achieve more competitive terms by looking to extend with Lloyds rather than undertaking a formal tender exercise.
 - **Merchant Services** – the consultants analysis confirms that although the current arrangements with Lloyds Cardnet are reasonable, savings of around £10,000 per annum could be achieved with Global Payments via the Crown Commercial Services (CCS) framework agreement. The consultants recommend that the council consider negotiating improved terms with Lloyds Cardnet before extending the arrangements for a further period. They advised that Lloyds should be asked to extend the contract but remove the currently authorisation fees which would be in line with the terms available from Global Payments on the CCS framework agreement. Following this advice, the council has negotiated with Lloyds that the authorisation fee will be removed from the commencement of the extension period and this has secured a refund of £0.037m fees applied during previous periods under the current contract.
 - **Purchasing Cards** – the consultants recommend that the council look to procure a new contract using the CCS framework agreement in order to benefit from the rebates included in the framework.
- 3.3 Based on this review and associated advice, it is proposed to extend the council's current contract with Lloyds Banking Group from the 1st April 2022 for the following periods:

Service	Extension Period
Transactional Banking	1 st April 2022 - 31 st March 2026 (4 years)
Merchant Services	1 st April 2022 - 31 st March 2024 (2 years)
Commercial Cards	1 st April 2022 - 31 st March 2023 (1 year)

3.4 The rationale for the varying extension lengths is set out in the table below:

Contract	Rationale
Banking Services	<p>Recommend 4 years – the Focus-on-Banking report has satisfied the service with regard to value for money and the range and efficiency of services provided by Lloyd’s banking group. The experience of moving from the Co-op to Lloyds showed that the cost of changing bank is substantial and disruptive and would significantly out-weigh any potential saving. Rates within the Banking industry remain consistent, and it has been recommended that little or no savings are likely to be achieved through changing provider.</p> <p>This time frame is however long enough to allow the Council to conduct a procurement process and mobilise a new contract.</p>
Merchant Services	<p>Recommend 2 years - Despite there being a potential saving of £10k through utilising the framework, it would not be feasible to implement a new supplier by April 2022 for operational reasons. There is potential to negotiate with Lloyds using Focus-on-Banking’s findings to reduce the council’s current merchant service costs and therefore changing supplier could be less cost effective. A 2-year time frame gives officers the opportunity to explore and assess potential routes to market, conduct a procurement process and mobilise a new contract.</p>
Commercial Cards	<p>Recommend 1 year – Although initial findings indicate that there is a small financial benefit in utilising a framework in order to secure rebates for the council, this extension will enable the service to implement a new scheme for both BHCC and its external customers. Provision can be made to terminate this aspect of the contract before the end of the 1-year extension in the event that new arrangements can be put in place earlier.</p>

4 Analysis and consideration of alternative options

Preferred Option

4.1 The preferred option, outlined above, is to extend each of the 3 elements of the current contract with appropriate extension periods whilst a full analysis of the potential routes to market and the procurement process is undertaken

to ensure that future contracts deliver value for money and secure opportunities to enhance service provision.

- 4.2 This also gives officers the opportunity to use frameworks relevant to each service provision, exploring potential rebates and the implementation of modern solutions, especially in the commercial cards service.
- 4.3 The recommendations from the recent review, carried out by external consultants, indicates that there are some opportunities to gain better value for money in the merchant services and commercial cards arena.
- 4.4 There is an opportunity to review how merchant services can be closer linked with the provision of the corporate payments system and any benefits this may have in terms of value for money and enhancing the process which would be restricted should we extend the contract in its current form.
- 4.5 Linking in with the current Corporate Systems Review (a review of the council's major Financial, HR and Payroll systems) could also identify any potential benefits of merging merchant service provision with payment service providers.
- 4.6 Reviewing the merchant service usage across the council would provide the opportunity to analyse all potential card machines and exercise the flexibility of utilising other providers that may have solutions to better meet service needs, releasing the current restrictions within the Lloyds contract.

