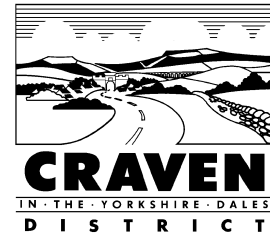


## Audit & Governance Committee – 29<sup>th</sup> September 2014



### Review of Tender Limits

#### Report of the Corporate Head, Financial Management

Ward(s) affected: All

1. **Purpose of Report** – To update Members regarding the review of Contract Procedure Rules.
2. **Recommendations** – Members are recommended to:
  - 2.1. Agree to retain the current quotation/tender levels contained in the Contract Procedure Rules until 31 March 2015 deferring any decision to amend them for the 2015/16 financial year onwards following a further update report to the meeting of January 2015.
3. **Background**
  - 3.1. Revised Contract Procedure Rules were agreed by Audit and Governance Committee at their meeting of January 2014.
  - 3.2. At the same meeting Members requested that a review report be brought to Audit and Governance Committee regarding reducing the tender level to £30k from the current £50k level.
  - 3.3. Following Audit and Governance Committee in January 2014 as agreed at that meeting, following consultation with the Member Procurement Champion the level at which quotes should be obtained was reduced from the proposed spend of £5k to £1k. Thus providing further challenge to officers in obtaining best value for money for a significant number of lower spend contracts
  - 3.4. The Council's current quote/tender levels set out in the contract procedure rules are as follows:

A Contract/or sub contract made under CPR 7.2 where the estimated value is:

    - a. £1,000 or less may be made without written competitive quotations as long as the contract is not part of a larger contract
    - b. Over £1,000 but not exceeding £5,000 may be made after obtaining two written competitive quotations as long as the Contract is not part of a larger Contract.
    - c. over £5,000 but not exceeding £20,000 may be made after obtaining at least three written quotations;
    - d. over £20,000 but not exceeding £50,000 may be made after obtaining at least four written quotations.

Contracts with a value exceeding £50k are subject to tender.

The current EU thresholds for tenders requiring the Council to undertake full EU tenders are as follows: Supplies or Services £173,934; Works £4,348,350, based on the total contract lifespan.

- 3.5. There are currently a total of 288 contracts on the Council's Contract Register including 123 IT related contracts.
- 3.6. An initial review of the Council's current contract register has taken place and the following rationale is now put before Members to maintain the current tender level at £50k.

#### **4. Rationale for Retaining 50k Tender Level**

- 4.1. The current Contract Procedure Rules already contain the requirement to obtain 4 written quotes for those contracts with a value between £20k and £50k. Introduction of a £30k tender limit is therefore not considered to provide any additional benefit to obtaining best value for money.
  - 4.1.1. Should the tender limit be lowered to £30k then based on information from the current register it is currently anticipated that an additional 8 tender exercises would need to be undertaken in the 2015/16 financial year alone. This would place additional pressure on officers within both front end services and the Council's corporate procurement function would not be able to provide support for this work given other pending priorities.
  - 4.1.2. Depending on the complexity of the tender it is estimated that each tender could take between 5 to 15 days of additional officer time, based on service officer, legal and procurement support requirements. Cash equivalent costs in officer time are estimated between £6k and £22k for 8 additional tenders.
  - 4.1.3. Officers within the procurement section of finance do not currently have capacity to successfully manage this increase in workload, therefore additional resource for general procurement support would need to be bought in to backfill current tasks and additional specialist contract law advice would also need to be procured. Actual additional cash costs for both aspects are estimated to be between £4k and £20k, depending on the complexity of tenders.
- 4.2. Significant changes are coming into force regarding procurement in public services through the 2014 EU Procurement Directives adopted by the EU institutions, coming into force on 17 April 2014 for implementation within the next 2 years. Amending the Council's procurement policies and procedure to meet the revised requirements needs to adequately resources and prioritised.
- 4.3. New requirements are being brought into force with regards to publication of the Council's Contract Register and Procurement Card spend as part of Data Transparency Legislation. Significant work needs to be undertaken in these areas over the next two months to meet requirements which come into force in November 2014, and must be given priority.

4.4. Where possible tender exercises are undertaken as joint exercises with other Local Authorities across the North Yorkshire/West Yorkshire Region, a number of joint procurement exercises have been undertaken to date and are likely to form part of the future programmes. Other local authorities quote/tender levels are as follows:

- Scarborough, Selby, Ryedale, Richmond & Harrogate – All 3 quotes between 5k-50k and tenders above.
- Hambleton – only 1 quote up to 10k, 3 quotes up to 80k, 3 tenders above 80k to EU.

It is important that tender levels are consistent with the majority of the other authorities if the Council is to easily undertake joint procurement activity.

4.5. An audit of creditor spend is now underway to identify whether appropriate contracts are in place for the 20 highest value creditors overall (tenders) and the 20 highest value creditors from £50,000 downwards (quotations). This report is expected in October 2014 and will help to inform any future decision on quote/tender limits.

4.6. Discussion with the Council's Internal Audit Manager has taken place with regard to the potential amendment to the Council's tender level. He considers that the question of whether to reduce the level from £50k to £30k depends on the balance between risk and efficiency. In essence, for the contracts in the range £30k to £50k, there needs to be evidence that the change will produce a net benefit from increasing the level of control, thereby reducing the risk, compared to the loss of efficiency through the increase in workload that such a change would bring.

4.6.1. His view is that there is no evidence to support the change from the findings of the various procurement / creditor spend reviews undertaken to date. He also considers that the change would be disproportionate to the risks involved, bearing in mind that contracts of this value are already subject to a minimum requirement of 4 written quotations. He also considers that there is a risk that the proposed change could reduce the level of competition as contractors may be less inclined to submit bids as they would incur additional costs of going through a full tender process for contracts of this value, with no guarantee of winning

4.7. In light of the above Members are recommended to agree to retain the current quotation/tender levels contained in the Contract Procedure Rules until 31 March 2015 deferring any decision to amend them for the 2015/16 financial year onwards following a further update report on procurement matters to the meeting of January 2015.

## **5. Implications**

5.1. **Financial and Value for Money (vfm) Implications** – Based on the Council's current Contract Register it is estimated that reducing the tender limit to £30k would result in an additional tenders in 2015/16 alone. Cash equivalent costs in officer time are estimated between £6k and £22k for 8 additional tenders.

Additional resource for general procurement support would need to be bought in to backfill current work and additional specialist contract law advice would also need to be procured. Actual cash costs for both aspects are estimated to be between £4k and £20k, depending on the complexity of tenders.

- 5.2. **Legal Implications** – None arising directly from this report
- 5.3. **Contribution to Council Priorities** – Financial Resilience
- 5.4. **Risk Management** – It is considered that reducing the tender limit to 30k at this time presents a significant risk to the achievement of other procurement priorities in the context of changing legislation
- 5.5. **Equality Analysis** – Not applicable
6. **Consultations with Others**  
Payments, Risk and Insurance Manager  
Internal Audit Manager  
Finance Manager
7. **Access to Information: Background Documents** – None
8. **Author of the Report**
  - 8.1. Claire Hudson, VFM and Improvement Manager, 01756 706493 email:  
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9. **Appendices**  
None