

# Group Procurement Policy

## Introduction

This Policy applies to and binds all directors, managers and employees of the Group in any situation where they are involved in a purchasing process, whether as requisitioners, specifiers, purchasers or negotiators and those who validate or authorise payment. Procurement includes all purchasing activities including leasing and hiring. Adherence to the Procurement Policy is both an individual and a corporate responsibility. Wilful breach of this Policy, or unauthorised departure from the procedures derived from this Policy may constitute a disciplinary offence.

Before familiarising yourself with this Policy you should understand that our aim will always be to retain suppliers and forge partnerships with them wherever possible. Changing or dismissing a supplier, especially during a contract is disruptive, wasteful of previous effort and potentially expensive. Where suppliers are consistently underperforming or giving cause for concern, they will be notified in writing and given the opportunity to explain the difficulty and/or to remedy it. Should a contract prevail then in the event of it being necessary to terminate it then legal advice should be sought prior to taking such action.

## Section 1

The Policy's core objectives are to ensure that our purchasing and contracting activities are:

- Legal.
- Accountable and Auditable.
- Ethically, environmentally and socially responsible.

- Economically effective.
- Risk aware - minimising and managing risks that may threaten the supply chain and/or the wider organisation.
- Open to continuous improvement and development, in particular by the training and support of staff.

**Legality:** All activity should fully respect and comply with all applicable UK laws and regulations and those that are governed by other territories which we supply or from which we source. This includes taxation, environmental regulations, employment and H&S.

**Accountability and Auditability:** The Group will maintain systems, whether manual or electronic, that will, for all purchases above the level of petty cash and minor allowable expenses, record and as appropriate, provide justification for:

- The initialisation of the requirement.
- The purpose for which the requisition was made.
- The route by which the requisition and price was approved.
- The source of supply.
- The route by which payment was authorised, and when, to whom and in what sum payment was made.

**Economic Effectiveness:** Our business spends a considerable proportion of its revenues on goods and services and it is the central role of the Procurement Department to ensure that all operations are conducted in the most economically effective manner as possible. Therefore those involved with purchasing should observe the following:

- The desired outcome is that of greatest value gained at lowest total cost.

- The total cost will, as appropriate take into account the full anticipated life cycle costs of the goods and services, including maintenance, servicing and reliability costs and where applicable, costs of ultimate disposal.
- To aim wherever possible to reduce the administrative cost of acquiring and owning goods and services.
- Consideration, where appropriate should be given to assigning value to factors such as sustainability, environmental and corporate social benefits.

**Risk Management:** A key function of Procurement is to identify and wherever possible minimise and manage the Group's exposure to risk in the supply chain. This means that when implementing significant expenditure, long term commitments and interaction with key suppliers, all of which contain potential ramifications for the health of the Group, formal risk assessments will be made, as appropriate, addressing:

- Supply risk – risks resulting from the (lack of) financial stability and/or the non or poor performance of a supplier or contractor.
- Demand risk – risks arising from Buyers ordering too much, too little, or the wrong goods or services relative to the actual need.
- Process risk – the risk that the way the goods and services are being used or supplied may not be used to their optimum.
- Reputational Risk – ensuring goods and services are sourced ethically and socially responsibly.

**Continuous Improvement:** All personnel involved in the purchasing process are expected to attempt to improve their knowledge and skill and the Group will support such activities.

## Section 2

## **Purchasing Structure, Responsibilities and Authority**

The Procurement Department is authorised by the Board to fulfil the following functions:

- Establish the Procurement Policy and ensure that the Policy is followed.
- Establish, communicate and maintain standards.

In order to maintain structure, lines of responsibility and authority, the Procurement Department will:

- Itself carry out all capital expenditure, major, novel and significant operating expenditure procurements.
- Establish the rules and procedures by which purchasing authority may be delegated to and exercised by other individuals and departments; regularly review such parameters and ensure that such delegated authority continues to meet the Group Procurement Policy.
- Manage records and data systems to ensure that an auditable trail of each purchasing activity is available, the supplier performance can be monitored and that adherence to Policy can be demonstrated.

## **Delegated Purchasing Authority**

For all capital expenditure and other major procurements the Procurement Department will normally form the lead in an appropriately created cross-functional team. For some specialist procurements it may be more appropriate for another department to take the lead but from the outset Procurement will be briefed on the strategy and continuously be involved with the project in an advisory capacity to ensure that the Group Policy is adhered to.