Other Options

- 4.7 An alternative option would be to conduct a full tender process for Banking Services, conduct a further competition for Merchant Acquiring services and award a contract for the provision of Purchasing Cards.
- 4.8 Recommendations from the recent review of current service provision are that it would be beneficial to separate each element of the current contract and re-procure 3 separate contracts to gain more flexibility with future opportunities and secure better value for money in the merchant services and purchasing cards arena.
- 4.9 Whilst there is an intention to do this in the longer term, there is insufficient time to carry out this process prior to the current contract expiring which would leave the council at risk in terms of the current service provision.
- 4.10 The cost of change in relation to Banking Services would also significantly out-weigh any potential savings as the consultancy report confirms that the opportunity for these are minimal in certain areas. Having a 2-year extension in place for Merchant Acquiring Services will provide sufficient time to procure and mobilize a new contract

5 Community engagement and consultation

- 5.1 Engagement has taken place with the parking service as they have a high volume of card transactions in their area through multiple merchant channels. There were some specific recommendations surrounding their individual merchant supplier (separate from this contract), however they do have some transactions that go through the Lloyds merchant service

channels and therefore we have shared the report with them to take forward their service specific recommendations.

6 Conclusion

- 6.1 This contract is fundamental in delivering secure corporate banking services to the council and its external customers, and enabling an effective treasury & cash management function.
- 6.2 Separating the three elements of the contract, with varied extensions, will give Business Operations the opportunity to seek better value for money where the market allows, avoid unnecessary transition costs, and maintain and enhance service provision to both the council and its customers.

7 Financial implications

- 7.1 Based on the external advice, it is hoped that the varying extension periods recommended in the report would allow for value for money and potential savings opportunities from future procurement options.
- 7.2 The contract cost of the services covered within this report is currently £0.304m per annum. It is noted that the costs in Year 1 of the proposed extensions would be almost unchanged at £0.300m and within the budget provision.

Name of finance officer consulted: James Hengeveld
Date consulted (18/01/22)

8 Legal implications

- 8.1 Contracting Authorities are permitted to extend or vary contracts provided that the proposed extension/ modification fits into one of safe harbours set out in regulation 72 of the Public Contracts Regulations 2015. The broadest of those safe harbours is that the modification is not substantial (Regulation 72(1) (e)). This argument can be applied to all these extensions. It is a stronger proposition in the case of the shorter extensions, but the risk of a legal challenge is considered to be very low in relation to all the contracts.

Name of lawyer consulted: Alice Rowland Date consulted (19/01/22)

9 Equalities implications

- 9.1 There are no equalities implications

10 Sustainability implications

- 10.1 Lloyds Bank have made the following sustainability commitments over the life of the contract extensions:
- Lloyds Bank will provide free of charge access to their Green Buildings Tool for the Council to improve the energy efficiency of its buildings: <https://www.lloydsbank.com/business/commercial-banking/green-buildings-tool.html>
 - Lloyds Bank will share the Halifax Home Energy Saving Tool, which could help the council's residents and customers to identify energy saving opportunities at home: <https://www.halifax.co.uk/mortgages/help->

[and-advice/homes-explained/green-living/home-energy-saving-tool.html](https://www.woodlandtrust.org.uk/plant-trees/schools-and-communities/);
the council could publicise this resource to households.

- Lloyds Bank are helping the Woodland Trust to plant 10 million trees over the next decade. Schools and communities within the city can apply for free tree packs: <https://www.woodlandtrust.org.uk/plant-trees/schools-and-communities/>

11 Other Implications

Social Value and procurement implications

11.1 Lloyds Bank have made the following social value commitments over the life of the contract extensions:

- Lloyds Bank work with ‘Governors for Schools’, <https://governorsforschools.org.uk/volunteers/about-the-role/> a charity dedicated to finding skilled, enthusiastic volunteers to serve on school boards and in Further Education institutions. On average a Lloyds Banking Group Colleague would volunteer for six to eight hours of their time every month, during the school term.
- Via the Lloyds Bank Academy <https://www.lloydsbankacademy.co.uk/financial-skills/> Lloyds Bank provide financial wellbeing education resources for schools and young people. Lloyds Bank could commit to offering a one-hour session each month to a Council school if schools would like to take up this offer
- Lloyds Bank also offers ‘World of Work’ webinars; a 3-hour interactive event aimed at school leavers that helps young people discover strengths, develop their personal brand and presentation style, look at wellbeing and self-care. It also gives them the opportunity to network with a number of Lloyds Banking Group employees. These sessions are planned to run throughout 2022. The Bank would promote this through its relationships with Colleges and Schools, but the link for the site is [LBG Early Careers \(explorelbg.co.uk\)](https://www.lloydsbankacademy.co.uk/early-careers/)
- The Lloyds Bank Academy <https://www.lloydsbankacademy.co.uk> has resources for businesses, charities and individuals; these resources are available to those in Brighton & Hove; their wide programme of lessons is open to everyone, easy to follow and completely free
- Lloyds Bank’s colleagues deliver thousands of hours of volunteering every year: <https://www.lloydsbankinggroup.com/who-we-are/responsible-business/community-programmes/volunteering.html> and they could access specific volunteering opportunities in the Council as long as they meet the Bank’s Group Colleague Volunteering Standard
- The Lloyds Bank Foundation supports charities with an annual income of £25,000 to £1 million with a proven track record of helping people on a journey of positive change through in-depth, holistic and person-centred support – suitable charities in the Council can apply here: <https://www.lloydsbankfoundation.org.uk/we-fund> and the Council can publicise this to charities they work with, with grants of £50,000 available. The Foundation supported 661 charities in 2020, with £2.9m invested to help them develop, with a further £1.4m invested in 43 national programmes

