

SOUTH HAMS DISTRICT COUNCIL

NAME OF COMMITTEE	Executive
DATE	5 June 2014
REPORT TITLE	Banking Arrangements
Report of	Head of Finance & Audit
WARDS AFFECTED	All

Summary of report:

To consider arrangements for the existing bank contract with the Co-op which expires on 31 March 2016.

FINANCIAL IMPLICATIONS:

The Council currently pays in the region of £25,000 annually in bank charges.

RECOMMENDATIONS:

That Executive **RESOLVES** that:

1. South Hams District Council participates in a joint tendering exercise with West Devon Borough Council and Teignbridge District Council for the procurement of banking services with a view to implementing a new contract from 1 April 2015.
2. South Hams District Council sets up a shadow bank account with an alternative bank provider, which would be activated in the event of the Co-op bank failing to deliver its existing banking service.

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1. BACKGROUND

- 1.1 The Council's contract with the Co-op expires on the 31 March 2016. The Co-op have advised the Council that they have decided to withdraw from their involvement in providing banking services to Local Authorities and that when the existing banking contract expires, they will not be seeking to renew it. Furthermore, they have indicated that they would fully support the Council going to tender at the earliest opportunity and terminating the existing contract before 31st March 2016.
- 1.2 At the start of the year, the following Devon Councils were also banking with the Co-op; Plymouth City Council, Exeter City Council, Torrington District Council and Teignbridge District Council (TDC). West Devon Borough Council currently bank with Nat West and their contract expires in March 2015. Plymouth and Exeter have recently undertaken procurement exercises and have awarded contracts to a new provider.
- 1.3 The Head of Finance & Audit has been in discussions with Teignbridge District Council (whose contract expires on the 31 March 2015) with a view to going out to tender on a collaborative basis for banking services which would include both South Hams and West Devon Councils. The advantages of this approach include:
 - The prospect of more competitive bids from the banking sector
 - Both SHDC and WDBC would have the same banking provider which would facilitate T18
 - A more cost effective procurement process (It is proposed to use the ESPO 384 Banking Services Framework which went live on the 21 May 2014).

2. CURRENT RISKS

- 2.1 The Co-operative Group has recently announced losses of £2.5bn for 2013, marking the worst results in the group's 150-year history. The group said that most of the losses stemmed from the Co-operative Bank, which amounted to £2.1bn.
- 2.2 The Council has operated a policy of keeping the daily balances at zero with the Co-op for many months. However, should the bank fail, the Council faces the risk of its account being frozen. Nevertheless, it is the view of Capita Asset Services (the Council's treasury management advisors) that in the event of failure, the Bank of England would have to intervene to "process" the transactions within their accounts, because the Co-op is part of the national Clearing Bank System. However, there is the possibility that the Co-op accounts would be closed to new transactions and therefore any affected Council would face the issue of maintaining "business as usual" with regarding its suppliers or customers who wish to make payments.

2.3 In order to mitigate this risk, the Council could consider setting up and using a substitute account as an alternative bank to receive all income flows. According to Sector some local authorities have already done this and pay balancing amounts into the Co-op bank Account daily to offset payments that still flow from this account. The main disadvantages of this are that:

1. If we had to change banks mid-year, the Council would have to re-bill mid way through a financial year. There would be the cost of sending the bills out of around £15,000 plus the resource time needed to do this. This would involve staff time in both the revenues team and call handling in the customer services team. All of the instalment slips would have to be reprinted. The Council has a lot of customers paying by 12 monthly instalments and a change mid way through the year would impact detrimentally on collection rates for both council tax and business rates.
2. This process would need to be repeated later in the year if a different bank was successful in a tendering process.
3. Changing the Council's main bank account details is a major exercise and if this exercise was undertaken part way through the year and again at the year end, this is not very customer friendly. All of the Council's customers would need to be notified of the change of bank account details.

3 SUGGESTED APPROACH

- 3.1 An alternative is to set up a shadow account which could be activated should the need arise. Some of the main banks have recently been approached about the possibility of setting up a "shadow account" for this purpose, which would only be activated should the Co-op bank fail.
- 3.2 The advantage of this approach is that it partially mitigates some of the risk from banking with the Co-op and the customer is not affected by having to change bank account details as this would only be enacted should the need arise. The Council would not need to re-bill for Council Tax and Business Rates and re-billing costs would not be incurred.
- 3.3 The disadvantage of this approach is that the Council would have a short period of downtime before it could switch all of its customers onto the 'shadow' bank account. This would cause disruption to 'business as usual'.

4. LEGAL IMPLICATIONS

- 4.1 It is proposed to use a cost effective procurement process (the ESPO 384 Banking Services Framework) which went live on the 21 May 2014.

5. FINANCIAL IMPLICATIONS

- 5.1 The Council currently pays in the region of £25,000 annually in bank charges. By tendering on a collaborative basis there is the prospect of more competitive bids from the banking sector.

6. RISK MANAGEMENT

- 6.1 The Risk Management implications are shown at the end of this report in the Strategic Risks Template.

7. OTHER CONSIDERATIONS

Corporate priorities engaged:	All
Statutory powers:	Local Government Act 1972, Section 151
Considerations of equality and human rights:	.None directly related to this report
Biodiversity considerations:	None directly related to this report.
Sustainability considerations:	None directly related to this report.
Crime and disorder implications:	None directly related to this report.
Background papers:	None
Appendices attached:	None

STRATEGIC RISKS TEMPLATE

No	Risk Title	Risk/Opportunity Description	Inherent risk status			Mitigating & Management actions	Ownership
			Impact of negative outcome	Chance of negative outcome	Risk score and direction of travel		
1	Risk that the Co-op bank fails	Should the bank fail, the Council faces the risk of its account being frozen.	5	2	10 ↔	<p>The Council has operated a policy of keeping the daily balances at zero with the Co-op for many months.</p> <p>Set up a shadow account which could be activated should the need arise.</p>	Head of Finance and Audit

Direction of travel symbols ↓ ↑ ↔