



Report on the Transition to New Banking Arrangements

Report of the Director of Finance

1. Purpose of Report

- 1.1. This report updates the committee on the project to transfer the Council's banking services from the Co-operative Bank to Barclays Bank. The main project has now been completed and the report details the procurement and implementation of the new contract and notes changes to facilities arising from the new arrangements.

2. Recommendations

- 2.1. The Audit & Risk Committee is recommended to note the report and make any comments it sees fit.

3. Summary

- 3.1. The report will address in the following sections:
- 4) The overall context of the project
 - 5) The procurement process
 - 6) The implementation phase
 - 7) Transfer of receipt of income
 - 8) The key outcomes & achievements of the project
 - 9) Key controls that are in place as part of the new arrangements
 - 10) Use of cheques in schools and the Council
 - 11) Ongoing relationship with Co-op
 - 12) A glossary of key terms

4. Overall context of the project

- 4.1. The Council's banking facilities had been provided by the Co-operative Bank ("the Co-op") for around a decade prior to April 2015. The Co-op had held a very strong position in the local authority banking market.
- 4.2. Following the global financial crisis and the merger with Britannia Building Society in 2009, the Co-op suffered from well-documented financial problems culminating in the near collapse of the bank and eventual takeover of by a consortium of bond-holders, primarily US-based hedge funds, in late 2013.

- 4.3. The extended period of uncertainty resulting from the Co-op's problems required the Council to take a range of measures to minimise our financial exposure to the Co-op. The administration of measures placed a considerable extra burden on LCC officers.
- 4.4. The Council's contract with the Co-op, including all extensions, expired on 31st March 2015. It was therefore known that a procurement exercise would be required in any event, but in November 2013 the Co-op announced that it had decided to exit the local authority market completely.
- 4.5. It was then clear that there would have to be a transition to a new bank and that the new arrangements would have to be in place by March 2015.

5. The procurement process

- 5.1. Because of the specialist nature of banking services, it was felt prudent to appoint an advisor. A small procurement exercise was undertaken in late 2013 and Focus on Banking Ltd were appointed. Focus on Banking are a reputable firm that have supported a large number of local authorities with their banking needs over recent years.
- 5.2. It is important to note that Focus on Banking (FoB) were appointed solely as advisors to the project. All substantial decisions and tasks were undertaken by Council staff. Focus on Banking provided us with knowledge of the sector and experience gained from supporting a large number of changes of banking provider by other councils, but we also wanted to ensure that the project built the experience and capacity of Council staff rather than relying on external contractors to do the work.
- 5.3. Following the appointment of FoB, it was decided that the Council would issue its own tender rather than seek to participate in any framework agreements. This was felt to offer both value for money and the potential to secure a more tailored service. The tender specification was put together with support from a range of colleagues within the Council and the advice of FoB.
- 5.4. An Invitation to Tender was issued in May 2014. Following receipt of four bids an evaluation was carried out in accordance with all relevant requirements and Barclays Bank were awarded the contract. Following the completion of all aspects of the procurement process, work on the implementation began in November 2014.

6. The implementation phase

- 6.1. The implementation of the change of banking provider had two parallel but distinct areas:
 - Corporate council accounts and services
 - The 88 schools which banked with the Co-op
- 6.2. Whether for the Council's own accounts or for schools, changing bank accounts is, in essence, not particularly complicated, though of course there is a lot of detail behind the actual transition that makes it a complicated exercise. The steps include:
 - a) Setting up new accounts, account mandates, controls and processes.
 - b) The transfer of payments functions to begin paying from new accounts.
 - c) The redirection of income into the new accounts
 - d) The closure of the old accounts