- The bank signed the Armed Forces Covenant in June 2015. The Covenant is our promise to the Government and the nation that we will ensure that those who serve or who have served in the armed forces, and their families, are treated fairly – this support includes those living in Brighton & Hove: <https://www.lloydsbankinggroup.com/who-we-are/responsible-business/support-for-armed-forces.html>
- Lloyds Scholars is a unique social mobility programme run by Lloyds Banking Group. Partnering with leading universities across the UK, the Bank offer students from lower income households a complete package of financial support, at least one paid internship, a business mentor and the opportunity to develop their employability skills, boosting future career prospects – you can publicise this to the Council's students via your education service: <https://www.lloyds-scholars.com/>
- Lloyds Banking Group provides a range of careers options and the Council can promote Apprenticeships, Graduate, and Undergraduate schemes to their students <https://www.lloydsbankinggrouptalent.com/> via your Education and Careers Service'

12 Risk & Opportunity Management implications:

- 12.1 The council and its customers are dependent on having fully functional and operating bank accounts to deliver their day-to-day functions, including but not exclusive to social care provisions, payments to suppliers, payments to vulnerable residents and securely holding its cash. Approximately 194,000 transactions are processed through the council's bank accounts per annum, with a total value of approx. £4,400million, inclusive of treasury management transactions.
- 12.2 The potential opportunity to make minimal savings on the corporate banking service contract is significantly outweighed by the risk to service provision should we change providers in a short time frame.

Supporting Documentation

Appendices

- 1) Focus on Banking Report



Brighton & Hove City Council

Review of Banking and Merchant Acquiring Arrangements

Completed by



September 2021



Brighton & Hove City Council

Review of Banking and Merchant Acquiring Arrangements

1. Introduction

- 1.1. Brighton & Hove City Council (hereafter referred to as the Council) maintains its banking contract with Lloyds Bank and its main merchant acquiring arrangements with Lloyds Cardnet. The contracts were extended in 2020 and are due to expire in April 2022.
- 1.2. Merchant acquiring arrangements are also maintained with AIB Merchant Services for the collection of parking payments.
- 1.3. The Council has decided to undertake a review of banking and merchant acquiring arrangements to establish whether they provide value for money. As part of the review, we have also commented on the Council's purchasing card arrangements with Lloyds Bank.
- 1.4. This report reviews the tariffs/costs charged by each provider and compares them to the most competitive tariffs that could be achieved either through a tender process or by using an appropriate framework agreement. The review was undertaken by Focus on Banking who specialise in reviewing and tendering public sector banking and merchant acquiring arrangements.

2. Banking Contract - Lloyds Bank

2.1. Current Market

- 2.1.1. Since the start of the pandemic, very few public sector organisations have tendered their banking contract. In the last 18 months, most banks have agreed to extend contracts (e.g. for 12 months) without adjusting pricing.
- 2.1.2. Prior to the pandemic, a typical local authority tender process would result in interest from three banks – NatWest, Lloyds and Barclays:

NatWest

NatWest will always compete to retain local authority contracts although occasionally they will choose not to compete for new business.

Although NatWest have increased pricing in recent years, the most recent tenders we have seen from them have generally been competitive.

Lloyds Bank

Lloyds have been competing aggressively for new local authority contracts for the last 10 years or so. Their pricing has been very competitive and they have won a significant number of new contracts.

However, in the last 2-3 years we have seen Lloyds begin to increase pricing and in some cases the increases have been significant (e.g. for existing customers we have seen cost increases of between 50% and 100% proposed.)

