
Manchester City Council Report for Information

Report to: Audit Committee – 29 January 2015

Subject: Update on the Change in Banking Arrangements for the City Council

Report of: City Treasurer

Purpose

To report progress on changing the City Council's banking arrangements following the Co-Operative Bank's decision to withdraw from providing banking services for Local Authorities.

Recommendations

The Audit Committee is requested to note the content of this report

Wards Affected

All

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Background documents (available for public inspection):

1 Background

- 1.1 In November 2013, the Co-Operative Bank (Co-Op) announced that it had made a decision to withdraw from providing banking services to public sector bodies.
- 1.2 At that time, the bank publicly stated that they would honour all existing contracts until their expiry. Manchester City Council's contract with the Co-Op is not due to expire until 31st March 2018. However the Co-Op indicated that it would support an early exit.
- 1.3 However, it became apparent that to remain with the Co-Op did hold potential risks and a decision was made to procure an alternative bank contract through a joint tender with other GM Authorities and a number of public sector bodies. This was led by Bury Metropolitan Borough Council.
- 1.4 The procurement process started in November 2013 and an invitation to tender was issued in March 2014. Three banks submitted bids and, following a 2 stage evaluation and follow up meetings with each of the bidders to clarify aspects of their tenders, Barclays Bank was selected as the successful bidder and awarded a framework contract.
- 1.5 Manchester City Council has decided to take a five years contract commencing 1 April 2015. This allows the Council to benefit from two years free banking which is estimated to achieve a saving of £57,955 over the contract period.
- 1.6 Whilst the planned switchover date to Barclays is 1 April 2015, decisions regarding when certain specific banking activities commence with Barclays will need to be made throughout February and March 2015 in order to ensure that the appropriate bank accounts are sufficiently funded and that Treasury Management activities are not disrupted.
- 1.7 To ensure business continuity and reduce risk it should be noted that the main Co-Op bank accounts currently in use will remain active for a further three month period beyond 1 April 2015 (i.e. they will remain open until 30 June 2015) to allow for unforeseen transactions to be appropriately identified, redirected and corrected for the future.
- 1.8 Additionally, since the Co-Op is also the provider of the Council's "Bill Payment Service" (which is a contract that allows Council customers to pay bills at Post Offices and PayPoint / Payzone outlets and which is independent of the day to day banking services contract) there will be a need to maintain a separate bank account at the Co-Op for the foreseeable future to allow these funds to be collected prior to transfer to the Council's new Barclays account.

2 What are the Council's Banking Arrangement requirements?

- 2.1 The Council's banking arrangements consist of the following:

- Mainstream accounts (2 main accounts - Payments and Receipts, plus a small number of Imprest and minor accounts – approximately 25 accounts).
- School accounts (approximately 85 accounts)
- Appointeeship accounts (approximately 700 accounts)
- Associated accounts such as the Lord Mayor's Charity Appeal Fund etc. (7 accounts – See Section 7 below)

2.2 The changeover to Barclays has therefore been split into four distinct work streams based on the type of account as each has differing requirements and various levels of complexity.

3 **Progress**

3.1 Work is already well underway in making the necessary detailed arrangements to move to Barclays Bank and the following provides an overview of progress in the main areas of activity listed above.

4 **Mainstream Accounts**

4.1 This is the most complex area and the following provides details of the key activities completed to date and those planned to take place before actual "go live".

Bank Accounts

4.2 Bank sort codes and account numbers have already been set up for all mainstream accounts that the Council may need moving forward. At this point, accounts have been set up on a "like for like" basis with accounts previously held with the Co-Op.

4.3 However, whilst it is important that we have the available bank accounts in place by 1 April, the opportunity will be taken to subsequently critically review the need for each account, particularly the provision of Imprest accounts which allow services to withdraw and use cash as part of their current service offering. Where accounts have been opened but, on review, they are subsequently identified as not required they will be closed.

Technology Issues

4.4 The Council has two main bank accounts – one for making payments out (Payments) and the other for receiving income (Receipts). The reason for this is primarily to ensure that all cash received or paid out by the Council can be properly and fully reconciled within the Council's accounts.

4.5 In order to ensure that a full and complete reconciliation process is carried out promptly, efficiently and effectively the Council receives bank statement data electronically on a daily basis so that any discrepancies identified by Council officers can be identified and dealt with promptly.

