

The Finnish state's payment traffic procurement

This audit concerns the Finnish state's payment traffic procurement. In 2001 the Ministry of Finance and the State Treasury put the state's payment traffic out to tender for the first time. The state's payment traffic includes about 35 million transactions a year. The annual cash flow is about 135 million euros. Payment traffic has been decentralized to 117 agencies and about 300 payment points. Around 90 other organizations have also been authorized to take care of payment traffic for the state.

On 6 March 2002 the Cabinet Finance Committee supported the selection of Nordea Bank Finland as the main intermediary and OKO Bank and Sampo Bank as secondary intermediaries. The Ministry of Finance issued a decision to this effect on the same day.

The state's costs under the selected multi-bank model total around 1.9 million euros a year during the contract period. Previously the costs of handling payment traffic amounted to about 7.8 million euros a year. Putting payment traffic out to tender has allowed the state to cut costs by about 75%.

The costs of the state's payment traffic consist of service charges, float costs and net interest income. The financial result is based largely on the minimizing of float costs connected to payment transfer times as well as lower rates for individual transactions. In the previous single bank model the state did not receive a float return based on payment transfer times.

The audit focused on compliance with principles and statutory requirements concerning tendering for public service procurements. It also focused on how the financial objectives for payment traffic procurement were explained and chosen and how well they were achieved with the selected solution. The audit also considers whether costs resulting from long-term contracts can be paid from budget funds without authorization.

Key regulations concerning state procurements are the Public Procurement Act and the Decree on Procurements of Goods and Services and Construction Contracts Exceeding a Threshold. The procurement of the Finnish state's payment traffic exceeds the threshold and must be put out to tender at the EU level. The state's payment traffic is subject to the provisions in the State Budget Act, the State Budget Decree and general regulations concerning the application of the state budget. According to the State Budget Act, the state's payment traffic must be managed economically and with an eye to security.

According to the main principles in procurement regulations, a procurement unit must make procurements as economically as possible. Other key principles are the principle of equality and non-discrimination, the obligation to put procurements out to tender and the principle of transparency.

The procurement was decided on the basis of financial and quality factors. Financial factors' weight was 70%. In addition to actual financial factors, offers were evaluated with regard to security as well as emergency and back-up arrangements. These factors' weight in the decision was 30%.

Decision-making concerning the relative weights of the selection criteria themselves (financial and quality factors) was not detailed in documents. Whenever overall economy is used as a gauge, officials should specify the weights of selection criteria before bids are opened, if the weight structure of evaluation criteria has not been presented in requests for bids.

Tendering and the procurement process complied with regulations concerning contracts exceeding the threshold. Tendering also complied with regulations concerning EU procurements, except that the procurement notice and requests for bids with their strict conditions may have kept the number of bidders below the minimum which is normally required under the limited procedure. To ensure real competition a sufficient number of bidders in relation to the nature and size of the procurement should be invited - at least five. In addition the procurement notice had stricter conditions than those in the State Budget Act.

The preparation of the procurement did not stick to the original schedule in every respect, although the delay was not very long.

The procurement contract was made for a period of five years. The contract also allows an option for up to two years. Regulations do not stipulate a maximum length for the state's service procurements. A maximum length should generally be set for the state's service procurement contracts and other procurements. Consideration should also be given to setting staggered limits according to the nature of the service procurement or other procurement.

Budget regulations and commentaries do not support the idea that authorization is not required for contracts and commitments for which funds are included in the budget for the following year or years. This kind of procedure has been used repeatedly, however, and it has concerned many agencies and different types of activities. The procedure in itself is expedient, but it should be based on legislative provisions and these should clearly stipulate when it can be applied.

Regulations concerning the state budget should be amended so that they spell out when agencies and other units can without budget authorization make commitments and contracts whose validity exceeds the period covered by the appropriation.