

**MAIDSTONE BOROUGH COUNCIL**

**RECORD OF DECISION OF THE LEADER OF THE COUNCIL**

Decision Made: 05 August 2011

**BANKING ARRANGEMENTS**

**Issue for Decision**

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, including appropriate actions to minimise disruption whilst retaining control over decisions regarding the Council's financial affairs.

**Decision Made**

That the following be agreed:

- 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 commences a tendering exercise to select an appropriate alternative banker that meets the Council's specification.
- c) Officers report back to me if the response from the National Westminster Bank is not favourable to the course of action outlined in the urgent report of the Head of Finance and Customer Service.

**Reasons for Decision**

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.

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.

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.

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, whilst 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.

### Risk of Allowing Divestment

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.

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.

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.

### Mitigation of Risks

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.

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.

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.

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.

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.

### **Alternatives considered and why rejected**

The Council could accept the divestment and remain with the purchaser. This may put at risk public funds and is not thought appropriate.

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 thought appropriate.

### **Background Papers**

None

<p>The Leader of the Council determined his decision was urgent because 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. In accordance with Paragraph 18 of the Overview and Scrutiny Procedure Rules of the Constitution, the Mayor, in consultation with the Head of Paid Service and the Chairman of the Corporate Services Overview and Scrutiny Committee agreed that the decision was reasonable in all the circumstances and should be treated as a matter of urgency and not be subject to call-in.</p>
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