- 4.6 System changes are required to ensure that the electronic data from Barclays can be processed accurately when received by the Council as the data file transfer differs from that received previously from the Co-Op.
- 4.7 The payment files require the Council's in-house ICT team to make the necessary changes and preparatory work has already been undertaken with limited testing also having taken place to ensure that files received can be processed accurately. Full end to end testing will take place before "go live".
- 4.8 With regard to the receipts data the necessary system changes will be undertaken by a third party supplier, Northgate Information Solutions Ltd. This work is scheduled to take place in mid-January 2015 and will involve Council staff carrying out detailed testing to ensure files are dealt with appropriately.
- 4.9 A third strand to technology issues is that certain authorised Council staff will need access to *Barclays.net*. *Barclays.net* provides internet banking facilities for the Council which, for example, allows authorised staff to make same day payments to other organisations, where these are considered urgent. Access to this system is via a non-standard route (i.e. only computers with the necessary software installed which is accessed via a USB card reader) and therefore specific ICT technical support will be required to enable this service.
- 4.10 All of the ICT interactions with Barclays Bank will pass through the City Council's firewall so the appropriate security arrangements will need to be put into place to enable all files to be passed into and out of the Council's network efficiently.
- 4.11 The availability of suitably skilled ICT input is critical to the success of changing the Council's bank account and ICT have assigned a Project Manager to direct the necessary resources.

Business Continuity Arrangements

- 4.12 Interactions with the Council's bankers are business critical. Accordingly discussions are underway with Barclays Bank to ensure that, in the event of ICT failures / issues, the Council can continue to operate within "business as usual" arrangements.
- 4.13 Business continuity arrangements will include ensuring that the necessary software and hardware is installed in a variety of different Council premises and, in the event of total failure of Council systems that appropriate arrangements are in place to ensure that day to day operations can continue independently of Council systems as far as possible.
- 4.14 Internal Audit will be involved in ensuring that such arrangements are efficient, effective and secure.

Service User Numbers (SUNs).

- 4.15 SUNs are issued by the Bankers Automated Clearing System (BACS) and they allow the Council to make and receive payments electronically, i.e. to

make BACS payments direct into staff and suppliers bank accounts and also to collect payments from customers' bank accounts using the Direct Debit service. The Council has eight SUNs.

- 4.16 These are in the process of being transferred to Barclays Bank as they are required to set appropriate credit limits. Once the SUNs have been transferred to Barclays an implementation date will be agreed for the SUNs to become active and for all funds processed through BACS to be funded from the Council's new Barclays accounts.
- 4.17 BACS payments and the collection of Direct Debits are effected outside of the normal banking arrangements via an accredited third part company. A separate project has been underway for many months to ensure that these processes are robust and separate business continuity arrangements are being put into place to ensure that these operations can continue in the event of internal ICT failures as far as possible.

Barclays Current Account Switching Service (BCASS), Standing Order File Amendment (SOFA) and Advice of Wrong Account for Automated Credits (AWACS).

- 4.18 All major banks have in place automated processes to help make the process of changing a bank account easier for their customers. BCASS, SOFA and AWACS are the 3 main industry standard processes that can be used to smooth the process of changing bank accounts.
- 4.19 The following is a short description of each of these services:
- BCASS allows for the automatic redirection of all outgoing Standing Orders and Direct Debits from our "old" Co-Op bank account to the new Barclays account. The Council has very few outgoing Standing Orders and Direct Debits but, nonetheless, this service will be used because it automatically notifies the recipients of funds that the Council's bank details have changed and ensures continuity of payments.
 - SOFA allows all incoming Standing Order payments to be redirected to the new Barclays account. There are very few incoming Standing Orders payments and it is planned that where these are identified the Council will contact the payers and suggest paying by Direct Debit instead where possible.
 - AWACS is by far the most useful service that is provided by the banks.

If any organisation makes a BACS payment to the "old" Co-Op bank account, this service will automatically redirect the payment to the Council's new Barclays account and, simultaneously, notify the payer that the City Council has changed it's bank details and advise them to amend the Council's bank details held in their own records / systems as necessary.

This process not only allows the Council to notify those paying the Council by BACS of the change in our bank details in a safe and secure way but it also allows the City Council to identify those still using its old bank details and gives the opportunity to proactively contact these payers to inform them of the change. The AWACS service will remain active for 13 months.

- 4.20 The appropriate forms to enable these services have been signed and sent to Barclays and will be put into place at an agreed time.

Paying Cash in to the Council's new account.

- 4.21 There are about 100 locations across the City Council where cash is collected as part of day to day service delivery. The cash received is usually paid in to the Receipts account via a collection by the Council's security contractor which is responsible for cash collection.

- 4.22 The Council's security contractor has been contacted to notify it of the impending change to the Council's account and it has allocated a specific Relationship Manager to assist the Council in carrying out a full review of all cash collection sites with two objectives.

