

## Background Paper 1



# Review of Banking Arrangements

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## Review of Banking Arrangements

### **1. Introduction**

- 1.1. This is the report on a review of Cambridge City Council's (hereafter referred to as the Council) banking and cash management arrangements. The review was undertaken by Focus on Banking who specialise in reviewing banking arrangements for a wide range of clients.
- 1.2. The Council's main bank relationship is with HSBC who provide money transmission services and credit facilities. Credit and debit card payments are accepted via Capita and HSBC. Card payments for car parking are accepted via Six Card Solutions.
- 1.3. Santander and allpay.net facilitate the collection of payments over Post Office and other counters. Secure collections of paying in are provided by Loomis and BDI Securities.
- 1.4. This report contains recommendations in respect of the tariffs/costs charged by the various providers. Cash management and internal banking procedures are also commented on.
- 1.5. Specific recommendations are made in the main text of the report. They are then repeated at Appendix 1, which includes estimates of the savings that can be achieved.

## **2. HSBC – Money Transmission Services**

### **2.1. Introduction**

- 2.1.1. This section of the report benchmarks the current money transmission arrangements (i.e. mainstream transactions such as cheques, BACS etc) against the terms that are likely to be quoted at tender. We have also provided advice in respect of the most appropriate way forward at section 2.5.
- 2.1.2. The current contract expires on 31<sup>st</sup> March 2013 although the Council has the option to extend for a further 3 years to 31<sup>st</sup> March 2016..

### **2.2. Transaction Charges**

- 2.2.1. When benchmarking costs it is important to understand the current market for local authority banking. There are six banks that provide full banking services to English local authorities:
1. Co-op Bank
  2. NatWest/Royal Bank of Scotland Group
  3. Lloyds Banking Group (Lloyds)
  4. Barclays
  5. HSBC
  6. Alliance and Leicester Commercial Bank (Santander)
- 2.2.2. It is rare to see Lloyds and HSBC quote competitively for new local authority business although they will tender to retain existing contracts. Although Barclays have historically shown very little interest in new local authority contracts, we have seen them tender recently for a number of authorities. It should however be noted that their pricing is usually high when compared to the other banks.
- 2.2.3. A number of years ago we did see several tenders from Alliance & Leicester Commercial Bank (now part of Santander) who were attempting to enter the market (i.e. to provide full banking services to local authorities). During this time they won three contracts – they have however advised us that they will not be competing for any more local authority contracts in the short term.
- 2.2.4. Co-op and NatWest (i.e. the Royal Bank of Scotland Group) regularly compete for new local authority contracts and bank around 70% of the UK local authorities between them.
- 2.2.5. Therefore, if the Council were to undertake a formal tender exercise, it is likely that competitive tenders would be received from then incumbent HSBC, NatWest and Co-op. Our benchmark therefore compares the Council's

current arrangements with the terms that are likely to be proposed by these banks at tender.

2.2.6. Although it is possible that Barclays and/or Lloyds could also tender we have not provided benchmark pricing as their costs are likely to be higher than those proposed by NatWest and Co-op.

2.2.7. The spreadsheet at Appendix 2 provides a detailed analysis of charges. Annual transaction volumes have been estimated based on transaction volumes quoted on recent charging advices from Co-op. In summary, costs compare as follows:

Current HSBC	HSBC Tender	Co-op Tender	NatWest Tender
£33,788	£52,384	£41,622	£38,458

2.2.8. As indicated above, the current annual cost is approximately £18,500 below the level that HSBC would quote at tender and £4,500 below what NatWest would quote at tender.

2.2.9. The following bullet points provide further comment on the key areas of the tariff:

- **Cheques Paid/Standing Orders/Direct Debits** – HSBC may seek to increase tariffs for these transactions when the contract is extended. The current prices are at the wider market level that other banks would quote so any significant increases should be resisted.
- **Credits** – the bank may attempt to increase the tariffs for automated credits/Faster Payments received and manual credits at cash centre (bulk credits). The existing prices for these transactions are below the wider market level and it may be necessary to make a concession in the level of these tariffs.
- **Cash And Cheque Handling** – the existing tariffs for cash and cheque handling are marginally below the wider market level. We have seen HSBC quote relatively high pricing at tender and any increase to such levels should be resisted.
- **Stopped And Unpaid Cheques** – although the existing pricing is below the level that HSBC would quote at tender, the tariffs are in line with those that NatWest and Co-op would quote. Any increase should therefore be resisted.
- **BACS** – the current tariff for transactions is at the level that we would expect to see HSBC quote at tender and marginally above the rates that NatWest and Co-op would quote. The existing charge for files is, however, below the market level. If HSBC attempts to increase the file charge, we recommend that a reduced transaction charge is requested.

