TO: Chair and Members
Audit and Administration Committee

WARD(S) AFFECTED: CITY WIDE

COMMITTEE DATE: March 3, 2010

SUBJECT/REPORT NO:
Request for Proposal (RFP) for Banking Services (FCS10018) (City Wide)

SUBMITTED BY:
Antonio D. Tollis
Treasurer, Corporate Services Department

PREPARED BY:
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SIGNATURE:

RECOMMENDATION:

That a Request for Proposal for Banking Services be issued for a term of ten years.

EXECUTIVE SUMMARY

At the June 28, 2006 meeting, City Council approved item 6.3 which was the minutes of the Corporate Administration Committee, Report 06-011, June 21, 2006. This report included item 7: Banking Agreement – Authorization to Negotiate (FCS06065) (City Wide). There were two recommendations as follows:

7. (a) That the General Manager, Finance and Corporate Services, be authorized to negotiate a two year agreement with the Royal Bank of Canada for provision of banking services with an option to extend for a further two years based on terms set out in Report FCS06065;
   (b) That following the expiration of the above noted banking agreement, that staff be directed to issue a request for the provision of banking services for a ten year term.
The negotiated agreement expires in August 2010 and staff must soon start working on issuing the Request for Proposals (RFP), if this process is to be undertaken and a new bank put in place.

On November 11, 2009, City Council approved By-Law No. 09-230, known as “Purchasing Policy By-Law”. This by-law contained a number of amendments to the Purchasing Policy including the addition of Section 4.5 (5) to Policy #5 – Policy for Determining the Procurement Process. Section 4.5 (5) states:

“Where there is an incumbent vendor on a Corporate Contract that is of a highly sensitive nature due to the risk associated with financial loss, confidentiality or the handling of sensitive information, a report shall be forwarded to the applicable Committee of Council and to Council to seek direction on the type of procurement process to be followed in the acquisition of the Good and/or Service.”

In compliance with Section 4.5 (5) staff are bringing forward this report to outline the options available and to reconfirm Council’s earlier direction that a RFP for Banking Services for the City of Hamilton be issued for a ten year term or failing that to receive new instructions on how to procure a bank to provide banking services.

Alternatives for Consideration – See Page 5

**FINANCIAL / STAFFING / LEGAL IMPLICATIONS** (for Recommendation(s) only)

**Financial:** The annual banking fees for the City are $290,000. The estimated value of the staff time to issue the RFP, analyze the proposals, implement new bank accounts, make the changes in systems/processes/procedures is $15,000. If the City changes banks there will also be an additional cost to destroy old cheque stock and purchase cheque stock drawn on the new bank account. These costs depend on the amount of cheque stock that must be destroyed.

**Staffing:** It is estimated that approximately five hundred staff hours (50 staff at 10 hours average per staff) would be required to put together a RFP for Banking Services, analyze the proposals, and enact the systems changes and changes in procedures that would be required due to a change in banks.

**Legal:** Contracts with the new bank would have to be reviewed and approved by the City Solicitor.
HISTORICAL BACKGROUND (Chronology of events)

The City of Hamilton’s banking services have been with the Royal Bank of Canada since 2001. Shortly after amalgamation, a RFP for Banking Services was issued and the Banking Services were awarded to the Royal Bank of Canada for a five year period ending in August 2006. In June 2006, City Council authorized two extensions for a total of four years and directed staff to issue a new RFP for Banking Services for a ten year term upon expiry of the four year extension (August 2010). In November 2009, Council approved amendments to the Purchasing Policy for the City. One of the amendments requires staff to bring forward a report for certain types of highly sensitive Corporate Contracts for the purpose of seeking direction on the type of procurement process to be followed.

POLICY IMPLICATIONS

There are no policy implications. Purchasing Policy By-Law 09-230, Policy #5 Section 4.5 (5) requires that this report be presented to Committee and Council and that Council determine the procurement process to be followed.

RELEVANT CONSULTATION

In preparing this report, consultation was undertaken with other municipalities to determine the status of their banking arrangements and whether, upon expiry of their banking agreement, they negotiated directly with their incumbent bank to renew their banking agreement for a further term or whether they issued a RFP. This was done in order to try to understand if issuing a RFP resulted in better pricing and to validate our estimates of the staff work and costs involved in issuing a RFP for banking and changing banks.

