

**REPORT TITLE: PURCHASING CARD POLICY****REPORT PROVIDED BY:** Group Manager Rates and Procurement  
Director Financial Services**1. Report Purpose and Community Benefit**

- 1.1. The purpose of this report is to present a revised City of Hobart Purchasing Card Policy for the consideration of Council.
- 1.2. This report will be accompanied by a brief presentation on the proposed new *Purchasing Card Policy* and framework.
- 1.3. The benefits of the new *Purchasing Card Policy* approach will benefit the community and business, particularly local business, as outlined in section 5.2 below.

**2. Report Summary**

- 2.1. A revised City of Hobart credit card policy (to be known as *Purchasing Card Policy*) is presented for consideration. If approved a final version of the revised policy would replace the City's existing *Credit Card Policy*.
- 2.2. The revised policy has been prepared following 2016 approval by the Risk and Audit Panel to prepare a new credit card policy.
- 2.3. The revised *Purchasing Card Policy* was approved by the Risk and Audit Panel at its 5 December 2017 meeting and has been reviewed by Council's internal auditors and the Tasmanian Audit Office. Comments received from both have been incorporated into the *Purchasing Card Policy* attached to this report.
- 2.4. The new policy has been created noting the findings from the recent report of the Auditor-General, *Use of Credit Cards by Councils' General Managers and Elected Members*, and the specific recommendations for the City.
- 2.5. While this is a new approach for the City, using a purchasing card to pay for high volume low value transactions will realise a number of benefits for the City, including cost savings, and is an approach used in many local government, other government and non-government entities.
- 2.6. The *Purchasing Card Policy* will be part of a control framework for the City that includes procedures, practices to support the approval, timely acquittal, and review of credit card expenditure.
- 2.7. If the revised policy is approved, an accompanying framework including documentation to support the policy, processes and procedures will be created.

- 2.8. A comprehensive education and training program will be developed for all users and stakeholders.
- 2.9. An electronic expense management system has been procured to replace current manual systems.

### 3. **Recommendations**

#### **That:**

1. ***The Purchasing Card Policy be approved.***
2. ***The General Manager be authorised to make any minor amendments and finalise.***
3. ***A proactive communications strategy be developed around the new Purchasing Card framework proposal.***
4. ***The revised policy be communicated widely to Council officers thereafter, and made available from the Council's website.***

### 4. **Background**

- 4.1. In 2009 a corporate credit card facility was introduced at Council. Its aim was to increase the organisation's capacity and convenience to procure certain goods that could not be paid for otherwise e.g. online. Credit cards were only to be used where alternative payment arrangements were not available to Council.
- 4.2. Council's existing credit card policy allows limited categories of expenditure to be paid for by credit card and the issue of credit cards is limited. To run the facility a variety of manual systems, paper based approvals and reconciliations are in place together with a robust control framework.
- 4.3. Council's current credit card policy and operating guidelines are dated – refer **Attachments A and B**.
- 4.4. An analysis of the City's expenditure finds that 61% of all invoices paid have a value under \$500, and 74% of all invoices paid have a value under \$1000. Benchmarking studies suggest it costs between \$60 and \$80 to process a tax invoice via traditional means via purchase order. It is costly and time consuming to pay via traditional methods, particularly where the value of the tax invoice is low.
- 4.5. At its meeting of 8 March 2016, the Risk and Audit Panel considered a 'Corporate Credit Card Use' report and resolved that:

- 4.5.1. *A Corporate Credit Card and/or Purchase Card policy be created for the Panel's consideration.*
- 4.5.2. *The General Manager to provide a report analysing the expediency and the cost benefits of the use of a corporate credit card and / or purchasing card.*
- 4.6. A new purchasing card policy has been drafted following extensive research, consultation and development.
- 4.7. At its meeting of 5 December 2017 the Risk and Audit Panel considered a report presenting the revised City of Hobart *Purchasing Card Policy* for consideration and resolved that:
  - 4.7.1. The Risk and Audit Panel approve the draft *Purchasing Card Policy*.
  - 4.7.2. The draft Policy be forwarded to Council's internal auditors and the Tasmanian Audit Office for review and comment.
  - 4.7.3. A proactive communications strategy be developed around the new purchasing card framework proposal.
- 4.8. In December 2017 officers wrote to WLF Accounting & Advisory (Council's internal auditors) and the Tasmanian Audit Office seeking feedback on the draft *Purchasing Card Policy*.
- 4.9. Responses have been received, and circulated to the Risk and Audit Panel, and have been incorporated into the final draft *Purchasing Card Policy* – refer **Attachments C and D**.
- 4.10. A revised *Purchasing Card Policy* for the City of Hobart is provided at **Attachment E**.
- 4.11. On a separate but related matter, it is also noted that the November 2017 Report of the Auditor-General: *Use of Credit Cards by councils' general managers and elected members* recommended that a model credit card policy be created and adopted by all councils.
- 4.12. The Local Government Association of Tasmania has commenced work on a draft model Policy for broad council and relevant stakeholder consultation.

