

7 PROCUREMENT AND PAYMENT

7.1 Introduction

Procurement is the process through which follows the identification of need in a school for particular goods and services. It involves:

- market research being undertaken
- comparisons being made
- choosing products or services
- suppliers being invited to compete for business and
- concludes with the placing of an order or a contract

The payment process:

- confirms that goods/services have been received to an acceptable quality
- checks the invoices are correct
- authorises payment

7.2 Procurement

The greater part of the cost involved is incurred in making the procurement decision. The main reason for this is the cost of the staff time spent in making market comparisons and obtaining intelligence.

Purchasing decisions fall into a number of categories. Each will require a different approach. The degree of financial risk associated with each group of expenditure will determine the amount of time that the procurement decision merits.

These may be categorised as:

- Occasional low value items: non recurring

Where item values are low and the item's nature makes it unlikely to be a frequent purchase, the amount of time spent undertaking market research is unlikely to be reflected in a monetary saving. Where price is the sole criterion at £10/hour every minute spent checking prices has to yield a seventeen pence saving.

- Broad groups of recurrent expenditure:- e.g. office supplies, cleaning materials, food

For recurrent supplies, small price variations can make a significant cumulative difference to the total paid. Individual price checking by many purchasers is time inefficient and the time cost will outweigh the perceived benefits of cherry picking. The use of framework contracts will avoid this.

- Occasional high value items

These probably represent a proportionately large spend where there are matters to be considered other than simply price. Typically these may be large items of equipment.

- Project based expenses e.g. – minor building works or large suites of equipment

The decision will have a long term effect on the conduct of the school. In these cases the decision to procure needs to be thought through and time spent in defining the requirements. A specification is a vital part of demonstrating best value.

All purchases must comply with the minimum standards laid down in this manual and with

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Financial Regulations.

There are EU rules relating to competition and these must be observed. It is important that major purchasing decisions are fairly arrived at, and demonstrably so.

7.3 Procurement policies

Governors will wish to balance the savings in cost that may be achieved by market research against the amount of staff time that is incurred in making the purchasing decision. Governors will be concerned to procure goods and services efficiently, economically and effectively.

In the same way governors may be prepared to restrict choice in some areas as to obtain the benefits of greater simplicity and streamlining. Complex processes are time intensive and time costs can outweigh direct financial savings.

The use of electronic systems provides the means to process transactions more cheaply and efficiently and should also be a policy requirement.

Governors as a minimum standard will have a procurement policy⁷. This will address their stance on procurement issues.

Schools will be concerned to achieve Best Value. This may mean that the school chooses to opt into contracts that have been set up by others. These might include:-

- Devon County Council contracts and tendered framework arrangements
- Devon Procurement Partnership Contracts
- Contracts negotiated by groups of schools
- Regional contracts to which DCC is a party

Where such contracts (known as framework contracts) are used then there is no requirement to obtain further alternative pricing for items within the contract. Research into alternative pricing may be needed if the contractor is supplying goods that are not part of the main contract. For example the stationery contract might not include printer supplies because there is a different contractor.

There are also some national contracts negotiated by organisations such as the Office of Government Contracts (OGC). This is a developing area. Paradoxically OGC contracts at present do not necessarily offer the best option. They can be used to benchmark other offerings.

Governors must

- define their rules & expectations
 - Require systematic procurement
 - assign responsibilities
 - set levels of authority
 - ensure all staff with a role in procurement are acquainted with the school policies
 - specify the areas where a contract is to be used and;
 - specify where more expensive purchases require additional approvals and processes
- comply with rules for disclosure of pecuniary interest (see Paragraph 2.9 LMS Scheme)
<http://www.devon.gov.uk/fitschoollmsscheme.doc>

⁷ See Annex

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- and Sections 13 <http://www.devon.gov.uk/fitschoolfinancemanualsection13.pdf> and Appendix 5.
- Ensure compliance with
 - Financial Regulations
 - Minimum Standards

One purpose of the contracting process is to eliminate the duplication of effort involved in individuals spending time in obtaining comparative prices as collectively these outweigh consequent savings that may be achieved. There is a cost of staff time and with pressure on resources for back office staff this has to form part of the equation.