- **Statements With Vouchers** - we were advised that the Council is attempting to phase out the return of paper vouchers with bank statements. HSBC may seek to double the tariff at renewal of the contract. Co-op would potentially charge £5,000 per annum at tender and NatWest £1.50 per statement sheet with items returned. The level of annual charge with NatWest may therefore be above that shown at Appendix 2 as the current volume refers to statement dispatches and not statement sheets. We recommend that the need to receive paper vouchers with statements is reviewed and if possible stopped.
- **HSBC.net Additional Users Fee** – NatWest and Co-op would not levy an additional users fee although Co-op’s monthly fee would be greater for the core internet banking service. HSBC rarely concede on charging this fee and assuming they do not attempt to increase it, we recommend that concessions elsewhere are the focus of discussions.
- **CHAPS Payments** – the current tariff of £7 is very competitive and an increase is likely to be requested by the bank. Co-op would quote £7 and NatWest £10. We recommend that any increase is limited to a new tariff within this range.
- **Reconciliation Data** – the Council currently downloads data for reconciliation from HSBC.net at no charge. We are increasingly seeing local authorities export data from an internet banking service without incurring any charges for bespoke downloads. Our benchmark assumes that the Council could export the data it needs for reconciliation from NatWest and Co-op also without any charge.

**Recommendations:** *Minimise any request from HSBC to increase tariffs at renewal/extension of the contract.*

*Review the need to receive paper vouchers with bank statements.*

### **2.3. Credit Facilities**

- 2.3.1. HSBC currently provide an overdraft facility of £750,000. It is not clear whether or not an arrangement fee was levied at renewal. Following changes in banks’ capital adequacy rules, we have seen all banks begin to charge local authorities an annual arrangement/renewal fee for overdraft facilities. We are typically seeing fees between 0.25% and 0.5% of the facility amount.
- 2.3.2. Overdrawn balances within overdraft facility are charged at 2% above Base Rate. This is in line with other facilities that we see provided to local authorities

## 2.4. Cash Management

- 2.4.1. Our overview of cash management revealed that only a modest credit balance is left across the bank accounts at HSBC on a daily basis. An average balance of £3 million is invested on a deposit account with HSBC earning 0.275%. It is rare to see HSBC offer such a high rate of interest for balances held on deposit.

We understand that the Council invests longer term deposits with other local authorities and also maintains a modest deposit with Barclays. Rates earned range from 0.3% to 1.2%. We are increasingly seeing local authorities invest in liquid funds (typically AAA rated funds) and securing 0.5%. It is also common to see RBS/NatWest used as a counterparty as they will typically offer Base Rate plus 0.3% for call deposits.

From our discussions, the daily process of cash management appears well run and organised. We recommend, however, that balances invested with HSBC and local authorities paying less than 0.5% are minimised as significantly better rates can be secured elsewhere. If the return on £5 million can be improved by 0.2%, interest earned will increase by £10,000 per annum.

**Recommendation: *Minimise investments with HSBC and local authorities paying less than Base Rate.***

## 2.5. Way Forward/Contract Renegotiation

- 2.5.1. The Council's overall banking costs are below the level that we would expect to see at tender. HSBC will be keen to avoid a tender process and extend the contract from 2013 to 2014. It should therefore be possible to secure competitive terms by negotiation. The results of the benchmark should be shared with HSBC and their proposal to extend the contract and to avoid a tender process invited. In recent negotiations involving HSBC where existing terms are below the level that would be quoted at tender, we have seen the bank seek increases but not to the tender level.
- 2.5.2. At tender we commonly see a one off discount in year one of a contract of between £1,000 and £5,000 for a contract of this size. This would be quoted as a loyalty discount where the bank already has a local authority's business. If the Council decides to extend the contract for only 1 year, the bank is unlikely to agree to pay a loyalty incentive. If a longer term is agreed, however, a loyalty incentive should be requested.
- 2.5.3. Both Co-op and NatWest would seek to increase the core tariffs in line with RPI on an annual basis. HSBC will often agree fixed pricing for the term of a contract. We recommend that a fixed price is agreed for any extension that is negotiated.

