SUBJECT: Banking Agreement - Authorization to Negotiate (FCS06065) (City Wide)

RECOMMENDATION:

That the General Manager, Finance and Corporate Services, be authorized to negotiate a two year agreement with The Royal Bank of Canada for the provision of banking services with an option to extend for a further two years based on terms set out in report FCS06065.

Joseph L. Rinaldo
General Manager
Finance and Corporate Services

EXECUTIVE SUMMARY:

A Request for Proposal (RFP) for banking services for the City of Hamilton was issued in 2000. The City only received two proposals to provide complete banking services in response to the RFP. Proposals were received from The Royal Bank of Canada (RBC) and The Canadian Imperial Bank of Commerce (CIBC). The contract was awarded to RBC, being the lowest bid received at a net annual cost to the City of $258,682 (excluding custodial fees) compared to the CIBC bid at $363,855 per annum. The term of the agreement was for three years with the City having an option to extend for an additional two year term. The City exercised the option and the five year term expires September 30, 2006.

RBC has made a proposal to provide banking services (refer to attached Appendix “A” to FCS06065) to the City for another five year term. Under the proposal, the transaction fees charged to the City will remain fixed for the entire five year term ending September
30, 2011. The transaction fees being offered to the City are the same or lower than the fees charged in October 2001.

**BACKGROUND:**

The Royal Bank of Canada (RBC) was appointed as the City’s bankers in 2001 for a five year term as the result of Request for Proposal (RFP) C6-200, issued October 23, 2000. Two banks submitted proposals for complete banking services: The Canadian Imperial Bank of Commerce and The Royal Bank of Canada. The Royal Bank of Canada was the lowest price proposal being 40% below the Canadian Imperial Bank of Commerce.

The existing five year agreement expires September 30, 2006. The City has the option to issue a new RFP for Banking Services or can consider the offer presented by RBC to enter into a new agreement with transaction fees to remain the same or lower than the fees originally being charged in October 2001.

**ANALYSIS/RATIONALE:**

The issuance of an RFP for Banking Services and the changing of banking services have a significant impact on City operations which affects all departments and physical locations. The bank is intricately tied to the financial controls of the City especially as it relates to cash handling, deposits, investments and disbursements. Some of the software had to be interfaced with the banks and, in some cases, the City is utilizing bank supplied software and reporting.

There are 39 different services that the City receives for which the bank assesses a transaction fee. Included in these services are reporting, cashing of cheques (payroll, accounts payable and Ontario Works), electronic payments, deposits, coin handling Banking services, procurement cards, bank reconciliation and receipt of payments.

This is a labour intensive process with a conservative estimate of staff time required to be well in excess of 1000 hours. In order to draft the RFP, staff from all City departments and Boards must document their banking requirements to be included in the RFP, as well as, develop the evaluation criteria. Once the RFP is issued and the proposals are received, an evaluation must be done by the evaluation team. Part of the process usually involves detailed presentations and question and answer sessions with the proponents.

Once a decision is made City staff must work closely with the new bank to establish new bank accounts, banking procedures, create new banking reports, establish on-line banking processes, order new cheques and have the bank test them, make changes with the armoured car service, train staff on new processes and systems, issue new procurement cards and retrieve and cancel old cards etc.

The proposal to extend the agreement would save the costs and staff time associated with issuing a RFP and changing banks. More importantly, accepting the bank’s proposal will assure the City that the transactional cost of banking services will not increase over the next five years. Given the significant differential in costs on the last
RFP and the limited interest, there is a risk that the cost will increase if the City elects to issue an RFP.

RBC is a major provider of banking services to Ontario municipalities and is the banker to approximately 25% of Ontario municipalities. In 2005, forty five Ontario municipalities issued an RFP/Tender for banking services. RBC retained all 7 of the municipalities they had prior to the RFP/Tender and were appointed as the banker for 15 of the remaining municipalities.

City staff is satisfied with the services provided during the past five years and are supportive of retaining RBC, as the City’s bankers, should Council decide to do so. In 2004, the City exercised its’ option to extend the banking contract for the additional two years. As part of the renewal process, RBC voluntarily offered to lower the transaction fees charged for deposits, NDDS and represented payments even though they were not obligated to do so under the contract. In 2004, RBC partnered with City Finance staff to conduct a complete review of the banking operating processes employed by the City. RBC prepared a report for staff which outlined existing processes being utilized by the City which could expose the City to risk of fraud or counterfeit activity and provided suggestions to reduce or eliminate these and the report also identified areas where technology could be used to improve efficiencies and reduce costs.