Governors should also therefore consider if certain individuals should be champions for particular types of purchases and lead in developing expertise in some specialised areas.

Success in procurement comes in part from channelling purchasing so that the bulk of supplies in a given category come from a small number of suppliers.

This helps to

- leverage the price paid
- give certainty over quality
- reduce back office costs
- improve customer service

Schools do not operate in isolation from their communities and a balance has to be struck between going for the absolute cheapest deal with a big firm and with supporting local businesses. This is difficult because legislation requires the exposure of all economic opportunities to competition but national and local policies promote developing the economic base by encouraging the local business community.

7.4 Maverick buying

This is buying outside the school's policy. It can be a result of either ignorance, wilful disregard of policy or there may be a genuine reason. This latter should be the exception rather than the rule.

Schools need to take a firm line on enforcing their policy otherwise the benefits of contract negotiation can be lost.

7.5 Terminology

Determine the approach; this will be driven by the thresholds in paragraph 7.13. It is important to be clear about what the supplier is being asked to provide:

- **An estimate** is only that: - the actual price may differ significantly from the estimate.
- **A quotation** is a firm price for the works, goods or services of a contractor and should comply with the specification of work, goods or services required.
- **A formal quotation** is a firm price for the works, goods or services provided by a contractor and should comply with the specification of work, goods or services required. It has to be provided in writing by a specific date and time and is measured against evaluation criteria.
- **A tender** is a quotation delivered in a sealed envelope which is opened at the same time and place as all other tenders for that specification of work, goods or services and is measured against evaluation criteria. At this stage consideration should be

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given to the evaluation criteria. This is a useful process because thinking about how the suppliers' claims will be tested help refine the specification.

7.6 Who can order?

Generally any member of the non-teaching staff may place an order if the school has authorised them to do so.

The workforce reform agenda means that the contracts of classroom teachers preclude them from ordering goods. Therefore, whilst there may be professional input to the selection process, the decision over where or how to procure goods is generally an administrative matter. School policies should address this issue.

7.7 Defining the requirements and their scope

This is crucial and the following paragraphs address the details but some forward thinking will be repaid in time saving. If it is decided to step outside the framework contracts consider the demand for a product or service over a period of time. This will avoid the need for obtaining comparative prices on a repetitive basis.

Suppliers will usually quote more competitively for a value of supplies over a time period. This helps them and it helps their customers by saving time. There is significant time lost to searching out special offers. In the long run "cherry picking" may be counter productive. Estimate the value of supplies of a type that will be required over a twelve month period or maybe longer and compare this to the table in paragraph 7.13. Remember it will only be necessary to do this once to establish the contract and the effort will not need to be repeated until the contract becomes due for renewal.

7.8 Placing an Order

The purpose of raising an order is to obtain a defined quantity of goods or a specified level of services to the quality desired in an acceptable timescale. An order fulfils two main purposes: it creates a commitment in the FMS system and it forms the basis of a contract with the supplier. This is important in case of dispute.

Orders are to be generated electronically from FMS and this is the preferred ordering method. Orders should be despatched to suppliers electronically wherever possible. FMS holds all order details electronically so printed copies are not required for files.

Manual orders, telephone orders or other purchasing methods must not be used to evade management controls. Telephone orders are not inherently wrong. They are quite convenient and suited to certain circumstances. They have the disadvantage that there is no record of what was said so errors arise and also creates no commitment. They can be used by unauthorised persons and if this happens management action will be required. They are not well suited to situations where goods will not arrive quickly (such orders need to be electronic or in writing), nor are they suited to lengthy lists of products that take time to read out and cannot easily be checked on arrival.

For items such as catering supplies, consider prepared order forms with products listed on which quantities can be inserted and then faxed.

7.9 Use of Devon Schools Portal

The Portal

This provides controlled access to the Internet. Schools choose those staff who are allowed access to the portal and the County Council controls those firms who have their business information displayed inside the portal. Firms with whom schools do business can be

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displayed as may those firms where there is a contractual relationship with Devon County Council

Control of access to the Portal

The school bursar (or nominated member of staff) controls access to the portal and is responsible for setting up staff on the portal and revoking the access of those who no longer require it. Generally anyone who creates paper requisitions, that is selects products, should be considered for access to the portal.