- 6.3. In relation to the Council's corporate accounts, the Barclays accounts went live at the beginning of February 2015 and the transition was completed by April 2015. Some key aspects of this work included:
- a) Agreeing the Council's group banking arrangements with Barclays
 - b) Setting up the Barclays.Net online banking platform for Council users, and setting up controls within the website to prevent inappropriate transfer of funds
 - c) Putting in place facilities for accessing cash, including debit cards, and banking cash
 - d) Transferring the Council's BACS payment processes and receipt of income to Barclays, including communicating with customers and funding bodies to ensure they made necessary changes to the details they hold
- 6.4. The transition of 88 schools from Co-op to Barclays was a major logistical exercise. Officers were conscious that schools were not obliged to transfer to Barclays as they are able to choose their own providers if they wish.
- 6.5. After much preparatory work, a meeting was held with school representatives in January 2015 at which the benefits of the Council contract, and the process for transition, were outlined. All of the schools with Co-op accounts elected to transfer to Barclays.
- 6.6. The process of transition was in essence similar to that for the Council: mandates were signed; schools were set up with access to the Barclays.Net online banking platform; they produced new cheques for their Barclays accounts and put in place arrangements for access to cash and cash collections where required.
- 6.7. There were several challenges faced in this transition around logistics, systems, and authorisation processes. These challenges were overcome effectively and the project team worked hard to communicate clearly with schools and to keep the focus on minimising disruption and focusing on service needs throughout.
- 6.8. The scale of the project meant that this was a real challenge but the outcome was that all schools transferred successfully to Barclays within the required timescales and the new arrangements are now bedded in.

7. Transfer of receipt of income

- 7.1. In most similar projects, there would be an extended period of 'cross-over' where both new and old accounts were open. This allows the Council to ensure that it can recover all payments that are made to it, even if these still go to the old accounts.
- 7.2. Because of the situation with the Co-op bank, the period of cross-over with the Barclays accounts was only three months (February-April). Most other transitions would have a cross over period of many months or even years.
- 7.3. The majority of payments to the Council could all be redirected to the Barclays accounts 'at the back end', whether within banking systems or Council systems. The only group to which this did not apply were customers who have the Council's old details saved in their personal banking websites/apps.
- 7.4. We used payment data from February and March to contact as many of these customers as possible to advise them of the need to change the payment details they held for the Council. The risk to the Council is that if they do not change their details, future payments will be returned to them because the accounts are closed.

- 7.5. The Council would still seek to recover payment through the normal processes for arrears or unpaid debt but of course from the point of view of both Council resources and customer service this is a less than ideal solution.
- 7.6. At this stage it appears that the communication efforts made have been largely successful and there has been no noticeable impact either on the work of customer-facing teams or on the level of arrears.
- 7.7. For organisations that pay us via their own BACS systems, a redirection service is in place (much like a postal redirection) that ensures payments are redirected for a period of 12 months, even if the customer has not changed our details in their system. We receive reports of these redirected payments and are using these to contact customers to remind them to make the change at source. This should minimise the risk of payments to us not being received when the redirection ceases.

8. Key outcomes and achievements

- 8.1. The project was successful in transferring the Council's operations (including schools) to the new bank within the required timescales and with minimal impact on service delivery. We received feedback from Barclays that they had a very positive view of the Council's handling of the project and that it had gone smoothly in comparison to some similar implementations they have worked on.
- 8.2. The price of the service is volume-driven so a like-for-like comparison of costs is difficult at this stage, but based on the model used to assess the bids, the contract represents a significant saving over the previous arrangements which could be as high as 50%.
- 8.3. The contractual agreement with Barclays gives the Council a solid foundation for its banking services into the future. It is a clear and practical document that should provide an effective framework for managing the service over its life.
- 8.4. The core contract is for five years but if the arrangements continue to represent value for money then there is the option to agree extensions for up to a further 12 years.
- 8.5. The group banking arrangements provided by Barclays represent a significant step forward over previous arrangements and make it much easier for the Council to manage its financial exposure to the bank whilst also maintaining the best operational processes – something that had become very challenging with the previous provider.
- 8.6. The project has been used to make some very significant efficiencies and improvements within the Council's own arrangements, including reducing the overall number of bank accounts; freeing up considerable officer time and improving the knowledge base within key teams.
- 8.7. A number of new facilities have been introduced that increase our capabilities, including:
 - a) The use of debit cards in key service areas
 - b) Wider access to online banking for those who need it
 - c) The facility to make Faster Payments
 - d) The facility to initiate Direct Debits directly from the Barclays.Net site