Barclays Bank

Similar to Lloyds, Barclays have historically been very aggressive when competing for local authority contracts.

However, in 2019 Barclays increased their pricing significantly and as a result they lost a number of local authority contracts. Since losing business, they have reduced their pricing for automated transactions such as BACS etc but tariffs for cash/counter transactions remain relatively high.

- 2.1.3. Although HSBC also provide banking services to a number of local authorities, it is extremely rare to see them quote for new local authority business. They will however tender to retain existing contracts although their pricing is often uncompetitive.

2.2. The Technology Procurement Association Ltd (TPA) Framework Agreement

- 2.2.1. In December 2020 a 'Banking and Finance' framework agreement was awarded by The Technology Procurement Association Ltd (TPA). Lot 1 of the framework is for banking services and is a single supplier agreement awarded to Lloyds Bank.

- 2.2.2. Although we cannot comment as to whether the agreement is legal (e.g. The Technology Procurement Association Ltd does not appear to be a public body) we are aware that some authorities that currently bank with Lloyds are looking at the agreement.
- 2.2.3. Although the agreement does offer guideline pricing, we understand that bespoke pricing will be provided by Lloyds for each individual contract.
- 2.2.4. We have been advised that organisations that use the agreement are required to pay a commission of 20% of the savings achieved by the using the framework (charged monthly in arrears). We understand that this commission is payable throughout the life of the contract.

2.3. Benchmark of Tariffs

- 2.3.1. Our benchmark analysis compares the Council’s current tariffs against the terms that are likely to be proposed by Lloyds, NatWest, and Barclays at tender. The pricing we have indicated for Lloyds is also the level likely to be achieved through the TPA framework agreement. We have excluded HSBC from our comparison as it is extremely unlikely that they would compete if the contract was subjected to a formal tender process.
- 2.3.2. The spreadsheet at Appendix 1 provides our detailed comparison. Annual transaction volumes have been estimated based on the Lloyds charging data provided by the Council for the three month period ending February 2021. A summary of the estimated annual costs is provided below:

Current Charge	Lloyds Tender	NatWest Tender	Barclays Tender
£26,836	£45,124	£52,416	£46,837

- 2.3.3. As indicated above, the current tariffs are very competitive and below the levels we would expect to see proposed by any bank at tender. The following bullet points provide further comment on the high-cost transactions.
- **Automated/Faster Payment Credits.** The current tariff of 3p is competitive. Although Barclays will often quote a tariff of 2p for larger local authority contracts, NatWest and Lloyds will typically quote at least 4p.
 - **Notes/Coin Deposited - Processing Centre (Parking).** As indicated in our spreadsheet, the transaction volumes we were provided suggest that Lloyds do not currently charge for the notes/coin deposited from the Council’s parking machines. The value of parking cash deposited has therefore been estimated based on figures provided by the Council.
 - **BACS Transactions.** Lloyds currently charge a tariff of 1p for BACS transactions. This is the lowest we see offered by any bank for local authority business and we would expect all banks to quote this at tender.

- **BACS Files.** The current tariff of £1.75 is very competitive. Lloyds will often propose a tariff of £2.50 at tender and we would expect Barclays and NatWest to quote at least £3 and £3.50 respectively.
- **Internet Banking (Commercial Banking Online) – Monthly Fee.** All banks will typically quote a fixed monthly fee to provide their internet banking service. We found no evidence of Lloyds currently charging this type of fee.

Monthly fees quoted will vary depending on the number of bank accounts reported. In the Council's case we would expect to see £100 to £400 per month proposed.

- **BACS Payments.** The majority of BACS payments initiated via Commercial Banking Online are initiated from school bank accounts. The current tariff is very competitive at 10p - at tender we would expect Lloyds to quote 20p. Barclays and NatWest will typically propose tariffs of 35p and 45p respectively.

Based on the invoices we reviewed, it appears that charges for nearly 8,000 BACS payments are automatically refunded by Lloyds (i.e. annual refund estimated at around £800). It is not clear why the charges are refunded although it is possible it is a Lloyds error. Although we do not recommend this issue is raised with Lloyds, the Council should be aware that Lloyds may identify their error in due course.

- **CHAPS Payments.** The current tariff of £5 is very competitive. Barclays and Lloyds will typically quote around £8 and NatWest consistently propose tariffs of at least £10.
- **Faster Payments.** Based on the invoices we reviewed, the volume of Faster Payments initiated by the Council has been estimated at nearly 66,000 per annum. We understand however that this figure is inflated due to the number grant payments made in relation to the pandemic.

