

LONDON BOROUGH OF BRENT

**MEETING OF THE EXECUTIVE
8 DECEMBER 2003**

REPORT FROM THE DIRECTOR OF FINANCE

FP NO:

**NAME OF WARD(S)
ALL**

**REPORT TITLE: AUTHORITY TO AWARD CONTRACT FOR BANKING
SERVICES AND CREDIT CARD SERVICES CONTRACT**

Above **Below**

Confidential Line

(Except Appendix B)

1.0 Summary

This report requests authority to award contracts as required by Contract Standing Order No 89. This report summarises the process undertaken in tendering this contract and, following the completion of the evaluation of the tenders, recommends to whom the contract should be awarded.

2.0 Recommendations

- 2.1 That the Executive award the contract for banking services to The Royal Bank of Scotland PLC as agents for Nat West Bank PLC to take effect from 1 April 2004 subject to the Director of Finance being satisfied that any outstanding contractual issues have been resolved.
- 2.2 That the credit card contract is not awarded at this time and that the contract for credit card acquiring is tendered to wider competition.

3.0 Financial Implications

- 3.1 The Council's Contract Standing Orders state that contracts for supplies and services exceeding £500k or works contracts exceeding £1million shall be referred to the Executive for approval of the award of the contract. The estimated value of the Banking Services contract is below this threshold over the life of the contract as the credit card acquiring contract has been excluded bringing the value below £500k.

- 3.2 The cost of consultant fees, legal assistance and electronic bank facilities is included in the BFS budget. All service units have a budget provision for bank charges and credit card costs.
- 3.3 The recommended bank has not submitted the lowest bid to provide the service as the projected cost associated with moving bank is conservatively estimated at £50,000 (Appendix B). Most of this would be staff time before and over the first year of the contract, when there would be changes in systems, processes and contacts. The change of bank would give rise to various business risks ranging from possible delay in closing the accounts, costs associated with re-formatting data for new electronic systems, reduced collection due to reduced bank counter choice and customers being charged £5 for 3rd party transactions.
- 3.4 The price comparison at Appendix B shows the estimated cost of changing contractors over a five year period.

4.0 Legal Implications

- 4.1 The estimated value of this contract over its lifetime is higher than the EU threshold for Services and the award of the contract therefore is governed by the Public Procurement Regulations. The award is also subject to the Council's own Standing Orders in respect of High Value contracts and Financial Regulations.
- 4.2 As banks are used to contracting on their own terms and conditions all 3 banks raised issues with the terms and conditions of the contract. The issues currently raised by the Royal Bank of Scotland (as agents for Nat West) are minor issues that will not substantially alter the terms and conditions of the contract. It is possible that their legal team may raise further issues. However it is unlikely that these will substantially alter the terms and conditions of contract. At the Executive meeting of 23rd June 2003 the Director of Finance was granted delegated powers to negotiate any contractual issues, in consultation with the Borough Solicitor.
- 4.3 The Royal Bank of Scotland submitted a bid as agents for Nat West Bank PLC. This means that if their tender is accepted the Council's contractual relationship will be with Nat West Bank PLC rather than with the Royal Bank of Scotland PLC.

5.0 Staffing Implications

- 5.1 An external contractor currently provides this service and there are no implications for Council staff arising from retendering the contract. However if the contract were awarded to a new contractor there would be additional work and training involved in changing processes, systems and contacts which would require additional resources in the first year of the contract.

DETAIL

6.0 Background

6.1 The report of 23rd June 2003 set out the background to the tender. The banking services contract was originally awarded to National Westminster Bank plc in 1993, and retained in 1997.

6.2 The tender process has been supported by a consultant who has advised on potential areas for savings and assisted with the pricing comparison.

7.0 The tender process

7.1 The new contract will be let for 5 years from 1 April 2004 with an option to extend for a further 2 years.

7.2 Advertisements were placed in the Official Journal of the European Union (OJEU), the trade press and the local paper on 8 September 2003 to seek initial expressions of interest. This elicited 7 initial enquires. The service specification and instruction to tender and Terms & Conditions were sent out and 3 contractors submitted tenders.

7.3 The tendering instructions stated that the contract will be awarded on the basis of the most economically advantageous offer to the Council and that in evaluating tenders, the Council would have regard to the following:

- Price
- Proven ability to meet core service requirements
- Proven ability to meet ancillary service requirements
- Response to Quality Questionnaire
- Approach to Service Delivery

7.4 Tenderers were required to submit additional information providing details of the their proposed arrangements for performing the services including (but not limited to) the following:

Proposed service level agreement
Draft project plan to transfer the service

7.5 The economies of letting both the Credit Card Services contract and the Banking Services contract together has not materialised. Although one bank other than Royal Bank of Scotland tendered the lowest price for Credit Card services there were only three banks that tendered bids. These bids were made on the basis of winning both the Banking Services contract and the Credit Card service contract. As there is a far wider market for Credit Card Service providers the Credit Card Services Contract will be tendered separately in the near future to

wider competition. The value of the Credit Card services contract will not exceed the EU threshold for services.

- 7.6 The scoring of the tender evaluation on both quality and price is at Appendix B. Further details on the evaluation are attached at Appendix A.
- 7.7 Service unit staff were consulted via telephone on their views of the current service and their suggestions for the new contract. Most units were satisfied with the current arrangements and did not propose any major changes to the service. Access to statement information on-line was the main request from units.
- 7.8 The panel agreed that all banks could provide the service. However each bank would provide the service differently. If a new bank was appointed changes in practices may be needed.