7.9.1 Content Orders

These are created on-line by adding items to a list called a shopping cart. The facilities are accessed using the Devon Schools portal.

No commitment is entered into at this stage. The supplier requires an electronic order from FMS to trigger despatch of the goods.

The use of on-line ordering by authorised staff removes the need for paper based requisitions and increases flexibility as staff using the Internet can access the portal from almost anywhere and at any time. The process is very similar to domestic on-line shopping except that immediate payment is not required. Content “orders” are electronic requisitions and reflect the selection of goods rather than the placing of an order. The ordering process is carried out by a non-teaching member of staff.

At the conclusion of the process a priced list is returned electronically to the school. It is imported to FMS and is then available for review by an authorised person and for authorisation. Authorisation in FMS sends the supplier an official order in electronic format.

7.9.2 Processing Content Orders

These are imported into FMS by an authorised person. This process can be restricted to nominated staff using access controls. At this point an order is created. It is able to be

- Rejected
- Amended (but new items cannot be added) quantities changed or items deleted.

If it is an acceptable purchase the order may be approved, provided that the purchase

- is required for the school purposes
- budget provision exists
- is within authorisation limits
- is in accordance with school procurement policy

If necessary, reference can be made to a more senior person for authority to proceed and that person should authorise the purchase in FMS.

Content orders can, where there are inherent weaknesses, improve controls and reduce effort in areas where paper based systems generate internal costs.

7.10 Non-web orders

Orders should be generated electronically in FMS and transmitted electronically to the supplier. This is the preferred method of ordering and should be used where suppliers can accept them. Printed orders should be signed prior to despatch but file copies are not required.

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Telephone orders by-pass management control and are to be avoided. Confirmation orders should be issued where the goods are unlikely to be delivered within a few days or where there are important conditions relating to the order. They must be clearly marked as being confirmatory, cross referenced to the conversation that has taken place. If this is not done confusion may arise and supplies may be duplicated.

7.11 Portal user responsibilities

Users are responsible for

- keeping their password secure and not disclosing it to anyone else
- in the event of password compromise promptly changing the password
- only using the portal in the execution of their duties
- only making purchases where they have authority to act
- treating information regarding pricing as commercially sensitive

7.12 Request for quote functionality

The portal provides the ability to generate requests for quotations. These are returned in a wholly electronic format and can be saved electronically as evidence of market testing.

7.13 Procurement thresholds

The procurement thresholds apply to purchases that are made “off contract”. That is, where no contract is in place, (see paragraph 7.3) or where the contractor is not used. It is good practice in these circumstances is to obtain written competitive quotations whenever possible. However, above the thresholds the processes are as follows

The values are for single items or groups of items, which must not be disaggregated artificially.

Estimated value of Goods Services	Number	
Over £1,000 and up to £2,500	2	oral quotations
Over £2,500 (£5,000 for works) & up to £10,000	3	written quotations
Over £10,000 and up to £50,000	3	written formal quotations ⁸
Over £50,000 but less than EU threshold ⁹	4	<i>written tenders</i>
Over EU thresholds	5	written tenders

A formal tender process is required where the value of a particular supply or service exceeds the limit in any one case. Where the annual value of such supplies exceeds the tender threshold then consideration should be given to tendering for the years supply of those goods to be called down at an agreed price. This may be more efficient than obtaining quotations for each individual purchase. It is possible for the contract to span several years.

Whatever market testing is done, once the supplier information has been received it is important to ensure that the offer actually meets (or exceeds) the specification. Even below the £1,000 limit it may be appropriate in the absence of a framework contract to market test.

⁸ to be submitted in writing by a specified date and time and based on a written specification and evaluation criteria⁷

⁹ EU thresholds apply from 01/01/06 and will next change on 01/01/08 and on the second anniversary of that date.

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Where the portal is used to place orders and market test, this will be considered to be appropriate evidence that the process has been complied with.

7.14 Tendering

Tendering allows comparison of a range of potential suppliers or contractors and allows objective criteria to be applied. As the monetary value of a contract increases so does the requirement to obtain comparisons. At the higher values formal tendering must be undertaken. Competition legislation requires procurement to be subject to competitive tendering and, for contract values above thresholds set by the EU, it is mandatory.

