



**REPORTS FOR DECISION BY THE  
LEADER OF THE COUNCIL**

Date Issued: 04 August 2011

	<b>Page Nos.</b>
<b>K</b> 1. Report of the Head of Finance and Customer Services - Banking Arrangements	1 - 6

**K = Key Decision**

**PLEASE NOTE – In accordance with Rule 16 (Special Urgency) of Access to Information Procedure Rules within the Constitution, a Decision will be made on 05 August 2011 on this report for the reason set out in the report.**

The Reports listed above can be made available in alternative formats for the visually impaired. For further information about this service, or if you have any queries regarding the above items please contact Karen Luck on 01622 602743

# Agenda Item 1

## **MAIDSTONE BOROUGH COUNCIL**

### **LEADER OF THE COUNCIL**

#### **URGENT REPORT OF HEAD OF FINANCE & CUSTOMER SERVICES**

**Report prepared by Paul Riley**

**Date Issued: 04 August 2011**

#### **1. BANKING ARRANGEMENTS**

##### **1.1 Key Issue for Decision**

1.1.1 To consider the information received from the Council's banker (the National Westminster Bank plc) in relation to their obligation to divest a significant part of their business to a third party bank.

1.1.2 To agree appropriate actions to minimise disruption while retaining control over decisions regarding the Council's financial affairs.

##### **1.2 Reason for Urgency**

1.2.1 On 20th July 2011 the National Westminster Bank provided notice to the Council that the accounts it maintains on behalf of the Council form part of the business it plans to divest by the end of 2011. This report seeks an urgent decision on the actions available to the Council due to the short period of notice given by the bank.

##### **1.3 Recommendation of the Head of Finance & Customer Services**

1.3.1 That the Leader of the Council agrees that:

- a) The Director of Regeneration & Communities write to the National Westminster Bank confirming the Council's intention to terminate its banking arrangements by 1st April 2012 and requesting deferral of the proposed divestment.
- b) The Head of Finance & Customer Services commence a tendering exercise to select an appropriate alternative banker that meets the Council's specification.
- c) Officers report back to the Leader of the Council if the response from the National Westminster Bank is not favourable to the course of action outlined in this report.

#### 1.4 Reasons for Recommendation

1.4.1 On 20th July 2011 officers from the National Westminster Bank met with officers involved in the control of the Council's bank accounts. At that meeting Council officers were informed that, under the arrangements made with the UK and EU Governments, the National Westminster Bank was obliged to divest itself of a part of its business by the sale of that business to a third party bank.

1.4.2 The work on the selection of the third party bank is progressing through central government and agreement to purchase the divested accounts is provisionally expected by the end of 2011.

1.4.3 At the same time the National Westminster Bank was obliged to select, at random, a set proportion of its business for divestment. The visiting representatives from the bank explained that Maidstone Borough Council's accounts, including the charity accounts under its control, have been selected for divestment.

1.4.4 On 28th July 2011 the same Council officers met with divestment advisers from the bank. At that meeting officers were informed that the initial stages of the process of divestment would move faster than the legal arrangements. This means that, while remaining as customers of the National Westminster Bank, the Council's account numbers and sort codes would change by the end of September 2011 to those that will be used following divestment.

#### 1.4.5 Risk of Allowing Divestment

1.4.6 The Council is the steward of public and charitable funds and handles the collection and transfer of resources to preceptors and the Government on behalf of local taxpayers. The annual value of financial transactions exceeds £300m.

1.4.7 Many organisations that could potentially be selected as purchaser for the divested accounts may not meet the necessary credit ratings required for medium term investment by the Council. The Treasury Management Strategy directs the investment practices of the Council and is designed to ensure the security of funds is considered before the return on investment. To achieve this, the Council uses treasury management advisers and assessments such as credit ratings to identify the organisations it will invest with and the value and longevity of those investments.

1.4.8 At this time there is a significant risk that the divestment will occur without the Council's influence and the future management of the funds under the Council's control will be in the hands of an organisation that has not been chosen by the Council in accordance

with its own financial procedures and may not meet its strict lending criteria.