## 5. Proposal and Implementation

- 5.1. It is proposed that Council approve the revised *Purchasing Card Policy*, noting that comments have been incorporated from Council's internal auditors and the Tasmanian Audit Office.
- 5.2. The benefits of adopting the new *Purchasing Card Policy* are many, and include:

- 5.2.1. Less paperwork, faster receipting, increased flexibility.
- 5.2.2. Reduced purchase processing costs due to the reduction in requisitions, orders, payment vouchers, invoices, cheques and petty cash – estimates suggest that a single processing cost can be reduced from \$60-80 to \$20.
- 5.2.3. Less reliance on petty cash, which is less secure and has a low limit.
- 5.2.4. More transparency of and capacity to manage expenditure data.
- 5.2.5. Prompt payments for suppliers, improved cash flow particularly for small local businesses, and reduced invoicing and collection costs for suppliers.
- 5.3. Many organisations both local, other government and non-government have put in place similar card programs as proposed for the City. An example of the benefits Bendigo City Council have achieved are outlined in an article that appeared in the National Australia Bank publication Business Weekly – refer **Attachment F**.
- 5.4. If the new policy is approved, an accompanying framework including documentation to support the policy, processes and procedures will be created.
- 5.5. The revised policy will be made available from the Council Policy section of the City's website.
- 5.6. A comprehensive education and training program will be developed for all users and stakeholders.
- 5.7. An electronic expense management system has been procured to replace current manual systems.
- 5.8. A communications strategy will also be implemented in relation to the new purchasing card framework. The communications strategy will promote the benefits of expanding the use of purchasing cards including the benefits for local suppliers, including small business.

#### **Card Holders, Card Limits and Credit Risk Exposure**

- 5.9. It is expected that the number of card holders at Council will increase.
- 5.10. Analysis has been undertaken of the City's reimbursement activity, petty cash usage, high volume low value expenditure, current credit card usage and financial delegations. This analysis has identified areas of Council and individuals where current purchasing activity would support the issue of a purchasing Card.

- 5.11. It is proposed that for many card holders individual transaction spend limits would be set at \$1000, although the card limit may or may not be higher depending upon usage requirements.
- 5.12. Given this, although more cards are proposed for the City, it is not expected that Council's current overall purchasing card facility limit with the Commonwealth Bank of Australia would change. Hence, the City's credit risk exposure will remain the same.

## **6. Strategic Planning and Policy Considerations**

- 6.1. The new policy will replace the existing *Credit Card Policy*.

## **7. Financial Implications**

- 7.1. Funding Source and Impact on Current Year Operating Result
  - 7.1.1. There is no material impact on the current year operating result from this report, as benefits are likely to be realised following the adoption of the new expense management system when the new Phoenix business systems go live.
- 7.2. Impact on Future Years' Financial Result
  - 7.2.1. Cost savings are expected to be realised in the future as a result of reduced purchasing costs.
- 7.3. Asset Related Implications
  - 7.3.1. Not applicable.

## **8. Legal, Risk and Legislative Considerations**

- 8.1. The *Purchasing Card Policy* will be part of a control framework that includes procedures, practices to support the approval, timely acquittal and review of credit card expenditure.
- 8.2. The policy has been reviewed by WLF Accounting & Advisory (Council's internal auditors) and the Tasmanian Audit Office. Comments received have been incorporated into the Purchasing Card policy at Attachment E. It has also been drafted to include the recommendations from the recent Tasmanian Audit Office audit on credit card usage and recommendations for the City.
- 8.3. As outlined in the Purchasing Card Policy, the main requirements of a Card Holder, are:
  - 8.3.1. To use the purchasing card only for legitimate Council purchases.
  - 8.3.2. To comply with the City's *Purchasing Card Policy*, guidelines and procedures.

- 8.3.3. Only the person issued with a purchasing card may use it.
- 8.3.4. To obtain supporting documentation for all card purchases.
- 8.3.5. To obtain maximum value for money when purchasing on behalf of Council.
- 8.3.6. Not to split the cost of a single transaction into multiple payments to circumvent the card transaction limit.
- 8.3.7. To keep the card secure at all times.
- 8.4. Cards will not be issued to contractors, temporary labour hire workers, students/interns or suspended/terminated employees.
- 8.5. While generally cards can be used for high volume low value transactions card will not be able to be used for personal purchases, personal entertainment/hospitality, cash withdrawals, fuel, IT consumables, fines incurred by the cardholder and fixed assets.
- 8.6. Widespread education, awareness and training will be undertaken to ensure card holders and those approving expenditure understand their role, responsibilities and the City's expectations around appropriate card use.
- 8.7. The City's new expense management system will have inbuilt approval workflow, reporting and data analytic functionality creating a transparent environment for the City's purchasing framework to operate.
- 8.8. To ensure the timely acquittal of purchasing card expenditure, the following internal controls will be introduced and will apply to both staff and Aldermanic purchasing cards:
  - 8.8.1. After 30 days reminder will be issued.
  - 8.8.2. After 45 days referral to Manager.
  - 8.8.3. After 60 days the credit limit on the purchasing card will be reduced to \$0.

## **9. Delegation**

- 9.1. Council.

*As signatory to this report, I certify that, pursuant to Section 55(1) of the Local Government Act 1993, I hold no interest, as referred to in Section 49 of the Local Government Act 1993, in matters contained in this report.*



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**GROUP MANAGER RATES AND  
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David Spinks  
**DIRECTOR FINANCIAL SERVICES**

Date: 9 February 2018  
File Reference: F18/2511

Attachment A: Credit Card Policy and Operating Guidelines  
Attachment B: Credit Card Policy and Operating Guidelines and Procedures  
Attachment C: Feedback on draft Purchasing Card Policy from TAO  
Attachment D: Feedback on draft Purchasing Card Policy from WLF  
Attachment E: Article - NAB Business Weekly - Ballarat City Council  
Attachment F: Draft Purchasing Card Policy