The aim of tendering is

- to obtain best value for money
- comply with national legislation
- comply with european legislation
- protect staff if something goes wrong or is alleged to have gone wrong
- protect staff from fraud

There are detailed requirements for the content of tenders and these will need to be included. These concern

- the appropriate period for preparation and return of tenders
- conditions relating to certification of tenders (see paragraph 2.13 of the DCC Procedures for Tenders and Contracts)

7.15 Single Quotations

Where only a single tender or quotation is received in response to an invitation to tender or provide a quotation, advice should be sought from the CYPS Procurement and Commissioning Team.

7.16 Advertising Requirements

The County Council operates an e-tendering process and this is the normal route for local authority purchasing.

Circumstances in schools may make use of such facilities impractical but they can be accessed through the CYPS Procurement and Commissioning Team. Otherwise, individual schools will utilize manual procurement systems.

Where possible, schools are encouraged to take advantage of existing framework contracts.

Open Competitive Tendering is required if the value of the work exceeds £100,000.

A minimum of 7 days notice is required in;

- One or more local newspapers and
- One or more journals circulating among persons who undertake such contracts and if appropriate
- Official Journal of the European Union

Where a contract falls within EU thresholds there are regulations concerning the timing of advertisements and advice should be sought.

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The notice must;

- ❑ State nature and purpose of contract
- ❑ Invite applications to tender
- ❑ State the date and last time by which applications to tender must be received
- ❑ All applicants are provided with the contract specification and invited to tender by a deadline

7.17 The specification

This is central to the success of the procurement exercise. It could take the form of a list of say 200 items of stationery that form the core of a user's needs. It could be that the specification invites suppliers to make proposals. This may be appropriate where there could be more than one approach to a problem. In this case the outcome is defined not the route to a solution.

First decide what is needed and define precisely what outcome is required: this is the first stage in drawing up a specification. The specification is simply a description of the goods or services to be provided. At its most basic it could be a catalogue number or a brief description but avoid creating a situation that excludes equivalent products. In more complex cases optional product features are added to build up the specification so that what is obtained is a match for expectations.

In the case of building works the specification may include architects' plans and details of materials to be used. In the case of services such as cleaning it will set out the standard to be achieved.

Care should be taken to ensure that specifications are clear enough for proper comparisons to be made between suppliers. Changes to specification after prices have been submitted will lead to additional costs and may mean starting the whole process again.

Avoid over specification - consider if the extra cost of a higher specification item is warranted by the use to which it will be put. This is particularly true of technology goods where "features" that justify the price are often not used.

7.17.1 Producing a clear and full specification

This is vital and it does not solely include just the goods or services but all the administration around the contract. The following is an outline of what is needed

- ❑ consider specialist advice or customise model document(s)
- ❑ include relevant British or EU specifications or codes of practice
- ❑ avoid using brand names
- ❑ define outcomes not methods of delivering them
- ❑ include a list of contract terms (see below)
- ❑ include clear instructions about the sealed tender envelope and the return date
- ❑ include necessary supporting information and dates when the work is to be done

7.17.2 Evaluation Criteria

Clear criteria must be established at the outset. Working through how tenders will be evaluated and constructing a scoring system will assist in refining the specification.

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7.17.3 Terms & Conditions

The Terms and conditions form part of the specification and set out the rules relating to the contract. They will define the relationship with the supplier.

It is important in safeguarding the school's position that the contract is issued by the school to the successful tenderer and not the other way round.

Contractors must have liability insurance of at least £5 million and indemnify the school against claims.

The contract should ensure that the contractor offers appropriate indemnity to the school. Contracts for services such as

- property maintenance
- cleaning
- grounds maintenance

all require close attention to detail. There are significant risks to the school (both financial and physical) if these are not dealt with correctly. Claims could arise for a number of reasons:

- faulty workmanship leading to death or injury
- faulty workmanship leading to damage to the school fabric
- personal injury resulting from incorrect operation of equipment
- environmental damage due to inappropriate use of pesticides or cleaning materials
- damage to health due to inappropriate use of pesticides or cleaning materials

For these reasons it is important that contracts require services to be delivered by properly trained and competent staff. Staff should also be properly vetted by the contractor to ensure that they are suitable to work on school premises.

