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ANNEX 5.7 BANKING

Each public sector organisation should run its cash management and money transmission policies to minimise the cost to the Exchequer as a whole. This usually means using the Government Banking Service.

A5.7.1 Together public sector organisations handle a very great deal of public money and carry out many financial transactions every working day. It is essential that these are handled in a way which is efficient and safe for the Exchequer as a whole. Accounting Officers are responsible for the credit risk to which public funds are exposed when held in commercial banks. It is important that they manage this risk actively, so that it is kept to a minimum.

A5.7.2 For most public sector organisations, this means in practice using the Government Banking Service (GBS). It provides a ready way of sweeping any excess cash into the Exchequer pyramid accounts at the Bank of England both during and at the end of each working day. This enables the Debt Management Office (DMO) to manage the Exchequer's cash position efficiently by financing any net government overnight debt or investing any overnight balance. Any other arrangement would expose the government to increased credit risk and mean greater government borrowing, costing the Exchequer more overall.

Local banking policies

A5.7.3 Each public sector organisation should establish a banking policy for its transmission of funds and deployment of its working balances. It should cover at least the features outlined in box A5.7.A.

box A.5.7A An organisation's banking policy

- Where the main account(s) are to be held and how they should be operated.
- How and where working overnight balances required for day to day operation are to be held, if different.
- How the risks of fraud and overpayments are to be prevented, countered systemically and managed when discovered.
- How any non-Exchequer funds should be managed and kept separate from public money.
- When and how payment by cheque, credit card or direct debit is acceptable.
- Record keeping, including frequent bank statement reconciliations.

A5.7.4 Once established, this policy should be reviewed regularly to make sure that it remains appropriate and up to date. Any public sector organisation which chooses not to use the GBS as its primary banking service should justify that its policy offers value for money for the public sector as a whole. This stringent test can rarely be satisfied in practice and always needs to be cleared with the Treasury.

A5.7.5 As part of its banking policy each public sector organisation may also need to operate one or more commercial bank accounts. Some guidelines for setting up and operating them are in box A.5.7B. For banking requirements in the UK, public sector organisations should use only

members of the relevant UK clearing bodies. Current membership of these bodies can be checked via the weblinks in box A.7.7C.

box A.5.7B Guidelines for using commercial bank accounts

- Select services which cannot be provided by the GBS or which offer better value for money for the Exchequer overall.
- Ensure that cleared funds will reach accounts as early as possible in the relevant clearing cycle.
- Obtain specific charges for money transmission and other services so that costs are transparent and comparable.
- Obtain gross interest on cleared credit balances, at rates as close as possible to the Bank of England's interbank rate or better (subject to credit risk and other liquidity considerations).
- Refuse arrangements that involve maintaining minimum balances since these increase Exchequer debt and raise Exchequer costs, even if the offer appears superficially attractive because of reduced charges.
- Negotiate with care any indemnities that commercial banks may seek to replace their normal arrangements (eg to protect the bank from incorrect Bacs debits), after taking legal advice and obtaining clearance from the Treasury.
- Surrender interest receipts as Consolidated Fund Extra Receipts.

A.5.7.6 When operating its bank accounts, each public sector organisation should minimise its balances without going overdrawn. It should hold enough to meet its immediate known requirements, normally in a GBS account.

box A.5.7C Members of relevant uk clearing bodies

- The following websites list the members:

<http://www.bacs.co.uk/Bacs/Corporate/CorporateOverview/Pages/OurMembers.aspx>

http://www.apacs.org.uk/uk_payment_schemes/cheque_credit_clearing.html

http://www.apacs.org.uk/uk_payment_schemes/chaps_clearing_1.html

Money transmission

A.5.7.7 Public sector organisations should generally use the cheapest, safest and quickest means of moving public funds, depending on the context. Generally this means adopting the hierarchy in box A.5.7D. Sometimes it is necessary to strike a balance among these desirable features to achieve the best outcome. For inward payments, it may be appropriate to apply credit controls or other safeguards. For outgoing payments where Bacs¹ is used public sector bodies should wherever possible use the system known as Bacs Grade 3 (Government Grade) user status as it guarantees that the funds are cleared on the third day.

¹ Bacs (formerly the Bankers' Automated Clearing Service) is the commonly used three-day electronic payments and receipts system

box A.5.7D Money transmission services ranked in order of choice

- Internal transfers (requests for fund transfers) within GBS. These are free of charge to GBS customers.
- Electronic methods (Bacs and CHAPS) in the commercial banking system including transfers to and from GBS accounts and direct debits:
 - where used for payments, with appropriate safeguards to prevent damage to the Exchequer;
 - where used for receipts, with arrangements for prompt credit.
- Credit and other payment cards: only where accepting such payments represents value for money, eg in terms of faster or more certain credit of funds, and usually with safeguards such as limits on value or circumstances compared to the cost of commissions to the card user.
- Where these are not possible, payable orders and cheques.

but not usually

- Cash, uncrossed cheques, order books or other methods involving high security risks.

Borrowing

A.5.7.8 Public sector organisations should not normally rely on obtaining finance by borrowing from commercial banks as it is almost always more expensive than relying on the government's credit rating. Any expenditure financed by such borrowing would be considered irregular.

A.5.7.9 Certain arm's length bodies, such as public corporations, trading funds and NHS Foundation Trusts may, however, borrow from commercial banks for short term needs. This is only possible if it has been agreed in the founding documentation for the body (see chapter 7).

Foreign exchange transactions

A.5.7.10 Some public sector organisations need to make foreign exchange transactions. Normally they should deal through the GBS for spot trades. Although transactions over £2m are actioned by the Bank of England, they should still be directed through GBS for authorisation.

A.5.7.11 If foreign exchange transactions form a substantial part of the business there may be a case for drawing up a forex management policy. This will need to be agreed with the Treasury if it involves any transactions other than spot trades. A possible outline is at box A5.7E.

box A.5.7E Forex policy

- An outline of the volumes and frequencies of forex transactions required by the organisation's business.
- Policy on dealing with receipts and payments: normally spot transactions.
- The case for holding any sums in forex accounts, identifying any seasonal or other macro factors affecting amounts, preferably through the GBS where the facilities are available.
- The case for any hedging transactions, designed to limit risk exposures (eg through forward purchases or options) with appropriate exposure limits.
- Routine for reviews, eg annually.

but not

- Letters of credit. These are essentially guarantees of the government's ability to pay and can be provided cheaper by ECGD, where needed.