2.5.4. We therefore recommend that, subject to compliance with the Council's internal procurement regulations and a satisfactory outcome of negotiations over the level of charges, the contract is extended with HSBC.

***Recommendation: Seek extension to existing arrangements.***



### **3. Credit and Debit Card Acquiring**

#### **3.1. Introduction**

- 3.1.1. The Council's card acquiring arrangements are currently split between HSBC and Capita. HSBC acquire face to face card payments at various locations.
- 3.1.2. Internet, telephone and automated telephone voice recognition payments are acquired through the Council's arrangements with Capita. Although the Council's contract is with Capita, Streamline (a subsidiary of the Royal Bank of Scotland Group) act as the acquiring bank.

#### **3.2. General Pricing of Card Acquiring Contracts**

- 3.2.1. Although debit card payments are charged on a per transaction basis, credit card transactions are charged as a percentage of the payment value. This means that the cost of collecting credit card payments is usually far greater than the cost of debit card payments.
- 3.2.2. The reason that credit cards are charged on a percentage basis is that when a payment is made, the payer does not have to fund the transaction immediately. Depending on the timing, the cardholder may not be charged interest on the payment for up to 50-60 days. A large proportion of the fee (known as interchange) levied to the organisation accepting the payment is passed on to the card issuing bank and covers the cost of the interest free period enjoyed by the cardholder as well as any other benefits (i.e. loyalty schemes, airmiles etc). The rest of the fee (i.e. the margin above interchange) is retained by the acquiring bank and covers the card acquirers cost of collecting the payment and provides an element of profit.
- 3.2.3. Interchange will vary depending on the nature of the transaction with the main drivers being:
  - Card type
  - How transactions are collected (e.g. face to face, via the telephone or internet)
  - Whether the transaction is Chip/Pin verified
  - Fraud screening services used for card holder not present (CNP) transactions (see 3.3)
- 3.2.4. Most card acquirers will often quote a range of tariffs depending on how the transaction is collected – e.g. the Visa credit card rate will be higher for telephone transactions than for face to face transactions. However, it is common to see 'blended' rates offered to local authorities.

### 3.3. Fraud Screening

- 3.3.1. Following the roll out of Chip and Pin, the industry has seen a growth in card fraud for cardholder not present (CNP) transactions (i.e. telephone, internet transactions) which cannot be verified by a pin.
- 3.3.2. To combat the growth in CNP fraud, a number of fraud screening services for internet/cardholder not present transactions were introduced:
- **CV2/CVV2 checking** – This is the verification of the three digit number reported on the signature strip of a card. It is only printed on the card so by asking for this number you are, in theory, ensuring the payer has the card with them.
  - **Verified by Visa/Mastercard SecureCode (collectively known as 3D secure)**– This service is for internet transactions only. Cardholders register a password with the card issuer – this password is requested at the time of payment and checked against the password held.
- 3.3.3. Although the Council will no doubt experience very little fraud the use of these services will reduce the level of interchange which will enable the card acquiring bank to offer lower pricing.

### 3.4. Capita Arrangements

- 3.4.1. Capita currently provide a fully managed card transaction service whereby they act as the Payment Service Provider (PSP) collecting/transmitting the transaction data and the card acquirer (i.e. processing the payments and settling funds). Although Capita provide the full service, Streamline (a subsidiary of Royal Bank of Scotland Group) act as the card acquiring bank on their behalf.
- 3.4.2. Although we understand that the Council cannot simply move the Capita card acquiring arrangements (as we assume that they are linked to systems provided by Capita) we have compared current charges against the best tariffs we see quoted by Capita and other card acquirers for similar volumes. The following points should be noted in respect of our analysis:
- We have assumed that all transactions are fully secure (i.e. the CVV2 code is collected for telephone payments and 3D secure is used for internet payments) as we would expect this to be the case with Capita.
  - Annual volumes have been estimated based on Capita's invoices for June to November 2010.
  - Capita include the cost of facilitating the collection of payments via the internet within their tariffs. Our market cost includes an allowance for the cost of transactional handling that may be incurred with another PSP.