For small, sporadic and non critical purchases, individuals or user departments may be granted delegated purchasing authority. The scope of such authority will be defined by the Procurement Department and will be constrained by financial limits, category of goods or services or both. The expectation is that adding a new supplier or stock-line should be avoided wherever possible and that a minimum of three quotations will always be appraised prior to submitting an order. Staff exercising delegated

purchasing authority are required, where applicable, to use centrally negotiated frameworks provided by a duly appointed supplier.

Where a delegated purchaser discovers an alternative cheaper source than that provided by an existing central supplier this must be reported to the Procurement Department BEFORE any purchase is made.

Where issued, corporate purchasing cards should be employed for all suitable delegated procurements because these automatically fulfil our reporting requirements, Users of purchasing cards will note however:

- Limits set on a particular type of expenditure override any overall limits on the size of transaction permitted by the card.
- Cards should only be used for purchases that lie within the scope of the user's remit.
- Cards should not be used for high value transactions even when they lie within the scope of the delegated authority or the credit limit of the card. This avoids the potential for large merchant fees and also opens the door to negotiate better payment terms with the supplier.
- Corporate Purchasing Cards should never be used for personal purposes, regardless of any intention to reimburse the business.

### **Managing the Analysis of Records and Data Systems**

When maintaining records the Procurement Department will cover the following:

- Corporate structure of supplier, including ownership or ultimate ownership if part of a holding company. Relevant addresses and contact details, where appropriate details of status checks, trade references and accreditations such as ISO 9000, 14000 series.
- Details of contracts awarded and procedures used to achieve this outcome.
- Failure by a supplier to meet our requirements, in terms of quality, quantity or delivery.
- All requests made by a supplier to vary the terms of a contract after it has been agreed.

- Warranties, guarantees, SLAs, etc must be lodged with and filed by the Procurement Department.

The Department should constantly:

- Monitor who is buying what, from whom, in what quantities and how often, over what timescales and on what terms.
- Identify opportunities to consolidate spends (eg across different user departments) to rationalise the number of separate suppliers and the range of different goods and services being bought, to exploit potential economies of scale with suppliers and similarly any internal administrative economies that then become available.
- Evaluate the progress of existing contracts and their continuing suitability.
- Review financial stability of key suppliers and their industry accreditations.

## Section 3

### **Procurement Plans and Invitation to Tender (ITTs)**

On undertaking either projects an appropriate cross-functional team should be brought together and briefed. This team should build and develop a project plan with projected timescales. The timescales should formally be referred back to the User/Requisitioning Department for confirmation that they are appropriate to the urgency of the need.

For complex procurements, such as Works and Construction or where there is a significant design/development element, such as large I.T. Projects, the style of contract to be awarded should be considered at this stage – for example, whether staged payments are involved, whether industry standard forms of contract will apply. This may change in the light of subsequent negotiation but the team should have an idea from the outset of what is the desirable outcome.

The Procurement Plan will determine the forms of market testing and development required. It will set out the proposed procurement route ( such as, full open ITT, a restricted ITT approach, restricted to pre-qualified firms, or a request for Quotations to existing suppliers, design proposals etc)

In some instances it may become clear from the outset that only one supplier or a small number have the expertise to fulfil the requirement. In such cases the team should proceed directly to preparing and issuing an ITT to the small group or negotiating with the sole supplier.

The preferred path should always be that of a restricted route as opposed to an open ITT. That way there is less chance of attracting a large number of speculative and poorly qualified suppliers. When adopting a restricted process Procurement should be pro active in creating the necessary market conditions for a successful tendering exercise. This may involve indentifying potentially new suppliers and inviting them to bid, it may involve liaising with existing highly regarded suppliers, in a slightly different field to encourage them to consider a new line of business.

At all times care should be taken to ensure that suppliers are not encouraged to believe that they are “in the box seat” for the work. As the project develops any information relating to the proposed contract that is available to one potential supplier must be made available to all.

The aim should always be to attract at least three compliant (that is meeting the specification and other requirements) bids and preferably not more than ten. From these, either a successful bidder will emerge, or it may be that one or more preferred bidders are identified who will become the subject of post tender negotiations.

### **Receipt and Evaluation of Tenders or Offers**

The Project Team will assess bids and tenders received. At this stage and if possible it is always useful if a second team can be created, to assess perhaps either solely the technical aspects or specifically the commercial impacts of each bid.

Where bidders request clarification or site visits etc care must be taken to ensure that any information subsequently made available is then submitted to all interested bidders.

Should any bidders make a request to extend the timescale by which to submit their tender and the request is agreed, this extension should then be made available to all bidders involved in the tender process.