For the purpose of our comparison, we have included the annual volume of Faster Payments as 1,000 as we would expect to see no more than this initiated by a local authority in a normal year.

Although the current tariff of £2 is reasonable, in a competitive situation we would expect to see Lloyds and Barclays propose a tariff of £1.

- **Reconciliation Data (Entry Collection Service).** We were advised that bank account transaction data is automatically delivered by Lloyds to enable the Council to automate the reconciliation process. We there assume that the Lloyds service 'Entry collection Service' (ECS) is used by the Council. The alternative to using ECS would be to manually export transaction data using Commercial Banking Online each day.

We were advised that no charges are currently levied for ECS and this is reflected in our comparison.

In recent tenders we have seen Lloyds propose a tariff of £3 per file plus 1.25p per transaction downloaded. Barclays will propose level a similar of fees for their equivalent service whilst NatWest usually propose higher costs of £300 per month together with a transaction fee of 1.4p.

2.4. Discounts for New Business

- 2.4.1. Historically, it was common to see all banks propose initial discounts for new business in an attempt to offset the cost of moving bank. For example, Lloyds would often propose 12 or 18 months free banking.
- 2.4.2. However, in the last 2-3 years we have seen banks either offer reduced discounts (e.g. up to 6 months free banking) or no discounts at all.
- 2.4.3. As our analysis compares annual costs it would be inappropriate to include potential discounts. It should also be noted that even if a discount were offered at tender by another bank, it is likely that the Council's cost of moving arrangements would be higher than the discount proposed.

2.5. Banking Contract - Way Forward

- 2.5.1. As indicated in our analysis, the current arrangements are very competitive. It is likely that costs will increase for the new contract (i.e. in 2022) regardless of which procurement route is taken.
- 2.5.2. Based on our experience, it is possible that the Council will achieve more competitive terms by looking to extend with Lloyds rather than undertaking a formal tender exercise or the framework agreement mentioned at 2.2. By extending the contract, it is possible that Lloyds will feel that they can only impose cost increases up to a certain level whereas a tender process or use of the framework will present the opportunity for them to undertake a wholesale review of all tariffs and charges which could result in a larger cost increase.
- 2.5.3. It should be noted that we have worked with many local authorities that choose to regularly extend their banking contracts rather than undertake a formal tender process. Although this approach does not conform with procurement regulations, this is often the preferred option as:
 - 1. The market for local authority banking in England is limited. As already highlighted, if the contract is tendered then the maximum number of bids will be three although it is possible that only one or two tenders will be received.

2. The likelihood of another bank challenging a local authority's decision to extend a contract with the existing provider is minimal. Focus on banking has been assisting local authorities with their banking contracts since the year 2000 and we have never come across a bank questioning or challenging a local authority procurement decision.
 3. The internal cost associated with moving to a new service provider can be excessive and for most authorities this will often be greater than the annual contract value. This cost needs to be considered when evaluating tenders which makes the possibility of another bank winning the contract even less likely.
- 2.5.4. If the Council is happy to consider extending the contract, we recommend that Lloyds are asked to confirm whether they would be happy to extend the arrangements (i.e. based on current tariffs) for a further period (e.g. 2 or 3 years). If however the Council are uncomfortable with simply extending the arrangements, then consideration should be given to using the TPA framework agreement (subject to the Council being comfortable that the agreement is fully compliant). Whilst this will result in a cost increase, assuming the proposed tariffs are at the level we have indicated in our comparison, more competitive terms are unlikely to be achieved through a formal tender process. It should also be noted that as costs will be increasing, no commission will be due to the framework provider.
- 2.5.5. We look forward to discussing our findings with you further.

3. Merchant Acquiring

3.1. Current Market

- 3.1.1. Nearly all local authorities currently use one of the four main service providers in the UK for merchant acquiring services – Worldpay, Barclaycard, Global Payments and Lloyds Cardnet.
- 3.1.2. The pricing we see proposed from these providers is often inconsistent - there are no merchant acquirers that regularly offer the most competitive terms.
- 3.1.3. The Council's main merchant acquiring contract (e.g. for the collection of Council Tax etc) is currently with Lloyds Cardnet. Separate arrangements are however maintained for parking transactions and we understand these are handled through a contract with Till Payments. We were advised that AIB Merchant services provide the merchant acquiring service on behalf of Till Payments.