Transaction Type	Estimated Annual Volume/Value	Current Tariff	Current Cost	Capita Market Tariff	Capita Market Cost	Market Tariff	Market Cost
Internet Transactions							
Commercial Card	£21,150	2.50%	£529	2.60%	£550	2.1%	£444
MasterCard	£150,500	1.90%	£2,860	1.80%	£2,709	1.35%	£2,032
Mastercard Debit	450	£0.19	£86	£0.19	£86	£0.20	£90
Mastercard Signia	£2,000	2.20%	£44	2.20%	£44	1.9%	£38
Maestro	450	£0.19	£86	£0.19	£86	£0.18	£81
Visa Delta	26,950	£0.19	£5,121	£0.19	£5,121	£0.20	£5,390
Visa	£128,500	1.90%	£2,442	1.80%	£2,313	1.27%	£1,632
			£11,165		£10,907		£9,707
Internet MOTO							
Commercial Card	£40,000	2.60%	£1,040	2.60%	£1,040	2.1%	£840
MasterCard	£115,500	1.90%	£2,195	1.80%	£2,079	1.45%	£1,675
Mastercard Debit	250	£0.19	£48	£0.19	£48	£0.28	£70
Mastercard Signia	£1,000	2.20%	£22	2.20%	£22	1.9%	£19
Maestro	250	£0.19	£48	£0.19	£48	£0.17	£43
Visa Delta	15,850	£0.21	£3,329	£0.21	£3,329	£0.205	£3,249
Visa	£65,250	2.00%	£1,305	1.90%	£1,240	1.50%	£979
			£7,985		£7,804		£6,874
Touch Tone							
Commercial Card	£11,500	2.60%	£299	2.60%	£299	2.1%	£242
MasterCard	£51,750	1.90%	£983	1.80%	£932	1.45%	£750
Mastercard Debit	225	£0.19	£43	£0.19	£43	£0.28	£63
Mastercard Signia	£500	2.20%	£11	2.20%	£11	1.9%	£10
Maestro	225	£0.19	£43	£0.19	£43	£0.17	£38
Visa Delta	10,050	£0.21	£2,111	£0.21	£2,111	£0.205	£2,060
Visa	£31,500	2.00%	£630	1.90%	£599	1.50%	£473
			£4,119		£4,036		£3,635
Transactional Handling	59,000	N/A		N/A		£0.10	£5,900
<b>Total Annual Cost</b>			<b>£23,270</b>		<b>£22,748</b>		<b>£20,216</b>

3.4.3. As indicated above, the Council's current tariffs with Capita are broadly in line with the best tariffs we see levied to other Authorities collecting similar volumes of transactions.

### 3.5. HSBC Arrangements

- 3.5.1. HSBC acquire face to face card payments at various locations. We have assumed that transactions are face to face using chip and pin. Terminals are rented from HSBC to process transactions.
- 3.5.2. As above, the current tariffs and charges have been compared to those that we would expect to be quoted in a competitive situation for similar volumes.
- 3.5.3. The spreadsheet below provides a detailed comparison of tariffs and charges. The following points should be noted regarding the analysis:
- Annual transaction volumes have been estimated based on a sample of invoices provided for the review.
  - We have assumed that all transactions are chip and pin.

Transaction	Volume	Tariff	Cost	Market Tariff	Cost
Mastercard Credit	£1,230,000	1.347%	£16,568	1.15%	£14,145
Visa Credit	£840,000	1.347%	£11,315	1.12%	£9,408
Visa Debit/Electron	34,250	£0.1920	£6,576	£0.14	£4,795
Maestro Debit/Solo	2100	£0.1533	£322	£0.12	£252
Mastercard Debit	125	£0.21	£26	£0.14	£18
Non UK Maestro	£8,500	1.34%	£114	0.95%	£81
Visa Debit International	£125	1.26%	£2	1.30%	£2
<b>Total</b>			<b>£34,923</b>		<b>£28,700</b>

- 3.5.4. The existing charges are approximately £6,000 per annum above the market level. We understand that the Council is intending to place the contract to tender in the near future using ESPO's framework agreement. We often see only one tender in such situations and we recommend that the benchmark is used to ensure that competitive terms have been quoted.

The Council rents 15 basic static terminals and 2 portable terminals with a base station from HSBC. The rental charges are £15 and £18/£21 per month respectively. These charges are competitive.