- Firstly it is planned to challenge services to determine whether non-cash collection methods might be more suitable in the modern environment. It is hoped that in some cases this may lead to the elimination of cash activities completely which could simplify service delivery and enable services to become more efficient.
- Secondly, where cash collection cannot be avoided it may be possible for some sites to pay their takings in over a Barclays Bank counter as Barclays have a much higher High Street presence than the Co-Op. This will help to minimise cash collection costs.

Stationery Issues

- 4.23 All stationery related to the closed Co-Op accounts (paying in books/ cheque books etc.) will need to be taken out of circulation within the Council and destroyed. New Barclay's stationery will be issued where required. It is proposed to initially control the issue of stationery within the Financial Shared Service Centre, to force establishments to bring old stationery in and enable central secure destruction. Whilst this will be labour intensive, it's the only way to ensure old stationery is taken out of circulation. Thereafter stationery will be issued direct to establishments.

- 4.24 All cheques issued from the Council's main payment account are generated via SAP and laser printed by the Communications team in Mfour. The new Barclays cheques have been ordered as these will need to be approved by Barclays and will also need to comply with the Association of Payment Clearing Services (APACS) standards. The Council uses an accredited third party supplier that produces template cheques to these standards.

- 4.25 All outgoing demands, bills, notices or requests for payment that quote the City Council's bank details will need to be suitably amended so that any receipts expected on or after 1 April 2015 are directed to the new Barclays account. The "owners" of the major systems involved in producing these demands, bills etc. have already been contacted and aware of the impending changes required.
- 4.26 Council Tax and Business Rate bills comprise the largest areas where such demands are issued from, however, these bills do not contain reference to the Council's bank account so will require minimal changes. Other business system owners (where their systems generate bills etc.) will be advised of the necessary detailed changes by the end of January in order to allow for appropriate stationery to be changed at the appropriate time.
- 4.27 One area of possible innovation for payment stationery is the availability of the Barclay's "Pingit" service. The "Pingit" service is a mobile telephone application which allows users to scan a "QR" code in order to easily make a payment to the Council. It is planned to introduce this service early in 2015/16 by printing the necessary QR codes on billing documentation.

5 School Accounts.

- 5.1 The number of schools that choose to bank at the same bank as the Council has dwindled in recent years. This is partly as a result of some schools changing their status to become Academies and partly because some schools have independently chosen to bank elsewhere other than at the Co-Op. In the latter case this process has accelerated in recent months amongst the growing concerns about the Co-Op Bank's ongoing financial viability and standards of service.
- 5.2 Currently there are 85 Manchester schools that still retain accounts with the Co-Op Bank and these account balances are "pooled" with the Council's main bank accounts as part of the Treasury Management arrangements.
- 5.3 Recent crises in the banking sector have raised concerns about the potential impact of insolvency of banks. Potentially in an insolvency situation, the administrators of the Bank could choose to view the funds in school accounts as separate to those held by the City Council and therefore take those funds into account when assessing the overall financial situation of the bank, leading to the possibility of at least some of those school funds being lost.
- 5.4 As a result of the above risk legal advice has been sought and the view is that if the school bank accounts are established as joint accounts with the Council this removes the risk of the funds being viewed as separate funds by a bank administrator.
- 5.5 On this basis the schools are being offered the opportunity to enter into a very similar pooling arrangement with the Council at Barclays. It should be noted

however that schools will still have the right to open bank accounts elsewhere as long as they comply with the guidance issued by the Council.

6 Appointeeship Accounts

- 6.1 The Council operates over 700 individual bank accounts on behalf of vulnerable people in the community who are unable to manage their own financial affairs.
- 6.2 The funds in these accounts clearly do not belong to the Council and therefore do not form part of the “pooling” arrangements which have been applied to school accounts in the past.
- 6.3 Currently every person for whom the Council manages their finances has a separate individual, physical bank account with the Co-Op bank. Where the customer requires access to cash, there is also a second, linked account to facilitate the controlled transfer of funds.
- 6.4 Whilst these accounts do not represent mainstream public sector activities, the Co-Op has indicated that this is also an area of local authority activity that they no longer wish to be involved in and, accordingly, these accounts must be transferred to another bank before 1 April 2015. The framework contract that has been agreed with Barclays Bank allows for this type of account to be transferred across as part of the main banking contract with the Council.
- 6.5 Barclays Bank provides a different approach to managing these types of account using “Account Management Software” (AMS). AMS allows for the creation of one main physical account to handle all incoming and outgoing transactions on behalf of all customers and for a mixture of “virtual” and physical accounts to be set up for each individual.
- 6.6 The AMS software has been evaluated and it has been decided to move forward with this approach.
- 6.7 The detailed work required in order to implement AMS is well advanced and it is currently planned that this will go live in mid-February 2015..