#### 1.4.9 Mitigation of Risks

- 1.4.10 The final outcome of the divestment may be acceptable to the Council, once known. However awaiting full knowledge of the outcome will leave the Council no time to make alternative arrangements before divestment occurs. If the government selected organisation were not to meet the Council's criteria it would be necessary to tender for the supply of banking services and move to an alternative supplier. However this may take up to nine months and would mean that within the space of a single year the Council will have changed its bank details twice.
- 1.4.11 Were this to happen the period after divestment and before selection of an alternative bank would leave the funds that are under the Council's control at greater risk than would be considered acceptable. In addition, to allow divestment and then to transfer to the winning tenderer nine months later would increase the possibility of funds going astray due to the increased number of changes in bank details within that year.
- 1.4.12 At the meeting with the divestment advisers on 28th July 2011, Council officers requested clarification on the Council's position regarding termination of its arrangements with National Westminster Bank rather than to continue with the divestment. The divestment advisers undertook to confirm whether or not it would be acceptable for the Council to maintain its current banking arrangements until the commencement of a new Council selected contract. Confirmation was also requested as to whether formal written notice by the Council of its intention to terminate its banking arrangements by a set date would be a suitable commitment to enable the bank to accept the proposal.
- 1.4.13 As the tendering procedure may take up to nine months to complete, it would be appropriate at this time for the Leader of the Council to consider immediate action to tender for the supply of banking services and to formally notify our current banker of the Council's intention to take this action giving a date by which the Council intends to have transferred its business to the new supplier.
- 1.4.14 The most appropriate outcome would be that an alternative bank is selected in time for the arrangements to be in place for 1st April 2012 and all Council Tax and other bills produced in the period leading up to that date contain the amended banking details.

1.5 Alternative Action and why not Recommended

- 1.5.1 The Council could accept the divestment and remain with the purchaser. This may put at risk public funds and is not recommended.
- 1.5.2 The Council could accept continuation of the divestment plan while tendering an alternative banking service. If divestment were to occur in advance of the completion of the tendering exercise it may put public funds at risk and is not recommended.

1.6 Impact on Corporate Objectives

- 1.6.1 The Council’s banking arrangements and the stewardship of public funds directly affects the corporate and customer excellence objectives of the Council.

1.7 Risk Management

- 1.7.1 The major risks to the Council are dealt with in the body of the report. These relate to the risk to public funds from divestment to a bank that does not represent appropriate security as measured by the procedures contained in our Treasury Management Strategy.
- 1.7.2 In addition there is a risk to customers and business partners from multiple changes in banking arrangements. This may mean additional administrative changes for them and the risk that funds paid to the Council by electronic means may go astray.
- 1.7.3 Mitigation of these risks can be best achieved by the actions recommended by this report.

1.8 Other Implications

1.8.1

1.	Financial	X
2.	Staffing	
3.	Legal	X
4.	Equality Impact Needs Assessment	
5.	Environmental/Sustainable Development	
6.	Community Safety	

- 7. Human Rights Act
- 8. Procurement
- 9. Asset Management

X

1.8.2 A tendering exercise will mean revised banking arrangements with related costs involved in transferring banks. In addition there will be a change to bank charges which may go up or down depending upon the current market. Officers will attempt to minimise these costs wherever possible. An urgent decision on the recommendations in this report will allow a longer lead time after selection of the new bank for changes to systems and records to occur more efficiently.

1.8.3 There may be legal implications to the proposal to give notice to the National Westminster Bank. The response to the officers' request for the bank to consider this option is still awaited. In the meantime consideration is being given to the contractual commitment between the bank and the Council. It may be necessary to update the Leader of the Council, at a later date, if the result of this work is unfavourable to the Council's objectives.

1.8.4 The proposal requires a tendering exercise to select a new bank and work is underway to prepare the appropriate documentation before 5<sup>th</sup> August 2011 in readiness for agreement to the recommendations in this report.

**IS THIS A KEY DECISION REPORT?**

Yes

No

If yes, when did it first appear in the Forward Plan?

This decision report did not appear in the Forward Plan due to the short notice given by the National Westminster bank and the need for the Council to act immediately to ensure security of its financial resources.

This is a Key Decision because: The decision relates to the tender of services with a value greater than £250,000

Wards/Parishes affected: All

**How to Comment**

Should you have any comments on the issue that is being considered please contact either the relevant Officer or the Member of the Executive who will be taking the decision.

Councillor Garland

Leader of the Council]  
Telephone: 01622 602683  
E-mail: christophergarland@maidstone.gov.uk

Paul Riley

Head of Finance & Customer Services  
Telephone: 01622 602396  
E-mail: paulriley@maidstone.gov.uk