9. Key controls in place

- 9.1. Whilst the change of bank has in most cases not resulted in changes to the controls regime already in place, it is worth noting some of the key controls, including some new ones.
- 9.2. Payments made to other people or organisation via BACS require authorisation within the source system that produces them. Authorisation for these was not therefore affected by the change in banks.
- 9.3. Payments made via BACS or CHAPS through the online banking platform are subject to segregation and authorisation controls, as they have been previously. The same controls also apply to the new Faster Payments facility.
- 9.4. These controls have been set up by LCC within the online banking administration and are controlled by officers who are not able to initiate or authorise payments. Changes made by administrators require the involvement of more than one officer and administrators cannot be created without the involvement and approval of both Council account signatories and the bank.
- 9.5. Council cheques are pre-printed with a lithographed signature. The cheques are held securely and use of cheques is reconciled to ensure none go astray. Cheques over a certain threshold require a second signature from one of the Council's authorising officers. Schools administer their own cheques and have existing processes in place for doing this.
- 9.6. Debit cards are held individually and cardholders have signed a declaration about their use of the card, including the condition that they are the exclusive user of the card. Cards can only be used to spend up to the amount of money that is in the account they are attached to (i.e. there is no overdraft facility for them) and there is a segregation of duties around the transfer of funds into these accounts, which limits exposure to fraud or misuse of the cards.

10. Use of cheques in schools and by the Council

- 10.1. LCC schools still pay suppliers primarily using cheques. The Barclays.Net platform will allow schools to use electronic BACS payments instead. This can result in faster and more secure payments to suppliers, as well as savings in terms of the cost of bespoke cheques, postage, officer time etc.
- 10.2. It was felt to be impractical to introduce this change at the same time as the overall transition, but a pilot and subsequent roll out is planned for the autumn term, so all schools should be enabled to make electronic payments by the end of 2015, with appropriate controls and procedures in place.
- 10.3. It is not possible to centrally assess the saving to be made across LCC schools from moving to electronic payments, but it is estimated that the saving could be in the region of £100k per annum.
- 10.4. The Council is also exploring the possibility of ceasing or minimising the use of cheques corporately in favour of cheaper electronic payments, and has already made significant reductions in the numbers produced.

11. Ongoing relationship with Co-op

- 11.1. Whilst the Co-op Bank no longer provide the Council's core banking service, the Council still works with them under a separate contract in relation to bill payment services. The Co-op provides back-office functions to the Post Office & PayPoint bill payments service and we retain a Co-op account for the purpose of receiving these funds.

12. Glossary of key terms

Bond-holders	Those who had bought bonds issued by the Co-op bank and therefore had the option to convert their debt into equity ownership of the bank as part of its rescue package
Invitation To Tender	An official document that sets out the Council's requirement for services, informs bidders of the tender process and gives them the information they need to prepare a bid.
BACS	A method of electronic payment. Takes three days to reach recipient. Payment files produced in source systems and interfaced into Agresso. This is the main way the Council pays other organisations or people
CHAPS	A more expensive and sophisticated way of paying people. Payments are guaranteed and arrive the same day. Used for high value one-off transactions (e.g. purchase of property) and treasury management activities
Lithograph	A method whereby the Director of Finance's signature is printed onto cheques when they are produced. This is a controlled process
Faster Payments	Same-day electronic payments but with lower limits and fewer guarantees than CHAPS, but also lower cost.
Account mandate	The document that governs who is allowed to sign to authorise payments from or changes to the account
Account signatory	Someone confirmed on the bank mandate who can authorise payments from and changes to the account
Group banking	Often larger organisations have a large number of accounts and these are put into a group arrangement to reflect that they are all part of the same organisation for the purposes of interest, fees and management of the net balance

13. FINANCIAL, LEGAL AND OTHER IMPLICATIONS

13.1. Financial Implications

As the report is commenting on work already undertaken, there are no direct financial implications arising. The report is exclusively concerned with the provision of banking services to the Council.

Alistair Cullen, Principal Accountant – Corporate Accountancy

13.2. Legal Implications

There are no legal implications arising from this report.

Seema Patel, Solicitor (Commercial Contract & Capital Team)

13.3. Climate Change Implications

There are no climate change implications from this report.

14. Other Implications

OTHER IMPLICATIONS	YES/ NO	Paragraph/References Within the Report
Equal Opportunities	N	
Policy	N	
Sustainable and Environmental	N	
Crime and Disorder	N	
Human Rights Act	N	
Elderly/People on Low Income	N	
Corporate Parenting	N	
Health Inequalities Impact	N	
Risk Management	N	

15. Background Papers

15.1. No applicable

16. Consultations

16.1. Not applicable

17. Report Author

17.1. Alistair Cullen – Principal Accountant (Corporate Accountancy)

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