



REPORT

Cllr Mrs Warrander : Cabinet Member for Resources

FINANCIAL REGULATIONS AND STANDING ORDERS

1. Purpose of Report

- 1.1. To consider ways of improving the administrative processes of ordering and paying for goods and services.

2. Background

- 2.1. A review of the Council's compliance with its own standing orders for ordering and payment of goods was carried out by internal and external auditors in July 2003. Significant weaknesses were identified and an action plan drawn up to address these.
- 2.2. The action plan included the need for a review of the administrative processes involved in ordering/payment. This review was carried out by the Procurement Steering Group, and its findings are set out in the report.

3. Summary

- 3.1. The Group identified a number of processes which were cumbersome and difficult, and which therefore were being poorly used, thus contributing significantly to compliance problems. The Group suggests a number of improvements to overcome this problem;
 - Increase in Financial Thresholds
 - Framework Agreements
 - Improved Payment and Invoicing
- 3.2. The Group recognised that the Council would need to have E-Procurement in place by December 2005, and that officers needed to continue to work on this area, and that further improvements might be identified through Business Process Re-engineering (BPR).

4. Suggested Improvements

- 4.1. To set the proposed improvements in context, information is appended (Appendix I) on the financial thresholds used by other councils and the number and value of payments made by SDC. Orders/payments generate paper triplicate forms and apart from the huge volume of work involved, the current system greatly increases the chances of errors arising. The intent of the improvements is to streamline and reduce workload and errors whilst not increasing the risk of fraudulent activity to an unacceptable level.
- 4.2. Financial Thresholds

- 4.2.1. Current thresholds were set in 1999. Suggestions for increases are set out below.

	Current	Proposed
Competitive quotes not required – purchase can be made through petty cash or without raising an official order	£0 - £50	£0 - £200
2 informal quotes required and an official order must be raised.	£50 - £5,000	£200 - £10,000
3 written quotes required and an official order must be raised.	£5,000 - £25,000	£10,000 - £30,000
Formal competitive tendering is required in accordance with contract regulations	Over £25,000	Over £30,000

- 4.2.2. Cabinet is asked to note the first three changes, which are delegated to the Head of Financial Services and Recommend that Council approves the fourth.

4.3. Framework Agreements

- 4.3.1. A Framework Agreement is a simple contract with a regular supplier of goods or services, specifying the cost/quality of what is supplied, and awarded by competition. Large swathes of current orders are to regular suppliers, because no Framework Agreement exists then each order ought to be subject to competitive quotes. This requirement is widely ignored and is thus a major generator of non-compliance. It is suggested that Framework Agreements are put in place as soon as possible to properly regulate the situation. It is also suggested that a central contract register be established to record all contracts and ensure they comply with the Council's Financial Regulations/Standing Orders.

4.4. Payment and Invoicing

- 4.4.1. Methods of ordering/invoicing vary between suppliers. A number of improvements are suggested where the Council could streamline the processes. These are;
- Ask suppliers to accept orders from nominated officers and invoice to each relevant officer on a monthly basis. (subject to a limit of £500 per order)
 - Use credit cards for ordering/payment (subject to a limit of £500 per order). The Council will anyway need to use these by December 2005 to comply with E-Government targets.
 - Electronic invoicing from major suppliers eg SEB have agreed to invoice us quarterly via electronic disk. On an annual basis this would reduce by 7,200 the pieces of paper currently generated.
 - Part payments of a single order currently generate individual invoices. It is suggested officers find ways to reduce this to a single invoice.

5. Other Issues

- 5.1. The Group recognises that many of the ideas expressed in section 4 will contribute to the goal of having a full E-Procurement system by December 2005. However, officers need to do further work to ensure that there is a successful migration from paper to electronic payment.
- 5.2. It is also suggested that further efficiencies might be identified by a full BPR, and that this should be carried out as part of the exercise of establishing E-Procurement.

6. Recommendations

- 6.1. Cabinet is recommended;
- 6.1.1. To note increases in the first 3 financial thresholds set out in section 4.2 of this report, and recommend to Full Council that it approve the increase in the fourth.
- 6.1.2. Approve the proposals set out in sections 4.3 and 4.4 of this report.
- 6.1.3. Note that officers will make appropriate arrangements to set up an electronic ordering/payment system and carry out a BPR review as part of this exercise.

