

**ANGUS COUNCIL**

**POLICY & RESOURCES COMMITTEE – 8 OCTOBER 2019**

**PROCUREMENT OF BANKING SERVICES**

**REPORT BY DIRECTOR OF FINANCE**

**ABSTRACT**

This report seeks authority to undertake a procurement exercise to put in place a contract for the provision of banking services for up to 5 years from 1 April 2020.

**1. RECOMMENDATION**

1.1 It is recommended that the committee agree to delegate authority to the Director of Finance to:-

- i) Finalise a procurement strategy for banking services in line with the outline given in Section 3 of this report; and
- ii) Procure banking services, in terms of the procurement provisions provided in the Council's Finance Regulations, for a period of three years from 1 April 2020, with provision for extension for an additional two years at our option, on the basis set out in this report on behalf of Angus Council and Angus Alive.

**2. INTRODUCTION**

2.1 The banking services for Angus Council and Angus Alive are currently provided by the Clydesdale Bank PLC. The Clydesdale Bank was originally appointed following a tender exercise in 2008/09 to provide banking services from 1 April 2009 for an initial three year period. The Clydesdale Bank PLC was re-appointed following a further tender exercise in 2013/14. In light of the conclusion of the current contract it will be necessary, therefore, for a tendering exercise to be undertaken over the coming months in order to determine the banking service provider from 1 April 2020.

2.2 The banking service covers activities such as: provision of a range of accounts to facilitate management of cash balances; access to a range of payment mechanisms e.g. Bank Automated Clearing System (BACS) and Clearing House Automated Payment System (Chaps); receipt of cash and cheque deposits; provision of detailed transaction information to facilitate reconciliation with financial systems; electronic banking; investment accounts; access to credit facilities; availability of a local branch network or suitable equivalent, etc. Provision of an effective banking service is accordingly critical to the financial management of the Council and Angus Alive.

**3. PROCUREMENT AUTHORITY**

3.1 Sourcing Strategy

Contact has been made with Tayside Procurement Consortium partners to determine the potential for undertaking a collaborative procurement exercise. Both Dundee City Council and Perth & Kinross Council's had recently undertaken tender exercises and were not in a position to collaborate at this time. Further, it was noted that a joint tender would be challenging to deliver given, for example; that each would require its own minimum service standards to reflect the quite different treasury management counter-party risk appetite each council has; and each council has quite different cash collection arrangements.

This procurement activity will, however, include banking services provision for Angus Alive also. Angus Alive transactions are recorded through separate bank accounts from Angus Council's. It is, however, financially and operationally beneficial for a single banking tender exercise to be undertaken across the two organisations.

The estimated value of the contract (circa £40,000 per annum or £200,000 over the full 5 year contract period, including extension options) is such that the procurement exercise cannot be undertaken under delegated authority but requires committee approval to proceed. The procurement is not, however, considered to be a "major procurement" in terms of Financial Regulation 16.8. Approval of this Report would mean that the contract can be accepted without the need for further approval by the relevant committee. In accordance with contract award arrangements, subject to confirmation of affordability and sustainability, the outcome will be reported to Committee for noting only.

### 3.2 Key Terms Proposed

The contract will be awarded for a period of three years from 1 April 2020 with provision for extension for an additional two years at our option. The tender exercise will necessitate the provision of banking services, as noted in paragraph 2.2 above, the quality of which will be assessed through the procurement process. The tender process will necessitate bidders submitting a pricing schedule for these services which will predominantly be dependent upon the estimated transaction processing requirements over the contract period. The tender will also take into account the impact of a change in banking provider in recognition of the significant impact this has onto our systems and processes.

In terms of providing community benefit to Angus, as referred to above, consideration will be given in tender evaluation of the successful provider's ability to support a network of Angus based payment points, with preference given to a bank branch network, and financial inclusion aspirations. In this regard, however, it is highlighted that there has been significant reduction in the branch networks within Angus of all the major banking service providers over recent years. This deterioration in presence within Angus is likely to continue over coming years presenting operational issues that we will require to resolve e.g. banking cash, payments facilities for clients, etc. We have limited ability to influence the direction of travel by the banking sector given the marginal nature of our contract value compared with the cost reductions they are delivering but provision of local facilities will be part of the tender evaluation process

Members will be aware of the ongoing Brexit deliberations by the UK Government with the 31 October 2019 being the current date for leaving the EU. The Bank of England's Prudential Regulation Authority is working with the UK banking sector to ensure a smooth transition in the event of Brexit. The tender submissions will require providers to outline their preparations for Brexit in the event that this has been delayed from 31 October 2019.

### 3.3 Procurement Procedure

As a result of the relatively limited banking services supply base within the UK (none of whom of course are based in Angus), a single stage ("open") tender procedure is the most appropriate route through which to progress the tender. The tender will include a number of minimum service standards with which bidders will require to comply e.g. membership of the Prudential Regulation Authority, which will ensure that tender submissions will be considered in detail for only those institutions capable of providing the Council and Angus Alive with high quality banking services.

### 3.4 Contract Evaluation And Award Basis

Tenders will be evaluated and the contract will be awarded on the basis of the most economically advantageous tender, on a mix of quality and price. The price / quality split applied will be 30% / 70% in accordance with Financial Regulation 16.14. This is a change from the previous procurement exercise, where price had a weighting of 70%, to reflect the importance of putting in place an effective banking services provider to support service delivery. There has been reduction in the level of service provision by the Clydesdale e.g. branch network closures, use of Post Office for services, etc. over the contract period, albeit

this is a general direction of travel within the banking industry. This has placed extra burden on staff across services to operate alternative arrangements with resultant hidden costs. This underlies the wish to place extra emphasis on the quality of service given this will have a influence on the level of internal Council support required of the next contract / supplier.

Given the joint nature of the tender, Angus Alive officers will be involved in the evaluation process. It is envisaged that contract award will take place in December 2019. In the event of a change of banking services provider, this will be followed by a managed changeover period from the current provider to the new one. Finance officers managed such a changeover process in 2009 when the provider moved from Halifax Bank of Scotland to Clydesdale Bank.

#### **4. FINANCIAL IMPLICATIONS**

There is budget provision of £86,000 within Angus Council and £24,000 within Angus Alive for banking related services. This provision covers not only costs in relation to the banking services provider but also merchant charges for the processing of payment card transactions which are subject of a separate contract and not provided by the banking services provider. Future costs will be dependent upon the level of transactions that require to be processed by the Council and Angus Alive. While the number of transactions has varied over time, we have benefited from fixed transactional rates since 2014 in accordance with the terms and conditions included within the current banking services contract. In light of inflation levels over the intervening period it is considered likely that the tender exercise will see upward pressure on transaction rates and thus overall banking services costs. Any such cost increase for 2020/21 onwards will require to be considered through the forthcoming budget setting process.

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