**Recommendation:** *Ensure that competitive pricing is secured at tender.*

- 3.5.5. The Council also accepts credit and debit card payments at various car parking machines. To date these transactions have been acquired using Six Card Solutions (the provider of the machines) who in turn use Lloyds Cardnet as their card acquirer. We understand that a charge of 1% is levied by Six Card Solutions with further charges levied by Cardnet as follows:

	Value/Volume	Cost
Mastercard 1.35%	£550,000	£7,425
Visa 1.23%	£550,000	£6,765
Visa Debit 15p	200,000	£30,000
Maestro 13p	125,000	£16,250
<b>Total</b>		<b>£60,440</b>

Volumes and values of transactions have been estimated from discussions with the car parking team.

A significant number and value of transactions are accepted at car parking machines. We understand that a separate tender is being considered for the contract to collect these payments. We would expect to see tariffs no greater than those contained in the benchmark above as these are also Chip and Pin transactions. The volume of debit card transactions should result in tariffs below those shown in the benchmark above. To assist in any negotiations or analysis of tenders we would expect to see tariffs for Visa Debit and Maestro transactions of 11p/12p and 9p/10p respectively. An annual saving of at least £10,000 should be achievable through either negotiation or a tender.

It is not clear if the Council has to use Six Card Solutions and/or Lloyds Cardnet. The ad valorem charge of 1% of transactions appears to be high as we would normally expect to see a charge of 10p or less per transaction levied by a PSP. The charge, however, may be linked to other payments made for the car parking machines. The average value of transactions may also mean that the charge does equate to a competitive fee per transaction.

We recommend that the contract is either placed to tender or the costs are reviewed in detail and competitive terms are negotiated. Annual savings of at least £10,000 are achievable in the card acquiring arrangements.

**Recommendation:** *Place car parking payment by card contract to tender or negotiate competitive terms.*

### 3.6. Settlement Timescale

- 3.6.1. We were unable to verify how quickly funds in relation to the card payments are credited to the Council's bank account.
- 3.6.2. For a contract of this size, it is usual to see Capita offer settlement three working days after the transaction date (known as T+3). We would expect HSBC and Cardnet to be providing value after two days (T+2).

- 3.6.3. We recommend that the Council review settlement timescales to ensure T+3 and T+2 settlement is achieved with Capita and HSBC/Cardnet respectively.

***Recommendation: Review settlement timescales.***

### **3.7. Charging For Credit Card Payments**

3.6.1 We are increasingly seeing local authorities levy a charge for accepting credit card payments given the relatively high cost of these transactions. Typically the charge is set at the average level of that incurred.

3.6.2 The Council does not currently levy a charge for credit card payments. We recommend that consideration is given to introducing a charge. A charge of 1.1% would recoup approximately £9,000 of the Council's costs in accepting non box office credit card transactions.

***Recommendation: Consider introducing a charge for accepting credit card payments.***

## 4. Collection Of Payments Over Post Office & Other Counters

### 4.1. Introduction

4.1.1. The Council currently has arrangements in place with Santander and allpay.net to facilitate the collection of Council Tax and rent respectively over Post Office, Payzone and PayPoint Counters. The contract with allpay expires in January 2012. The Santander arrangement appears to have no formal end date.

4.1.2. Payments are made with plastic swipe cards issued by the Council (i.e. the card which identifies the payer is presented at the counter along with payment by cash or cheque).

### 4.2. Tariffs and Charges

4.2.1. There are currently three organisations that can offer the service that enables payments to be collected over Post Office and other similar counters – allpay.net, Co-op Bank and Santander.

4.2.2. The three organisations currently offer the following payment networks as part of their service:

	Post Office (12,500 UK outlets)	PayPoint (21,000 UK outlets)	Payzone (18,000 UK outlets)	Total number of outlets
Santander	✓	No	✓	30,500
Co-op	✓	✓	✓	51,500
allpay.net	✓	✓	No longer available for new contracts	33,500

4.2.3. The Council's allpay terms have only been compared to those that Co-op and allpay would quote at tender given that Santander cannot offer the PayPoint network.

4.2.4. The table overleaf compares the Council's current tariffs against tender tariffs which represent the typical rates we would expect to see quoted at tender by allpay and Co-op. Co-op's terms are those that it would offer under its framework agreement with Procurement For Housing (local authorities are eligible for to access this). Annual transaction volumes have been estimated based on volumes quoted on recent allpay invoices.