7 Associated Accounts

- 7.1 The Council provides finance / accounting services for a number of “associated” bodies. These are:

- The Lord Mayor of Manchester’s Charity Appeal Fund
- Manchester Mortgage Corporation PLC.
- The Millennium Quarter Trust Ltd.
- The Manchester Immigration Needs Trust
- The Manchester Concert Hall Ltd (Charity)
- Trustees of Castlefield Heritage Trust
- Manchester Professional Services Ltd.

7.2 Each of these bodies will require separate independent bank accounts and, because these are each a separate legal entity there are slightly different requirements for opening each of these accounts. Work is underway to get these opened as soon as possible.

8 Internal Audit Assurance

8.1 Internal Audit have been, and will continue to be, involved in all aspects of the Council's banking arrangements so as to ensure that appropriate controls are enforced and embedded into the new arrangements.

8.2 Weekly liaison is now taking place with Internal Audit to ensure that they are aware of the detailed proposals of the operation of the new banking arrangements and how they impact on all aspects of income collection and payments made and accounting of these in the Council's key financial systems. This will enable them to provide timely advice on controls, particularly where new systems are to be introduced, such as the Barclays.net system that is replacing the Co-Op Banks online banking system (Financial Director).

8.3 In addition to reviewing the approach being taken to the bank transfer in a number of key areas Internal Audit will review testing at a detailed transactional level to ensure that the Council continues to be able to

- make all types of payments (including CHAPS, BACS and cheque) and account for these in SAP and business systems.
- recognise and account for all income received in SAP and business systems.

9 Summary and Conclusion

9.1 Work on transferring the Council's bank accounts from the Co-Op to Barclays Bank is progressing well. Work is currently targeted to be completed by the end of February 2015.

9.2 A suitably experienced senior officer has been appointed to oversee the transition to the new contract and successful transfer of all operational arrangements to Barclays Bank

9.3 The largest risk to the successful implementation and transition to the new bank is the ICT dimension of this project. Accordingly, this project has been assigned as one of ICT's priorities over the next three months and an ICT Project Manager has been appointed to coordinate ICT involvement and ensure resources are allocated accordingly.

9.4 Appendix A highlights the three major risks to the successful implementation of the new banking arrangements and provides details of the planned actions to mitigate these risks.

- 9.5 The Council is in total control of all payments activities and therefore is able to dictate exactly which date payments will be made from the new Barclays bank account. Additionally, many income streams can be redirected to the new Barclays accounts without requiring any action from those paying the Council (e.g. all Credit and Debit Card transactions will be automatically settled into the new account, Direct Debit income can be redirected etc.)
- 9.6 However, there are some areas of income collection where the Council is not in total control of those paying direct into the Council's account. It should be noted, however, that the contract with Barclays Bank will not officially start until 1 April 2015 and then there will be a 3 month "overlap" period whilst the main Co-Op Bank accounts will remain open in order to allow for any transactions that are paid into our old account to be accepted prior to transfer to the Barclays account. Therefore, there will be a three month period where it will be necessary to identify the source of any transactions still taking place in the Co-Operative bank account in order to ensure they are corrected and directed to the Council's new account.
- 9.7 Throughout the transition process transactions occurring in both the old and new bank accounts will be closely monitored from a Treasury Management perspective so as to ensure that the necessary funding is available in the correct accounts – this will be managed by using online banking systems to transfer money to and from accounts as required.

Richard Paver
City Treasurer

APPENDIX A

MAJOR RISK SCHEDULE

	Risk	Likelihood H/M/L	Impact H/M/L	Mitigation
1	Unable to communicate with Barclays Bank electronically via the Council's network.	L	H	Business continuity arrangements will be put into place pending the resolution of any ICT problems.
2	Appropriate Council systems cannot import Barclays data files.	L	H	The Council will continue using the Co-Operative Bank account until Council systems are successfully updated.
3	Large numbers of receipts continue to be credited to the Co-Operative Bank Account after 1 April 2015.	L	L	The receipts will be easy to identify and appropriate corrective action can take place between 1 April 2015 and 30 June 2015. However this will require manual intervention by staff and potentially delay amounts being credited to customer accounts.
4	Treasury Management activities are adversely impacted leading to unexpected surpluses or deficits in bank accounts.	L	M	Both the Co-Op and Barclays accounts will be closely monitored by Treasury Management staff to ensure that both accounts contain balances as close to zero as possible on a daily basis by transferring funds as appropriate.