3.2. Background to Merchant Acquiring Tariffs and Costs

- 3.2.1. Merchant acquiring transaction fees for collecting card payments are made up of three elements:

a) Interchange

A large proportion of the fee taken (e.g. usually more than 60%) is passed on to the card issuing bank. This cost is known as 'interchange'.

There are several different interchange rates and these vary depending on the card type as well as the method of payment. Interchange rates are identical for all merchant acquirers.

b) Scheme Fees

A smaller amount of the fee collected is paid to Mastercard or Visa as scheme fees. Scheme fees do differ slightly between merchant acquirers.

c) Processing Fee (i.e. margin)

The remaining element of the fee is retained by the merchant acquirer as their margin (i.e. to cover their costs for handling the transaction and provide an element of profit). This is often referred to as the processing fee.

- 3.2.2. Since 2015 we have seen significant changes to UK interchange rates as a result of the European Commission legislating to cap fees. This means that the interchange rate for all UK consumer credit cards is now 0.3% and 0.2% for all UK consumer debit cards (previously interchange rates for some cards were as high as 1.85% depending

on the payment method.) Although some adjustments were made to the interchange rates for commercial cards, they remain relatively high (i.e. up to 1.9% depending on the card type and payment method).

- 3.2.3. The majority of merchant acquiring contracts are charged based on 'blended' rates. This effectively means that a single tariff is charged for each transaction type and this covers interchange, scheme fees and the processing fee. However, the Council is currently charged 'interchange plus plus' pricing. This is where a set processing fee/margin is charged above the published interchange rates and scheme fees.
- 3.2.4. Interchange plus plus is viewed as a fairer and more transparent charging structure as any movements in interchange rates/scheme fees are immediately reflected in the monthly charge. Additionally, the margin/processing fee retained by the merchant acquirer is visible (rather than being hidden within blended rates) as the fees are broken down into the three separate elements.

3.3. Crown Commercial Service (CCS) Framework Agreement

- 3.3.1. In February 2020 CCS awarded a framework agreement for merchant acquiring and gateway services which can be used by local authorities. Details of the agreement can be found at:

<https://www.crowncommercial.gov.uk/agreements/RM6118>

- 3.3.2. The framework agreement has a 3-year contract period with the option of a further 1 year extension. CCS recommend that any call off contracts do not exceed the expiry of the framework agreement itself by more than two years.
- 3.3.3. The framework agreement is split into several Lots. CCS advise that Lot 1 should be used if the Council require a merchant acquiring and a gateway service and Lot 3 should be used if just a merchant acquiring service is required. Lot 2 can be used if just 'Cardholder Not Present' transactions are collected so this would not be appropriate for the Council. The remaining Lots (4,5 and 7) do not include merchant acquiring services.
- 3.3.4. Lots 1 and 3 includes three suppliers - Global Payments, Barclaycard and Worldpay. These organisations (along with Lloyds Cardnet) provide merchant acquiring services to nearly all local authorities in the UK.
- 3.3.5. The merchant acquiring tariffs that are available from Global Payments via direct award are competitive and below the levels that most local authorities could expect to achieve via an open tender process. All three providers on the framework agreement have proposed interchange plus plus pricing as follows:

Service Provider	Lot 1 - Proposed Processing Fee Per Transaction (Charged in Addition to Interchange and Scheme Fees)	Lot 3 - Proposed Processing Fee Per Transaction (Charged in Addition to Interchange and Scheme Fees)
Global Payments	£0.025	£0.025
Worldpay	£0.04	£0.05
Barclaycard	£0.10	£0.10

3.3.6. As indicated above, Worldpay offer a slightly lower processing fee on Lot 1 (4p) than they do on Lot 3 (5p). We have been advised by CCS that Lot 1 can only be used when a gateway service is required alongside the merchant acquiring service and this therefore justifies the slightly lower tariff. However, there is some doubt over this as we are aware of authorities using Lot 1 to award just a merchant acquiring service. For the purpose of our comparison, we have therefore assumed Lot 1 pricing for Worldpay.

3.4. The Technology Procurement Association Ltd (TPA) Framework Agreement

3.4.1. The TPA Framework agreement (see 2.2) also offers merchant acquiring services under Lot 2. This Lot was awarded to three suppliers – Lloyds Cardnet, AIB Merchant Services and Ayden UK Ltd. We understand that the framework agreement can be used to make a direct to a provider or alternatively a mini-competition process can be undertaken.

