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| Report to: | Finance and Information Technology Resources Committee |
| Date of Meeting: | 29 March 2011 |
| Report by: | Chief Executive |

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| Subject: | Extension to Banking Contract |
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1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ Propose extending the banking contract with Royal Bank of Scotland (RBS) for a period of two years.

2. Recommendation(s)

2.1. The Committee is asked to approve the following recommendation(s):-

- (1) that the contract with Royal Bank of Scotland for the provision of banking services is extended for a period of two years commencing 1 April 2011

3. Background

- 3.1. In 2007/2008, South Lanarkshire Council tendered for the provision of banking services and awarded the contract to RBS, commencing 1 April 2008 for a three year term with an option to renew for a further two years.
- 3.2. The main users of the banking services provided by RBS are Finance Services and Housing and Technical Resources. Both sections have advised that there are no service reasons for changing the provider. Both sections enjoy a good working relationship with RBS.
- 3.3. Procurement Services were asked to approach RBS to advise that a tendering exercise was being considered and to ask for proposed prices if the contract was extended for two years.
- 3.4. The proposal from RBS covered three main areas, Overdraft Facility, Pricing Structure and Deposits. This report summarises the outcome of that exercise, looking at the proposal from RBS on two areas, Overdraft Facility and Pricing Structure. Deposits would be considered in line with the Council's Annual Investment Strategy and do not form part of the contract for banking services.

4. Proposal from RBS – Overdraft Facility

- 4.1. RBS have proposed an overdraft facility of £5m at a rate of 1.75% above the base rate (currently 0.5%) with no arrangement or non utilisation fee. This compares to an existing overdraft facility of £5m at a rate of 1.00% above base rate.
- 4.2. The Treasury Management Section actively manages the balances on the bank accounts to ensure that overdraft facilities are not used and have alternative and

cheaper funding options than using the overdraft, including temporary borrowing and withdrawing funds held in call accounts.

- 4.3. The CIPFA Code of Practice requires Treasury risk to be identified and managed. One aspect of Treasury risk is liquidity risk and the Council is required to ensure it has adequate, though not excessive, cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives.
- 4.4. It is, therefore, considered appropriate that South Lanarkshire Council has an overdraft facility, despite it being unlikely to be used.
- 4.5. Recent changes to capitalisation requirements require banks to treat overdraft facilities as liabilities and to hold capital accordingly even if the facility is not being used. There is, therefore, now a cost to the bank of providing an overdraft facility. This was not the case in 2007 when the current contract with RBS was agreed.
- 4.6. In order to cover the costs of providing an overdraft facility, arrangement and non utilisation, fees are becoming normal practice in the banking industry. However, due to the credit standing of local authorities, RBS has decided in this instance not to charge this fee.

5. Proposal from RBS – Pricing Structure

- 5.1. RBS has provided a revised pricing structure if the contract was extended for a period of two years. The pricing structure is based on nineteen banking activities, of which RBS have agreed to keep fifteen at the price in the existing contract and restrict increases to the following activities:

- ◆ Cheques and Other Debits

This charge mainly relates to payments made by cheque and reflects the level of manual processes involved.

The price per cheque has increased from £0.05 to £0.09.

- ◆ Manual Credits

This charge mainly relates to payments received at branches using Bank Giro Credit

The price per transaction has increased from £0.15 to £0.16

- ◆ Cheques Paid In at Branches

The price per cheque has increased from £0.08 too £0.09

- ◆ BACS Usage

This is a charge per transaction for BACS payments such as payroll and creditors.

The price per transaction has increased from £0.01 to £0.011.

- 5.2. The annual charge for banking services based on current volumes at current prices is £64,562.14 rising to £69,477.97 at proposed prices, an increase of £4,915.83 or 7.6%.

- 5.3. Due to changes in processes within South Lanarkshire Council, there is scope to reduce the current volumes used to calculate bank charges.
- 5.4. The move to four weekly pay is expected to result in the number of BACS transactions reducing by approximately 152,000.
- 5.5. Any future move to pay Housing Benefit by BACS instead of by cheque could potentially result in the number of cheques issued reducing by 19,872 and a corresponding increase in BACS transactions.
- 5.6. After adjusting for expected changes in the volumes used to calculate bank charges, the annual charge for banking services is estimated at £66,225.08, an increase of £1,662.94 or 2.6% on current pricing.
- 5.7. The cost of changing service provider was estimated at £50,000 when this contract was last tendered in 2007. It is therefore considered that there would be no benefit to the Council in re-tendering and it is recommended that the extension is agreed with RBS.

6. Employee Implications

- 6.1. None

7. Financial Implications

- 7.1. The costs of extending the banking contract, estimated at £132,450.16 over two years can be met from existing budgets.

8. Other Implications

- 8.1. South Lanarkshire Council recognises that any treasury management activity will carry an element of risk. It is important that risk is identified and controls put in place to limit those risks.
- 8.2. The CIPFA Code of Practice requires Treasury risk to be identified and managed. One aspect of Treasury risk is liquidity risk. The provision of an overdraft facility by RBS contributes towards the mitigation of liquidity risk.
- 8.3. There is an element of counterparty risk in appointing a provider of banking services as the credit worthiness and the ability of the bank to continue as a going concern over the term of the contract need to be considered.
- 8.4. The support provided to RBS by the UK Government, while not providing any guarantees, should ensure that the bank continues to operate as a going concern over the term of the extension to the contract.

9. Equality Impact Assessment and Consultation Arrangements

- 9.1. This report does not introduce a new policy, function or strategy, or recommend a change to an existing policy, function or strategy and therefore no impact assessment is required.
- 9.2. There is no requirement to undertake any consultation in terms of the content of this report.

Archibald Strang
Chief Executive

2 March 2011

Link(s) to Council Values/Improvement Themes/Objectives

- ◆ Value: Accountable, efficient and effective

Previous References

None

List of Background Papers

None

Contact for Further Information

If you would like to inspect the background papers or want further information, please contact:-

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