Contractors must be required to indemnify the school against their failure to comply with legislation. For example, if a contractor fails to pay staff in accordance with Minimum Wage legislation the school may be liable to penalties imposed by the Inland Revenue.

7.17.4 Contract details

The contract must set out a clear specification of the work to be undertaken including

- the work, materials, supplies or services to be provided
- the quality standards to be adhered to
- the price to be paid, with a statement of discounts or other deductions
- the time or times within which the contract is to be performed
- the procedure for variations, terminations, or penalties for non compliance
- security for due performance, including liquidated damages where works are not completed in the time specified

Where appropriate, contracts must include arrangements for termination or extension and in all cases must contain a clause to allow cancellation where the contract has been corruptly obtained.

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7.18 Rules relating to tenders

To avoid challenges relating to bias it is important that there is a secure process for administering tenders.

- Unopened tenders should be stored securely, preferably in a safe, until the time of opening
- The receipt of tenders is to be recorded chronologically in a book maintained for that purpose
- Tenders received after published deadlines are not to be considered. (Advertisements should make this clear)
- Tender envelopes should not give any indication of the substance of their contents
- Tenders should only be opened by those authorised to do so. A minimum of two persons should be involved in this process and they should ensure that tender envelopes have not been tampered with

7.19 Evaluation criteria

At the time that the specification is prepared, the method of evaluation must be agreed. This needs to take into account a number of factors, including financial and non-financial criteria. Most evaluations will look at price and quality. Other factors such as delivery times may be important. An objective scoring system is a sound way of measuring and comparing different offerings.

This process must be wholly transparent. The Freedom of Information Act gives participants in a tendering process the right to know why they were not successful in obtaining a particular contract.

There is a significant body of law which requires public procurement to be properly competitive. All suggestions of bias or partiality need to be avoided.

At the outset Governors must declare any interests they may have (see FM. Section 13.4/13.5). The Clerk should remind Governors the need to make a declaration.

7.19.1 Contract Evaluation

The tenders submitted should be carefully vetted to ensure that

- they actually met the specification set by the school and that, for example, the materials quoted for are of the required standard
- completion of the contract is promised within the timeframe set by the school
- there are no hidden extra charges. Caution is needed to ensure that all work reasonably anticipated has been priced
- there are no loop holes that allow the contractor to levy open ended charges
- they accept a proper mechanism for agreeing variations
- they accept a proper mechanism for dealing with defaults
- the contractor supports his tender with appropriate supporting evidence, for example
 - copy of current insurance certificates
 - Health & Safety at Work Policy statements
 - other relevant documents such as licences
- the contractor has the ability to deliver

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In addition, consider using

- a credit reference agency
- an audit evaluation of the two best tenders

In some circumstances contractors will have been subject to some initial screening. The Devon County Council property portfolio is managed by Norfolk Property Services (SW), a local authority joint venture company, who will maintain lists of screened contractors to whom requests for prices may be directed.

7.20 Supplier bone-fides

As with all purchasing decisions there is a need for care; *caveat emptor*, buyer beware. Can the supplier deliver on the promises made? Some of the extra tests are

- reputation
- capacity to produce the volumes required
- range of service provision
- responsiveness
- reliability
- relevant qualifications?
- compatible with the school ethos and culture

7.21 Quality marks and professional competence

In engaging suppliers there needs to be compliance with appropriate standards.

Some examples

Transport Services	proper insurance
	CRB checked Staff
Work to electrical and gas systems	Qualified staff: Gas = Corgi registered Electric NIEEC registered
	CRB checked Staff
	Proper levels of insurance cover
General Building/plumbing	CRB checked Staff
	Proper levels of insurance cover

7.22 Requisitions

A requisition is an internal form used to enable members of staff to initiate the obtaining of goods or services and is useful as not all staff will have the authority to initiate an official order and some of those who do will not have access to the computer system to generate the order.

These considerations may be addressed by the use of requisitions. However, the use of content orders made on-line reduces the effort involved in processing and avoids the need for paper based activity. It allows detailed internal approval to be obtained before entry to FMS and also may have provision for the recording of certification checks.