8.0 Evaluation process

- 8.1 The tender evaluation was carried out by a panel of officers from Brent Financial Services and HR Consultancy Services. Also in attendance was a member of legal services.
- 8.2 All tenders had to be submitted no later than 12 noon on 29th September 2003. Tenders were opened on 29th September 2003 and 3 valid tenders were received from The Royal Bank of Scotland as agents for Nat West bank PLC, the Co-Operative Bank PLC and Lloyds TSB PLC.
- 8.3 The tender by the Royal Bank of Scotland was made on the basis that it was acting as agent for it's subsidiary company Nat West Bank PLC and that the services would be performed by Nat West Bank under the Nat West Bank name. As our current provider of Banking Services all of our bank accounts are held by Nat West Bank plc and Nat West Bank branches are used by our customers to make payments. However the customer service staff and Corporate Managers are Royal Bank of Scotland plc employees who manage both Nat West as well as Royal bank of Scotland clients.
- 8.4 The tenders were photocopied and given to each member of the evaluation panel. Each member of the panel read the tenders using evaluation sheets (see Appendix B) to note down their comments on how well each of the award criteria was addressed.
- 8.5 Question and answer sessions were held on 21st and 24th October and aspects of the tenders were clarified with individual banks. The panel met on 28th October 2003 and each submission was marked by the panel against the award criteria. The scores for each submission are included in Appendix B. It was agreed that Nat West Bank offered the

best service. The areas which varied the most are;

- annual transaction costs
- paying in facilities for customers
- electronic banking facilities
- controls to reduce fraud

8.6 All 3 of the banks provided a list of clauses in the terms and conditions of contract that they would like to see amended. These were forwarded to Legal Services for comment.

8.7 Under the new contract the annual cost of the transaction tariff increases by £11k compared to the current contract tariff, Nat West transaction tariff was the cheapest of the three tenders received. The increase is mainly due to higher charges for types of transactions that banks in general wish to discourage i.e. cash transactions, paper based services and use of branch counters. BACS transactions costs are reduced and there is no increase in the annual electronic costs. Greater use of electronic facilities is a route the Council wishes to follow. Savings can be made by increased use of automated facilities and are expected when on-line facilities become available.

9.0 Background Information

Banking Services tender file
Report to Executive 23 June 2003

Anyone wishing to inspect these documents should contact Sarah Cardno, Brent Financial Services, Room 107-115 Town Hall. Tel.No. 020 8937 1161.

APPENDIX A

BANKING SERVICE CONTRACT

Comparison Details

Although the evaluation suggests that Nat West is the most expensive of the three tendering banks, there are a number of issues that must be considered when comparing the tenders:

Head Office Collection Account (HOCA) Transactions

It is standard practice for all banks to charge non-customers a fee (usually £5) to pay a bill over their counters.

Nat West, have, however agreed to continue to waive their £5 counter fee for all payers depositing funds into one of the Council's 8 HOCA's regardless of whether the payer holds a bank account with Nat West.

This therefore means that if the Council were to transfer arrangements to Lloyds or Co-op, payers would need to use a branch of their own bank to deposit HOCA slips in order to avoid a counter fee. However, this clearly creates a problem for payers who do not hold a bank account – recent statistics (produced by Bristol University for British Bankers Association dated Dec 2002) state that between 6% and 8% of the adult population do not have a bank account. If we therefore assume that 7% of HOCA credits (i.e. approx. 5,300) would incur a counter fee of £5 the additional cost to payers would amount to £26,600 per annum or £133,000 over the five-year period.

When this benefit of the Nat West arrangements is factored into the cost comparison they become substantially cheaper than the other tendering banks.

BACS.

Nat West annual transaction costs are the lowest of the three tendering banks, in particular the cost per BACS file submission is the lowest. The Council is moving towards greater use of BACS as a method of payment and collecting income but smaller units would gain little cost benefit with a higher file charge due to their relatively low transaction volumes.

Electronic Banking

One of the main reasons for Nat West being more expensive than the other tendering banks is the cost of their balance and transaction reporting module on BankLine:

Nat West have priced their tender on the basis that their BankLine software continues to be used. They have however pointed out that they

are due to launch a new electronic banking service early next year which will enable access to information via the Internet.

Although they have not been able to provide information on price, it is likely that the cost of balance and transaction reporting will be lower than it currently is for BankLine (it is unlikely to be higher as there would be no incentive for users to transfers to the new internet based system).

Cost of Moving Bank

Other local authorities of a similar size have estimated the cost of moving bank to be as high as £50,000. Whilst there may be some relatively low internal I.T. costs (e.g. to establish new links for obtaining reconciliation data) most of the cost is in staff time.

Given the devolved nature of the Council's banking arrangements (i.e. a large number of bank accounts operated by different staff) it is likely that the cost of moving bank will be higher than for most local authorities.

Fraud

The prevention and detection of fraud is a high priority. Although attempted cheque fraud has been in the region of £1M the actual loss to the Council has been approximately £1k since 1993. This is the result of building a close working partnership with the bank. Positive Pay is a data matching facility for cheque payments which hi-lights any variance between the amount paid to the amount issued. This facility is offered by two of the banks but is only viable for units that issue high volumes of cheques. The Co-Operative Bank relied heavily on Positive Pay being the main deterrent for fraud. Lloyds TSB are equally committed to prevention and detection of fraud but it is felt that Nat West's record would be very hard to improve upon.