**ALTERNATIVES FOR CONSIDERATION:**

The City could negotiate a short term extension with RBC to allow sufficient time to issue a RFP for Banking Services and then transfer banking services to the new bank. This alternative exposes the City to potential increases in banking fees. Only two banks submitted proposals to provide the complete range of banking services in response to the 2000 RFP for Banking Services. There was a 40% differential in the fees with the City selecting the lowest price proposal.

**FINANCIAL/STAFFING/LEGAL IMPLICATIONS:**

The annual cost of net banking services to the City was approximately $245,000 in 2005, excluding custodial fees.

**POLICIES AFFECTING PROPOSAL:**

The purchases of services in excess of $100,000 per year are normally subject to the issuance of a Request for Proposal. Council has the authority to authorize negotiations with a preferred vendor.

**RELEVANT CONSULTATION:**

Discussions regarding the need to issue a Request for Proposal for banking services were held with the main users of the banking services and the staff that would be heavily involved in issuing the RFP and undertaking the job of transferring banking services.

**CITY STRATEGIC COMMITMENT:**
By evaluating the “Triple Bottom Line”, (community, environment, economic implications) we can make choices that create value across all three bottom lines, moving us closer to our vision for a sustainable community, and Provincial interests.

Evaluate the implications of your recommendations by indicating and completing the sections below. Consider both short-term and long-term implications.

Community Well-Being is enhanced. ☑ Yes ☐ No

Eliminating the 500 hours or more of staff time required to transfer banks, will allow operational staff to pursue other responsibilities.

Environmental Well-Being is enhanced. ☐ Yes ☑ No

Economic Well-Being is enhanced. ☑ Yes ☐ No

Negotiating a new five year banking agreement saves at least 500 hours of staff time required to affect the transfer and allows the budget for banking services to remain at the 2006 level for five more years. Staff will also be able to implement several banking related improvements, such as replacing dial up with internet banking, which reduces costs.

Does the option you are recommending create value across all three bottom lines? ☐ Yes ☑ No

Do the options you are recommending make Hamilton a City of choice for high performance public servants? ☑ Yes ☐ No

Staff is familiar with RBC banking processes and software. The banking processes are well documented with procedures and continuing with the same bank well established banking services and processes
Chris Hiebert  
Regional Relationship Manager  
Public Sector  
3405 Harvester Road Suite 201  
Burlington, Ontario L7N 3N1  
Ph: (905) 333-7226  
chris.hiebert@rbc.com

May 15th, 2006

City of Hamilton  
Standard Life Building  
120 King Street West, Suite 900  
Hamilton, Ontario L8P 4V2

Attention: Mr. Rick Male – Director, Financial Services

Dear Rick:

Banking Services Agreement

I am very pleased to have been able to provide the City with a new Banking Compensation Agreement recently, and wished to highlight the Royal Bank’s ongoing commitment to continuing to provide the City with exceptional products and services over the term of the new Agreement.

In 2004, Royal Bank took the initiative to reduce the price paid by the City as it pertained to processing of daily deposits, even though there was no expectation on the City’s part for a price reduction or previous commitment from the Bank to pass along reductions in pricing to the City – we simply did it because it was the “right thing to do”.

Through 2003/2004, Royal Bank partnered with the City of Hamilton’s Finance Team in fully reviewing the banking operating processes employed by the City. The resultant Bank prepared report, which was presented to the Finance Team, outlined: (1) existing processes being utilized by the City which may expose the City to risk of fraud / counterfeit activity, and provided suggestions which could be implemented to reduce or eliminate these risks; and, (2) areas where technology could be used by the City to improve efficiencies and reduce costs. The purpose of the Bank’s report was to provided the City with input for future improvements which could be employed if desired.

Such initiatives are consistent with Royal Bank’s strategy and commitment to the City to ensure the City receives fair value for the products and services utilized, and also to ensure the City is kept apprised of changes in technology and how they might be able to be used by the City.

I look forward to continuing to work with you.

Sincerely,

[Signature]

May 2 2006