Transaction	Volume	Tariff	Cost	Coop Market Tariff	Cost	allpay Market Tariff	Cost
PayPoint	5,076	£0.5140	£2,609	£0.39	£1,980	£0.47	£2,386
Post Office	19,978	£0.5140	£10,269	£0.465	£9,290	£0.47	£9,390
Debit cards	324	£0.45	£146	£0.40	£130	£0.45	£146
Credit cards	£6,268	2.25%	£141	2.25%	£141	2.25%	£141
Returned cheques	6	£4.00	£24	£6.00	£36	£4.00	£24
Returned letters	18	£1.38	£25	£0.00	£0	£1.38	£25
New cards	1,234	£1.13	£1,394	£1.10	£1,357	£1.15	£1,419
Replacement cards	698	£1.13	£789	£1.10	£768	£1.15	£803
Webconnect	12	£61.80	£742	£135.00	£1,620	£85.00	£1,020
Additional accounts	12	£6.00	£72	£0.00	£0	£10.00	£120
<b>Total</b>			<b>£16,210</b>		<b>£15,321</b>		<b>£15,473</b>

4.2.5. As suggested above, the current annual costs are approximately £1,000 above the level that Co-op and allpay would quote at tender.

4.2.6. The terms in place with Santander for the collection of Council Tax payments have been compared below to those that Santander would quote at tender or in negotiation. Co-op and allpay would quote the same tariffs as outlined above and would be more expensive than Santander. Volumes of transactions have been estimated from recent invoices from Santander.

Transaction	Volume	Tariff	Cost	Tender Tariff	Cost
Post Office Transactions	26,000	£0.5567	£14,474	£0.45	£11,700
Payzone Transactions	700	£0.5567	£390	£0.40	£280
Internet File Transfer	12	£120/month	£1,440	£50/month	£600
Failed Cheques	8	£7.50	£60	£7.50	£60
Auto Transfers	52	£0.50	£26	£0.50	£26
<b>Total</b>			<b>£16,390</b>		<b>£12,666</b>

4.2.7. The current costs with Santander are approximately £3,700 per annum above the level that would be quoted if they were attempting to secure the business or retain it in competition. Santander's inability to offer the PayPoint network means that they will often negotiate or quote pricing that is lower than the terms that either Co-op or allpay would quote.



### **4.3. Settlement Timescales**

- 4.3.1. We were unable to verify the value dating being provided by Santander but generally they will provide settlement of transactions into a Santander account on working day 4. The Council currently transfer balances collected to HSBC by BACS weekly.
- 4.3.2. Co-op will usually provide settlement of funds into a Co-op bank account on day 4 for Post Office transactions and day 5 for PayPoint transactions.
- 4.3.3. allpay's transfer funds arrive into the Council's HSBC bank account 5 working days after the transaction date. These terms represent the best that can be achieved from allpay.
- 4.3.4. With interest rates at the current low levels and the relatively low value of transactions collected, the benefit of quicker settlement is minimal. As interest rates rise in the future, however, we recommend that the Council considers asking Santander to transfer funds daily instead of weekly by BACS.

### **4.4. Maximum Transaction Value (MTV)**

- 4.4.1. If the value of a payment is above the MTV the transaction is split into two – this will result in two transaction fees being incurred by the Council.
- 4.4.2. We were unable to ascertain the current MTV's in place with Santander and we recommend that these are reviewed. allpay offer MTV's of £150 and £999 for PayPoint and Post offices respectively. We would expect to see MTV's of £200 for PayPoint transactions and £999 for Post Office and Payzone transactions.

***Recommendation: Review the MTV's in place with Santander.***

### **4.5. Way Forward**

- 4.5.1. The current tariffs with Santander can be improved. The market tariffs provided should be achievable in negotiation given Santander's inability to offer the more popular PayPoint network. We also recommend that current MTV's are ascertained and improved if necessary.
- 4.5.2. A key point to consider with plastic swipe card arrangements is whether the cards are issued using the Council's own Issuer Identification Number (IIN) or whether a generic IIN (i.e. provided by the provider) is used. The IIN is the first 6 digits of the 19 digit card number.
- 4.5.3. It is not clear whether the cards have been issued with the Council's own IIN or Santander's generic IIN. The contract with allpay uses their generic IIN. If the Council had its own IIN, it could move the business between providers

without needing to re-issue cards to payers. When using a generic IIN, cards would need to be reissued. This should be borne in mind when reviewing the arrangements in the future. IIN's can be purchased for £300 - £600 and registered with the networks for approximately £800. At tender in 2009, allpay quoted £1,500 to buy and register an IIN.