Where they are in use, requisition forms shall be signed by the appropriate budget holder.

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7.23 Receiving goods and services

Schools should make appropriate arrangements to ensure that the goods and services delivered match those ordered and are of the quality required. They should be checked either on delivery or as soon as possible afterwards and then stored securely. Goods should be stored securely pending checking.

7.24 Making a Payment

7.24.1 Invoices

Invoices are the key documentation that describe the items purchased and justify the making of payment to suppliers. They must be carefully checked before processing for payment. The school that issues an order¹⁰ is responsible for the examination, certification and arrangement for the timely payment of the relative invoice(s).

At least two different people must be involved in the process of agreeing invoices and authorising payment.

Paper invoices will be scrutinised and subjected to the mandatory invoice checks and certification processes set out in Appendix 2. Details of the SCRAPS process are set out in Appendix 1.

7.24.2 Payments administration - miscellaneous

Request for payment: if there is no proper invoice a request for payment form (CT42 or an equivalent) must be completed, countersigned and retained locally to support the payment.

Documents relating to ordering and payment for goods and services must be retained as set out in Section 5.

7.24.3 Timing of payment

Payment of undisputed invoices must be made to a supplier by the date specified on the invoice. If no date is specified, payment should normally be made within 28 days of the invoice date. All discounts on offer should be taken.

A balanced view is needed of the cash flow requirements of both the supplier and the County Council. Undisputed invoices must be paid by the due date. Late payments may attract interest charges and this must obviously be avoided.

Invoices should therefore be entered into FMS as soon as the invoice checks are complete. This should be within 5 working days of the invoice being received. Invoices should be authorised immediately and in any event no later than 5 working days after entry to FMS but the payment date should be selected to take full advantage of the credit period.

7.25 Other payment issues

7.25.1 Authority to Act

Governors will define their policies and these will interlock, however the key elements will be

- Finance Policy
- Procurement Policy
- Budget Monitoring Policy

These policies will emphasise the need to conform to Financial Regulations and Minimum

¹⁰ Hard copy verbal or electronic

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Standards. Appropriate separation of duties must be achieved.

They will also set out responsibilities and level of authority. Governors may delegate appropriately but must ensure that adequate separation of duties is maintained.

Appropriate administrative arrangements are to be put in place which will deal with

- creating and maintaining user IDs on the schools portal
- authorising orders
- authorising transactions
- maintaining records of authorised persons and the extent of their authority.

Staff should have a clear understanding of their level of responsibility and the responsibilities of others. Care should be taken not to over bureaucratise processes to guard against low risk events. Responsibility should rest appropriately and the temptation to require even minor transactions to be authorised at very senior level should be resisted. See Section 16 Management Controls for further information.

7.25.2 Problematic Areas

Frequently we are presented with the statement “We have to stay with this supplier to expand our network.” All too often a small scale procurement decision is made without thinking of the consequences so consider the scope of the whole project before making a decision. This may bring you into the scope of tendering rules but that could save money, time and effort. It is also worth suppliers knowing that an order for a few initial items is a starting point for future business and thus will provide sharper prices, better service and so on.

7.25.3 Some Myths

“We buy direct from the manufacturer (or publisher) so we get the best price” - not necessarily true; larger wholesalers will usually get better discount breaks than individual customers and therefore may be cheaper than the price obtained at the factory gate. If you do worthwhile business with a wholesaler across a range of products, you may trigger discount breaks not available if you deal with multiple suppliers.

7.26 Procurement Cards

These form a small part of an overall procurement strategy. Typically, they allow access to purchases on the Internet. However, they are, unless tightly controlled, also susceptible to misuse. The considerations in Section 16 on ensuring separation of duties need to be kept firmly in view.

Use of procurement cards is best suited to situations where the supplier’s business model is constructed around this payment method or where the items are of low value and non-recurrent. Cards should only be used where other contractual arrangements are not in place.

There is a cost to suppliers in accepting this method of payment which will be reflected in the pricing. For many schools the use of framework contracts will be the best option for recurrent purchases. Detailed rules on the use of cards are contained in Appendix 6.