ANALYSIS / RATIONALE FOR RECOMMENDATION

(include Performance Measurement/Benchmarking Data, if applicable)

A survey was conducted with members of the Ontario Public Buyers Association. There were 13 municipalities who responded to the survey. Twelve of the municipalities had previously issued a RFP for Banking Services to engage a new bank when their previous agreement expired. The other was also trying to gather information to determine whether issuing a RFP was a worthwhile exercise. Nine of the twelve who issued a RFP stayed with their incumbent banker and three municipalities switched banks. The municipalities who ended up staying with their incumbent bank indicated
that the prices offered by their incumbent bank were the lowest and either slightly higher than the prices in the old contract or about the same. One of the thirteen stayed with the Bank of Montreal, two stayed with the Bank of Nova Scotia, two stayed with the Toronto Dominion Bank, three remained with the Royal Bank, one remained with a local credit union, and three switched from the Royal Bank to the Toronto Dominion Bank.

In the Southern Ontario area, the Royal Bank is currently providing banking services to many of the mid to large clients in the MUSH sector including the City of Hamilton, City of Brampton, Region of Niagara, Town of Oakville, City of Burlington, City of Brantford, City of Guelph, Wilfred Laurier University, Regional Municipality of Halton, City of Welland, and the City of St. Catharines.

Banking Services are of a highly sensitive nature due to the financial risks associated with the handling of the City’s financial assets and payment of the City’s bills, as well as, the large amount of sensitive information the City must share with the bank. Sensitive data includes employee and vendor banking information. Some of the services are unique to a particular bank. The City has recently implemented a Royal Bank service aimed at protecting the City from financial loss as a result of cheque fraud. Without this new service being in place the City is subject to the current rules governing banking and fraud - customers have a very short time period to identify fraudulent payments processed against their accounts. If the customer notifies the bank by the stipulated time, the fraudulent cheque can be returned to the bank that originally cashed the cheque. Failure to do so can result in the customer having to fund the fraudulent payment. Time frames are based on a stipulated number of hours after the fraudulent cheque is processed against the customer’s bank account. This time frame is based on regular banking days which doesn’t always correspond to days the City is open, for example, Christmas shutdown. Under this process a Financial Services employee must review all payments processed against the City’s bank account first thing each day. This also includes days such as the Christmas shutdown when the City is closed and staff are not at work to do the review. With the new service in place the City provides the bank with detailed cheque information which the bank verifies against cashed cheques being processed against the City’s account. The bank then generates an online report showing the exceptions (mismatches). A City employee reviews this file daily and can either instruct the bank that the cheque is fraudulent and to send it back or that the cheque is legitimate and to process it to our account. The City has also told the bank that should they not hear back from the City by the deadline, to consider the cheque fraudulent and send it back. This is a relatively new offering and it is not known if competitor banks offer the same kind of service.

Included in the processes that are effected are the direct deposit of employee pays, electronic funds transfer of vendor payments, auto deposit by various Federal/Provincial Ministries of Grants, subsidy payments, GST refunds, interface for deposits accepted by subsystems, such as, Moneris, deposits for tax and water bills accepted by various...
banks, automatic withdrawals from the City bank for mortgage payments for Housing properties, etc.

**ALTERNATIVES FOR CONSIDERATION:**

(include Financial, Staffing, Legal and Policy Implications and pros and cons for each alternative)

A Request for Proposal for Banking Services for a ten year term can be issued as previously directed
The pros and cons of this alternative are contained elsewhere in this report.

Council can authorize staff to negotiate a new agreement with the Royal Bank of Canada for a defined term
Negotiating a new agreement with the incumbent banker would eliminate the costs associated with issuing a RFP and changing banks. The financial risk of implementing new processes would be removed. Staff would continue to follow the process they have been using for nine years.

On the possible con side, the City would lose the opportunity to see if it could secure a lower price for its’ banking services or if the other banks have banking services that might enhance the financial controls presently in place.

**CORPORATE STRATEGIC PLAN** (Linkage to Desired End Results)


**Skilled, Innovative & Respectful Organization**

- A culture of excellence
- A skilled, adaptive and diverse workforce, i.e. more flexible staff
- More innovation, greater teamwork, better client focus
- An enabling work environment - respectful culture, well-being and safety, effective communication
- Opportunity for employee input in management decision making
- Council and SMT are recognized for their leadership and integrity

**Financial Sustainability**

- Financially Sustainable City by 2020

*Vision: To be the best place in Canada to raise a child, promote innovation, engage citizens and provide diverse economic opportunities.*

*Values: Honest, Accountability, Innovation, Leadership, Respect, Excellence, Teamwork*
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