- 4.5.4. At renewal of the allpay contract, the Council should consider whether there is any merit in combining the two contracts currently in place. The combined volume of transactions will not in itself secure lower tariffs but it may assist in a negotiation or tender to secure the best possible terms. If the target tariffs can be secured with Santander, moving the transactions to either Co-op or allpay could result in an increase in annual costs together with the one off cost of re issuing cards.

***Recommendation: Request lower tariffs from Santander.***

***Review the merits of combining the allpay and Santander contracts.***

## 5. Security Carrier Arrangements

- 5.1. The Council uses Loomis to collect cash and cheques from the Cash Office and City Homes North and South daily and deliver it to HSBC. Paying in from the box office and coin from car parking machines is collected by BDI Securities and delivered to the bank. Car parking coin is also counted and processed by the carrier prior to being deposited at the bank's coin centre.

Security carriers typically offer two levels of service for cash collections. A low value service will provide an indemnity for cash collections up to £7,500 whereas a standard cash in transit service will provide an indemnity up to £20,000 per container. Cheques are excluded from the indemnity as any lost cheques can in theory be re-issued.

- 5.2. For a low value service we see collection charges range between around £8 and £14. For the standard cash in transit service charges typically range between £12 and £20 per container. If two containers are collected (i.e. with a combined value up to £40,000) then the collection charge is doubled.
- 5.3. We were provided with some recent monthly invoices from Loomis and BDI which indicates charges as follows:

Cash Office	£30 per collection
City Homes	£25 per collection
Box Office collection	£12 per
Car parking office	£12 per collection
Car parking machines (various frequencies)	£6.75 per collection

The total monthly cost is approximately £12,000 - £13,000 plus VAT.

The prices per collection with Loomis for the Cash Office and City Homes appear to be above the upper end of the range that we tend to see in our work with local authorities. When considering the renewal of the contract, the Council may wish to speak to other local authorities in the East of England as several are party to framework agreements with carriers and have secured terms are lower than those in place with Loomis. There may be local factors that mean that pricing is not as competitive for the Council but it would be worth exploring this option further. The tariffs for collecting paying in from the car parking office and the box office are competitive.

We see prices ranging upwards from £2.75 per car parking machine as carriers will charge less when machines are closer together and less time is involved in emptying them. The counting and processing of coin is included in the tariff of £6.75. If an average of £150,000 is counted per month and approximately 1,500 collections are made per month from machines, this

would result in a processing charge of up to £0.75 per machine assuming an underlying tariff of £0.60% - £0.75%. The basic collection charge is therefore approximately £6 per machine. This price is in the middle of the range that we see.

The terms of the Loomis contract are not known but the BDI agreement ends in April 2012. We recommend that both the option of joining a framework agreement and placing the contracts to tender are explored as the current agreements come to an end. The Council should also consider combining the contracts. If the charge for daily collections at the three locations with Loomis can be reduced to £15, the annual saving will be in excess of £8,000.

***Recommendation: Seek more competitive terms at the renewal of the security carrier contracts.***

## **6. Conclusion**

- 6.1. The current cost of the banking contract is below the level that would be achieved by placing it to tender. Given this and the cost and disruption of a tender process, our recommendation is that competitive terms are negotiated with HSBC and the contract extended for at least a further year to end of March 2014. The charge of £1,600 for returning paper vouchers with statements should also be stopped.
- 6.2. Current card acquiring arrangements with HSBC are not competitive and, we understand, currently the subject of a tender. We recommend that the benchmark is used to ensure that competitive terms are secured as a result of the tender.
- 6.3. Arrangements for the acceptance of payments over Post Office and other counters can be improved with Santander.
- 6.4. The Loomis security carrier arrangements appear relatively expensive compared to the market and improved terms should be requested at the renewal of the contract.
- 6.5. We look forward to discussing our findings with you further.