3.4.2. For a direct award, bespoke pricing needs to be obtained from the selected provider. The limited pricing we have seen has not been as competitive as the pricing available from the CCS framework agreement.

3.5. Benchmark of Current Lloyds Cardnet Costs

3.5.1. The table below compares current estimated costs with Lloyds Cardnet against the terms available from Global Payments, Worldpay and Barclaycard via the CCS framework agreement.

Cost	Estimated Annual Volume	Current Tariff		Global Payments - CCS Framework		Worldpay - CCS Framework		Barclaycard - CCS Framework	
Interchange Cost			£154,124		£154,124		£154,124		£154,124
Scheme Fees			£40,904		£40,904		£40,904		£40,904
Processing Fees	2,482,872	£0.024	£59,589	£0.025	£62,072	£0.04	£99,315	£0.100	£248,287
Authorisations	2,543,412	£0.005	£12,717	£0.000	£0	£0.00	£0	£0.000	£0
Chargebacks	196	£15.00	£2,940	£12.00	£2,352	£5.00	£980	£8.00	£1,568
Total Annual Cost			£270,274		£259,452		£295,323		£444,883

3.5.2. The following points should be noted in respect of our comparison:

- Annual transaction volumes and costs have been estimated based on the transaction data provided by the Council for December 2020, January 2021 and March 2021.
- Although interchange fees will be the same with each provider, scheme fees will differ slightly. As we do not have detailed data on the current scheme fees charged by Lloyds Cardnet we have assumed they will be the same with each provider. Any differences will however be relatively small and have minimal affect on the overall contract costs.

3.5.3. As indicated, although the processing fee available from Global Payments (2.5p) is slightly higher than the current fee of 2.4p, Global Payments will not charge authorisation fees which will result in a lower overall contract cost.

3.6. Settlement Timescale

3.6.1. With interest rates at the current levels, the timescales for receipt of funds in relation to card payments has a relatively small impact on the contract cost. For example, around £47m is currently collected by card each year. Improving settlement by one day generates a benefit of just £128 per annum assuming a rate of Base Rate (i.e. $£47m \times 0.1\% \div 365$ days).

3.6.2. Although we were unable to verify current settlement timescales, we would expect settlement to be provided two days after the transaction date. (This is known as T+2 settlement).

3.6.3. The CCS framework agreement does not specify settlement timescales so we have raised this with the providers in the past. Both Barclaycard and Worldpay have indicated they will provide T+2 settlement but Global Payments have suggested they will only provide T+2 if settlement is to a HSBC bank account, otherwise they will provide T+3.

3.7. Benchmark of Current AIB Costs

3.7.1. Unfortunately, the information that was available for our review in relation to the AIB arrangements is limited. However, based on the copies of invoices and data provided it appears that two merchant accounts are maintained with AIB – 013149149 and 013108978.

3.7.2. The table below compare current estimated costs for both AIB merchant accounts against the terms available from Global Payments, Worldpay and Barclaycard via the CCS framework agreement.

Transaction	Estimated Annual Volume	Current Tariff	Global Payments - CCS Framework	Worldpay - CCS Framework	Barclaycard - CCS Framework

Merchant Account 013149149									
Interchange Cost			£563		£563		£563		£563
Scheme Fees			£607		£607		£607		£607
Processing Fees	79,764	£0.09	£7,179	£0.025	£1,994	£0.04	£3,191	£0.100	£7,976
Total Cost			£8,348		£3,163		£4,360		£9,146
Merchant Account 013108978									
Interchange Cost			(5,257 p/m)		£5,482		£5,482		£5,482
Scheme Fees					£4,431		£4,431		£4,431
Processing Fees	577,932			£0.025	£14,448	£0.04	£23,117	£0.10	£57,793
Total Cost			£63,084		£24,362		£33,031		£67,707
Grand Total			£71,432		£27,525		£37,391		£76,852

3.7.3. The following points should be noted in respect of our comparison:

Merchant Account – 013149149

- Annual transaction volumes and costs have been estimated based on AIB invoices for December 2020, January 2021 and March 2021.
- Although interchange fees will be the same with each provider, scheme fees will differ slightly. AIB invoices do not provide detailed data on the current scheme fees charged so we have assumed they will be the same with each provider. Any differences will however be relatively small and have minimal affect on the overall contract costs.