Other than the above, tenders received after the closing date should not be considered.

Tenders should then be evaluated in accordance with all the criteria laid down by the team and the tender.

It is very likely that all tenders will differ and that generally there will be a trade off between each proposal's technical strengths and weaknesses. Cost too will play a very influential role in deciding the preferred outcome.

Costs that should already be determinable from the format of the tendering process should include:

- Purchase price.
- Delivery charges.
- Insurance and any relevant import taxes and duty.
- Associated warranties.
- Installation and associated works.
- Training and support.
- Any internal costs of changing from current supplier.

In some tender exercises there may be no suitable or compliant bid. In this instance the Procurement and User Department/s must decide whether to:



- Commence a new tendering exercise using the existing requirement with different vendors.
- Vary the requirement and initiate a new tendering exercise.
- Vary the requirement and negotiate with the present bidders to achieve a satisfactory outcome.
- Abandon the exercise.

### **Post Tender Negotiation (PTN)**

PTN is a sensitive subject and needs to be handled with care. Very often negotiation with the best or the two or three best bidders can lead to substantial improvements in terms, conditions, warranties and price. This process must be kept under strict control because it gives the bidder an opportunity to improve their position. What is not permissible is an agreement to make a radical change in the original requirement. Should such an outcome become a real possibility, all bidders should be contacted to resubmit their bids in accordance with the amendment to the requirement.

It is essential that any negotiations are planned in advance by the team and agreed as to who will lead and conduct the negotiation. The team should agree which areas of the bid are open and which are closed for negotiation.

It is not acceptable to pass detail of one bid to another supplier in order to set up a form of auction process. Nor is it ethical to pass on the novel ideas or solutions of one supplier to competing bidder. However may be appropriate to secure “best and final offers” by circulating to all suppliers anonymous details of costs and prices obtained inviting their BFO.

### **Creating the Contract**

A formal contract document is not always necessary. If the documentation around the successful bid contains all the necessary information then a letter of acceptance accompanied by a Purchase Order will suffice.

Writing contracts from scratch should be avoided and any negotiations should be made around the Group's standard T&Cs with little or no variation agreed. Any potential variation should be referred to the Group's Finance Director for consideration and agreement.

### **Letters of Intent**

If the process of drafting and agreeing the contract takes some time there may be pressure from the supplier for a Letter of Intent to be issued. This should be resisted wherever possible as it can often be interpreted as an offer by the Group. Additionally this interpretation may lead to the supplier being less motivated to negotiate constructively on outstanding issues.

An alternative may be to consider submitting a letter of comfort. If properly drafted it does not represent a contract and may be necessary to ask the supplier to extend the validity of the offer.

### **Debriefing unsuccessful Bidders**

Unsuccessful bidders should be informed as soon as possible. It can sometimes be beneficial to divulge reasons for the failure, particularly if the supplier base is tight and competition is sought for the future. All records of post tender negotiations must be retained.

### **Post Contract Review**

After the completion of all major Procurement projects a formal review should be held involving the procurement team and other stakeholders and any lessons learned should be documented for future reference and implementation.

## **Section 4**

## **Ethics**

Persons engaged in any aspect of Procurement on behalf of the Group shall never use their authority for personal gain and shall seek to uphold and enhance the standing of the Group by

- Maintaining an unimpeachable standard of integrity in all their business relationships both inside and outside the Group.
- Promoting the highest possible standards of professional competence amongst those for whom they are responsible.
- Optimising the use of resources for which they are responsible to provide the maximum benefit to the Group.

## **Gifts Hospitality and other Inducements**

Only gifts of small intrinsic value, pens, diaries etc may be accepted from actual or potential suppliers. Gifts of real worth should be reported and if deemed inappropriate returned to the supplier with a polite explanation of why the gift is unacceptable.

On occasion it is necessary both to give and receive hospitality. However any hospitality offered or accepted must be modest and proportional to the occasion and of the type and scale that the Group would offer should the situation be reversed.

Invitations to visit User sites, attend conferences, dinners etc at the guest of a supplier should be treated with caution and reported to your Line Manager.

## **Conflicts of Interest**

When dealing with suppliers, potential conflicts of interest can sometimes arise. Spouses or other relatives may be employed by the supplier company. Such potential conflicts should be reported to your line manager as soon as they are identified. They will not normally prevent the Group trading with the supplier concerned but it may be in everyone's interests to be arrange for the expenditure to be handled by someone else in the future.



## **Ethics – Conclusion**

None of the situations outlined above are illegal or unethical but will require individual justification against the essence of the Procurement Policy.