

REGIONAL MUNICIPALITY OF OTTAWA-CARLETON
MUNICIPALITÉ RÉGIONALE D'OTTAWA-CARLETON

REPORT

The National Bank of Canada currently provides banking and cash handling services to OC Transpo on a fixed fee basis of \$4,200 per month. The current contract, which was extended by the Commission in January of this year, concludes at December 31, 1998. The contract was extended earlier in the year to coincide with the review date of the Region's contract for banking services. Staff began a review of OC Transpo banking requirements in mid summer to determine the potential for joint banking arrangements. This review also took into consideration the implementation of the new financial and business systems project in early 1999 and the integration of the Region and OC Transpo financial operations. While many of the banking requirements are similar, the volume of coin handled by OC Transpo has presented difficulties in the past when requesting proposals for banking services. Similar to the experience of the Region, OC Transpo received only two responses to its last RFP for banking services, mainly as a result of the challenges associated with the handling of large volumes of coin. In 1998, OC Transpo averaged deposits of coin of approximately \$1.2 million a month which represents approximately 85,000 rolls of coin.

DISCUSSION

The Region and the Royal Bank have worked together to introduce additional banking services during the past five years to improve the efficiency of banking services and to control the costs of payment processes at the Region. Some of these improvements include:

- continued emphasis on the use of direct electronic payment to social assistance clients to provide more efficient access to funds and reduce administration costs, approximately 65% of all client payments delivered electronically, resulting in reduced payment interruption and lower cost,
- direct deposit payroll extended to all Police Services in 1995 with the amalgamation of police services,
- Purchasing and Corporate card program implemented in 1996, improved payment process for small purchases and business travel, reducing the number of cheques issued and reducing the associated administration costs of the Region,
- the Royal Bank was awarded the contract for custody and safekeeping services in 1997 for the handling of investment transactions of the Region. This proposal was chosen from six submissions and resulted in more timely investment decision making, reduced administrative costs and a greater access to the investment markets for the Region.

As a result of the ongoing consultation and the introduction of current systems, total banking service costs have been steadily reducing from \$257,000 for 1994 to an estimated \$130,000 for 1998.

Under the terms of the Region's existing agreement, the Region may extend the agreement with the Bank's concurrence and its review of the pricing. There are a number of reasons which suggest that the option to extend the present agreement should be exercised at this time as opposed to undertaking an industry-wide request for proposals. The extension to the current agreement is recommended for the following reasons:

- past experience by the Region and OC Transpo suggests that only a limited response may be received from the banking community,
- this offer provides significant cost savings to the Region and OC Transpo,
- the implementation of the new SAP financial system in 1999 will integrate financial processes of the Region and OC Transpo,
- a three year extension allows the Region the opportunity to review its banking requirements for new services that will be transferred from the Province,
- a three year extension will continue existing banking services beyond the year 2000 and will provide continuity that may overcome any Y2K information technology problems that may occur,
- a three year extension will provide ongoing service while the banking sector reviews restructuring.

As a result of the Region's ongoing commitment to upgrade its banking processes and control associated banking costs, the Royal Bank has offered to extend the present service contract for an additional three year period with an improved pricing of services. Based upon current volumes, it is estimated that the Region's cost of daily banking requirements would range approximately from a high of \$94,000 to \$70,800 per annum depending upon the consolidated balances on hand from time to time. In addition the Bank has offered to extend the agreement to cover the banking requirements of OC Transpo. The Bank will provide similar unit pricing to the Commission which will reduce annual banking costs from approximately \$50,400 to \$9,700.

FINANCIAL COMMENT

The proposed cost of banking services for the Region will result in a reduction of between \$40,000 to \$60,000 annually. Banking costs of OC Transpo based on current volumes are estimated to reduce by approximately \$40,000. The combined budget savings will range between \$80,000 and \$100,000 per year.

PUBLIC CONSULTATION

The public consultation process is not applicable.

CONCLUSION

The acceptance of the Royal Bank offer to extend the contract for banking services and to provide similar services to OC Transpo offers significant cost savings to the Region, extends service with a proven service network beyond the year 2000 and provides the Region the time to assume new service responsibility from the Province and incorporate those financial requirements into the Region's banking system.

*Approved by
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