

**To:** SPECIAL COUNCIL

**Meeting Date:** 5/31/2022

**Subject:** **Banking Services Contract Extension**

**Submitted By:** Sheryl Ayres, Chief Financial Officer

**Prepared By:** Katie Fischer, Deputy Treasurer

**Report No.:** 22-041-CRS

**File No.:** C1101

**Wards Affected:** All Wards

### **RECOMMENDATION(S):**

THAT Report 22-041-CRS Banking Services Contract Extension be received;

AND THAT the Banking Services Agreement be authorized to be extended for an additional two years based on the terms as outlined in report 22-041-CRS.

### **EXECUTIVE SUMMARY:**

#### **Purpose**

- In 2012, the City appointed TD Bank as the City's bank, with the current contract expiring August 31, 2022. This report seeks Council approval for a two-year extension to this contract.

#### **Key Findings**

- Staff recommend extending the existing contract with TD Bank for an additional two-year period, to carry the City through the current highly volatile interest-rate market and allow time for a full Request for Proposal process.
- The City's procurement by-law, 19-187, does not apply to bank charges.
- Staff have been very satisfied with the level of service realized from TD Bank.
- On the fee side, TD remains competitive within the marketplace.
- Regarding interest rate, the markets are currently experiencing significant volatility as a result of the very high inflation levels, resulting in the Bank of Canada increasing the benchmark interest rate by 0.25% in March and an additional 0.50% in April, with further increases expected in 2022.

## Financial Implications

- The two-year extension proposal includes an increase to the City's interest rate on cash holdings by ten basis points (0.10%), which will result in additional investment income than otherwise would be earned. The impact of this change, as well as the Bank of Canada's rising interest rates and overall investment performance, will be assessed through forecasting in 2022 and the 2023 budget.

## STRATEGIC ALIGNMENT:

- ☐ Strategic Action; or  
☒ Core Service

**Objective(s):** Not Applicable

**Strategic Action:** Not Applicable

**Program:** Finance

**Core Service:** Financial Accounting and Reporting

The City's banking services represent a key aspect to the City's financial operations.

## BACKGROUND:

In 2012, the City issued a proposal call for banking services. From that proposal call, TD Bank was appointed as the City's bank for a five-year term with an option to renew for a further five-year term which was ultimately taken. The current contract expires August 31, 2022.

## ANALYSIS:

The City's procurement by-law, 19-187, does not apply to bank charges as changes to the City's appointed bankers can result in significant staff effort to implement, especially given today's technological processes and integration points, including:

- Digital outgoing payment files for employee payroll and vendor payments and the necessary integration with the City's enterprise resource planning (ERP) software;
- Incoming payments from customers paying tax and water bills through their online banking platforms;
- Incoming electronic fund transfer (EFT) payments from business partners;
- Updating banking information with business partners for automatic withdrawals;
- Integration with the City's electronic banking software for reconciliations;

- Processes for deposits of cash and cheques; and,
- Awaiting issued cheques to be cashed by the City's business partners before being able to close an account.

As such, the hidden cost of the significant staff time required to switch bank providers must be factored into any decision. Beyond this, there are 3 other factors to consider:

- 1) Customer service and meeting the City's overall needs;
- 2) Fees (cost); and
- 3) Interest rate (interest revenue earned on the City's cash holdings).

Staff have been very satisfied with the level of service realized from TD Bank. On the fee side, TD remains competitive within the marketplace, and the City realized \$67,000 in annual cost savings back in 2012 as a result of the Request for Proposal at the time. Regarding interest rate, the markets are currently experiencing significant volatility as a result of the very high inflation levels, resulting in the Bank of Canada increasing the benchmark interest rate by 0.25% in March and an additional 0.50% in April, with further increases expected in 2022. To carry the City through this highly volatile market, staff recommend extending the existing contract for an additional 2-year period, allowing time for the market to settle as well as providing sufficient time for a full Request for Proposal process.

The terms of this two-year extension would follow the existing agreements with TD Bank, with an improvement to the City's interest rate earned on cash holdings by ten basis points (0.10%). Note that this interest rate is a variable rate, such that whenever the Bank of Canada increases its benchmark interest rate the City realizes an increase in its rate as well.

#### **EXISTING POLICY / BY-LAW(S):**

There is no existing policy/by-law.

#### **FINANCIAL IMPACT:**

The increase to the City's interest rate on cash holdings by ten basis points (0.10%) will result in additional investment income than otherwise would be earned. As a result of the low interest rate markets seen due to the COVID-19 pandemic, the City did not meet its budget for investment income in 2021 and budgeted a one-time impact as a result of the pandemic for 2022. The impact of changing interest rates and overall investment performance will be assessed through forecasting in 2022 and the 2023 budget.

#### **PUBLIC VALUE:**

Ensuring efficient banking processes at competitive rates supports the sustainability of the City's finances.

**ADVISORY COMMITTEE INPUT:**

Not Applicable.

**PUBLIC INPUT:**

Posted publicly as part of the report process.

**INTERNAL / EXTERNAL CONSULTATION:**

The recommended contract extension was reviewed with Procurement to ensure continued compliance to the Procurement by-law where applicable.

**CONCLUSION:**

In 2012, the City appointed TD Bank as the City's bank, with the current contract expiring August 31, 2022. To carry the City through the current highly volatile interest-rate market and allow time for a full Request for Proposal process, staff recommend extending the existing contract for an additional two-year period.

**REPORT IMPACTS:**

Agreement: **Yes**

By-law: **No**

Budget Amendment: **No**

Policy: **No**

**APPROVALS:**

**This report has gone through the appropriate workflow and has been reviewed and or approved by the following as required:**

**Director**

**Deputy City Manager**

**Chief Financial Officer**

**City Solicitor**

**City Manager**

**ATTACHMENTS:**

Not applicable