7. Implications

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| 7.1. Financial | : | As set out in report. |
| 7.2. Legal | : | The proposed thresholds are such that there are no implications with regard to European Union regulations on public expenditure. The Council as a public sector buyer has to be able to demonstrate that value for money has been sought which is normally achieved by 'testing the market' through purchase by competition but at the same time 'best value' requires that the Council looks to speed up the procurement process and reduce costs. The proposals meet both objectives. |
| 7.3. Personnel | : | None |
| 7.4. Human Rights | : | None |
| 7.5. Environmental | : | None |
| 7.6. Council's Core Values | : | None |
| 7.7. Community Safety | : | None |
| 7.8. Wards Affected | : | None |

Analysis of Responses - Contract Standing Order's Survey September 2003

QUOTATIONS	N/A	< £50	< £500	< £1,000	<£1,500	<£2,000	< £2,500	<£3,000	< £5,000	< £10,000	< £20,000				
	0	17	1	3	10	1	4	2	5	6	9	2			
Oral Quotes	N/A	< £500	< £1,000	<2,000	< £2,500	<£3,000	<£4,000	< £5,000	< £10,000	< £15,000	< £20,000				
1 oral required		49	3	2	2	1	1	0	2	0	0	0			
2 oral required		51	0	2	0	2	2	0	1	1	0	1			
3 oral required		50	0	2	1	1	1	0	3	1	1	0			
4 or more oral required		59	0	0	0	0	0	1	0	0	0	0			
Written Quotes	N/A	<3,000	<4,000	< £5,000	< £10,000	< £15,000	< £20,000	< £25,000	<£35,000	<£40,000	< £50,000	<60,000	< £75,000	< £100,000	> £100,000
1 written quote		55	2	0	2	0	0	1	0	0	0	0	0	0	0
2 written quotes		49	0	0	1	5	0	4	0	0	0	1	0	0	0
3 written quotes		10	0	0	2	3	3	6	12	1	2	15	2	2	1
4 written quotes		47	0	1	0	1	0	1	3	1	0	0	2	2	1
5 written quotes or more required		53	0	0	0	0	0	1	2	0	0	2	0	0	0

TENDERING	N/A	> £10,000	> £15,000	> £20,000	> £25,000	> £30,000	>£35,000	>£40,000	> £50,000	<£60,000	<£75,000	> £100,000	> £150,000
Value at which a tender must be sought	1	6	3	6	10	3	2	2	20	2	3	1	1
Value of work where assessment of contractor is undertaken (financial)	19	5	1	3	6	1	2	2	17	1	1	2	0

SELECT LISTS / APPROVED LISTS	Yes	No	1	2	3	4	5	6	7	8 +	Misc
Do you operate a Select List	58	2									
What is the minimum number of companies used from your select list			0	0	16	17	4	11	0	0	10
Maximum allowed			0	0	0	0	1	8	0	40	9

FINANCIAL RANGES

In determining bands/cut-offs are financial ranges used, e.g. for decisions.	< £10,000	< £15,000	< £20,000	< £25,000	< £30,000	<£35,000	<£40,000	< £50,000	<£60,000	<£75,000	<£80,000	< £100,000	> £100,000	N/A
Lower Financial Range	13	2	3	9	0	0	1	3	0	0	0	3	4	22
Middle Financial Range	0	0	1	1	0	0	1	6	2	2	1	7	8	31
Upper Financial Range	0	0	0	2	0	2	0	7	2	2	0	0	22	23

DECISION-MAKING

Delegation-Matrix														
Delegated Level to a Designated Officer to Approve (e.g. waiver of CSOs).	Chief Off'r	Spec Off'r	Cab. Mem	Cabinet	N/A									
Exception to CSOs (e.g. specialist item) - who approves/agrees	19	18	3	4	16									
Delegated to a Designated Officer (e.g. Chief Officer)	N/A	None	< £10,000	< £15,000	< £20,000	< £25,000	< £30,000	< £60,000	< £100,000	> £100,000				
Urgent Waiver of CSOs under a value (please specify)	41	0	3	0	3	4	2	2	2	3				
General Waiver of CSOs under a value	42	0	1	0	1	2	1	1	1	11				
Delegated to one Member (e.g. Cabinet Member)	N/A	None	< £10,000	< £15,000	< £20,000	< £25,000	< £30,000	< £40,000	< £50,000	< £60,000	< £80,000	< £100,000	> £100,000	
Urgent Waiver of CSOs under a value (please specify)	48	0	1	0	0	1	1	1	1	1	1	4	1	
General Waiver of CSOs under a value	50	0	0	0	0	1	1	1	0	1	1	4	1	
Delegated to a group of Members (e.g. Cabinet)	N/A	None	> £10,000	> £15,000	> £20,000	> £25,000	> £35,000	> £40,000	> £50,000	> £75,000	> £100,000			
Urgent Waiver of CSOs above a value (please specify)	46	0	0	0	0	2	0	1	3	1	7			
General Waiver of CSOs above a value	47	0	0	0	0	0	1	1	3	1	7			

Paragraph 4.2 refers

Value of Order – New Category	Number of Invoices Paid – New Category	Value of Order – Old Category	Number of Invoices Paid – Old Category	Reduction
£0 - £199.99	23558	£0 - £49.99	12630	10928 (increase)
£200 - £9,999.99	9246	£50 - £4,999.99	19849	10603
£10,000 – £29,999.99	227	£5,000 - £24,999.99	529	312
>£30,000	95	>£25,000	108	13