Merchant Account – 013108978

- Annual transaction volumes and costs have been estimated based on the transaction data provided by the Council for April 2021.
- The transaction data provided by the Council did not include a detailed breakdown of tariffs and charges for each transaction type. However according to the data, the charge for April totalled £5,257 so we have estimated the annual charge at £63,084.
- Interchange and scheme fees have been estimated in our comparison assuming all transactions are secure (i.e. either chip/pin or contactless).

3.7.4. As indicated above, based on the information and data that was available for our review the current AIB charges are relatively high.

3.8. Merchant Acquiring - Way Forward

3.8.1. Our analysis confirms that although the current arrangements with Lloyds Cardnet are reasonable, savings of around £10,000 per annum would be achieved with Global Payments via the CCS framework agreement.

- 3.8.2. We recommend that the Council consider negotiating improved terms with Lloyds Cardnet before extending the arrangements for a further period. If the Council are comfortable with this approach, Lloyds should be asked to extend the contract but remove the currently authorisation fees which is line with the terms available from Global Payments on the CCS framework agreement.
- 3.8.3. If however the Council are uncomfortable with extending the arrangements, then whilst consideration can be given to using the TPA framework agreement, this is likely to result in the Council needing to pay a monthly commission to the framework provider (i.e. assuming savings are achieved). In these circumstances, it may therefore be appropriate for the Council to undertake a formal tender process.
- 3.8.4. Our high-level analysis of the AIB arrangements suggest that the current charges are relatively high. It is not clear however if the Council is in a position to either negotiate or move these arrangements given they are provided as part of a separate contract with Till Payments. We do however recommend that the Council investigate its options further in respect of AIB.

4. Purchasing Card Contract - Lloyds

4.1. Introduction

4.1.1. The Council's purchasing card arrangements are provided by Lloyds bank. We understand that the contract is due to expire in March 2022.

4.2. Current Arrangements

4.2.1. We were advised that the Council has around 400 cards in total with annual expenditure across the cards at around £2.1m. We understand that Lloyds do not levy ongoing charges for the arrangements and no rebates are currently paid to the Council.

4.2.2. Service providers will not normally charge for larger purchasing card contracts (i.e. other than for ad-hoc service requests or late payment etc) but they will offer a 'rebate' based on the annual expenditure across the cards. The level of rebate paid will depend on the 'Settlement Terms' agreed (i.e. how quickly the Direct Debit is taken following the statement date). A higher rebate is offered for quicker settlement.

4.2.3. Crown Commercial Service have provided a number of purchasing card framework agreements in recent years. These have been widely used by local authorities as they have always offered very competitive terms. Their current agreement (Payments Solutions – RM3828) was awarded in December 2018 and is due to expire in December 2022. Lot 1 of the framework relates to purchasing cards and has four providers – NatWest, Barclaycard, HSBC and Lloyds Bank.

4.2.4. The following table compares the rebates available from all providers on the CCS framework agreement. This assumes annual expenditure of £2.1m and 14-day settlement.

Service Provider	Turnover	Rebate %	Rebate Amount
CCS - NatWest	£2,100,000	0.4660%	£9,786
CCS - Barclaycard	£2,100,000	0.4460%	£9,366
CCS - HSBC	£2,100,000	0.2700%	£5,670
CCS - Lloyds	£2,100,000	0.3840%	£8,064

4.3. Purchasing Cards - Way Forward

4.3.1. We recommend that the Council look to procure a new contract using the CCS framework agreement in order to benefit from the rebates indicated above. The framework should be discussed with Lloyds as it is possible that the current arrangements can be moved to the framework without the need to re-issue cards.

5. Conclusion

- 5.1. The current banking arrangements are very competitive, and we recommend that the Council look to extend the contract for a further period with Lloyds. Alternatively, consideration can be given to the TPA framework agreement although this is likely to result in a relatively high cost increase.
- 5.2. We recommend that the Council consider negotiating/extending arrangements with Lloyds Cardnet. If the contract cannot be extended, then consideration will need to be given to undertaking a formal tender process.
- 5.3. Based on our high-level review, it appears that charges levied for parking transactions by AIB are relatively high. We recommend these arrangements are investigated further with a view to either negotiating improved terms or moving to an alternative provider.
- 5.4. We recommend that the Council consider the CCS framework agreement for the purchasing card contract which is due to expire next year.
- 5.5. We look forward to discussing our findings with you further.

Peter Waite
Focus on Banking

September 2021