**Andrew Austin**  
**Focus on Banking**

**March 2011**

## Appendix 1 - Summary of the Savings Identified

	Potential Annual Saving
<b>HSBC - Banking</b>	
<i>Minimise any request from HSBC to increase tariffs at renewal/extension of the contract.</i>	<i>Nil</i>
<i>Review the need to receive paper vouchers with bank statements.</i>	<i>£1,600</i>
<i>Minimise investments with HSBC and local authorities paying less than Base Rate.</i>	<i>£10,000</i>
<i>Seek extension to existing arrangements.</i>	<i>Nil</i>
<b>HSBC – Card Acquiring</b>	
<i>Ensure that competitive pricing is secured at tender.</i>	<i>£6,000</i>
<i>Place car parking payment by card contract to tender or negotiate competitive terms.</i>	<i>£10,000</i>
<i>Review settlement timescales.</i>	<i>?</i>
<i>Consider introducing a charge for accepting credit card payments.</i>	<i>£9,000</i>
<b>Payments Over Post Office &amp; Other Counters</b>	
<i>Request lower tariffs from Santander.</i>	<i>£3,700</i>
<i>Review the merits of combining the allpay and Santander contracts.</i>	<i>?</i>
<b>Security Carrier Arrangements</b>	
<i>Seek more competitive terms at the renewal of the security carrier contracts</i>	<i>£8,000</i>
<b>TOTAL</b>	<b>£45,800</b>

## Background Paper 2



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### **BENCHMARK OF HSBC BANKING COSTS**

- It is rare to see HSBC quote for new local authority business –they will however tender to retain existing contracts. HSBC pricing has not been competitive in recent years and as a result they have lost a number of local authority contracts at tender. They can also be very difficult in negotiations and will often resist reducing tariffs even when they are faced with the threat of losing business.
- If the Council were to undertake a formal tender exercise (i.e. instead of extending the contract), it is likely that competitive tenders would be received from HSBC, Barclays and Co-op. This assumes that Co-op are not excluded from tendering because of their credit rating (we have seen many local authorities exclude Co-op because they do not make their counterparty list for investments). Although Lloyds and NatWest could also tender, based on recent experience their pricing is unlikely to be as competitive as the other banks. Our benchmark analysis at Appendix 1 therefore compares the Council's current tariffs against the terms that are likely to be proposed by HSBC, Barclays and Co-op. Annual transaction volumes have been estimated based on HSBC invoices.
- Although Co-op have a limited branch network, they do have an arrangement which allows their customers to deposit and withdraw funds over Post Office counters. Our analysis of Co-op pricing therefore assumes that transactions currently handled by HSBC branches would be handled by Post Offices. We have assumed that Barclays would replicate the current branch counter service provided by HSBC.
- As indicated, the current pricing from HSBC is lower than the level that we would expect to see HSBC quote at tender. However, Barclays have been consistently quoting very competitive tariffs when competing for new business so it is likely that they would propose lower annual costs. Barclays have won a number of

new local authority contracts during the last 12 months because of their competitive pricing

- We were advised that the Council has an agreed overdraft facility of £750,000 and interest is charged at 1% above Base Rate on balances within the agreed facility. No annual fee is levied for provision of the facility. These terms are competitive - most banks will usually propose an interest margin of 1.5% - 2% above Base Rate and an annual fee of either 0.25% or 0.5%.
- At tender Co-op normally insist on annual RPI increases to their proposed tariffs. HSBC and Barclays will usually offer tariffs that are fixed for the contract period. The affect of potential inflationary increases have not been included in our analysis as costs are compared over a 12 month period.
- Co-op will offer a year 1 discount at tender. Quite often this is by way of a reduction in charges although in a recent tender we have seen them agree to waive all charges in year 1 of the contract. Barclays will occasionally offer year 1 discounts at tender although they are not usually as generous as the discounts we see from Co-op (e.g. 3 months free banking is sometimes proposed). As our analysis compares annual costs it would be inappropriate to include potential discounts. It should also be noted that even if a discount were offered at tender by another bank, it is possible that the Council's cost of moving arrangements would be higher than the discount proposed.

#### **CONCLUSION/WAY FORWARD**

- The Council's current annual cost is reasonable and it is likely that the only Barclays would offer marginally cheaper pricing at tender. However, the potential savings are minimal so we recommend that the Council look to renew the contract on the existing terms (or with minimal tariff increases).