



PROCUREMENT POLICY (OCTOBER 2018)

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SECTION 1 - INTRODUCTION AND PURPOSE

The purpose of this document is to set out Northumbrian Water Limited's (NWL) Policy for the procurement of all goods, works and services, in order to ensure that NWL achieves best value for money for our stakeholders and in doing so comply with all relevant legislation and internal business processes.

This Procurement Policy applies to all NWL employees who procure goods, works or services for and on behalf of NWL from third-party organisations.

This Policy must be read and considered in conjunction with the NWL Financial Approval Rules.

Compliance with this Policy and all associated processes and guidelines is mandatory.

SECTION 2 - BACKGROUND

Procurement within NWL is regulated by the EU Utilities Procurement Directive. The Directive aims to promote competition and a common market across the member states of the European Union. It mandates that a competitive tendering process is followed for the procurement of all goods, works and services at values above specific thresholds.

The Directive is incorporated within the UK as the Utilities Contract Regulations 2016 (UCR) and NWL is required to comply with these regulations..

SECTION 3 – PROCUREMENT PRINCIPLES

NWL has established the following overarching procurement principles

3.1 Best Value

Obtaining best value is not about buying cheaply or cutting costs. It is about achieving an optimum balance between the cost and quality or performance of every purchase. Competition, appropriate to the value and complexity of the works, goods and services to be procured, is key to achieving best value. Competition motivates suppliers to improve their efficiency and quality, to reduce costs, thereby ensuring that they innovate and adopt new technology and/or techniques.

3.2 Aggregation of Spend

Where appropriate, similar works, goods and services must be aggregated and tendered together to increase the opportunity for leverage, improves efficiencies and to minimise tender and transaction costs. This is an EU requirement as it ensures that organisations do not 'unbundle' sourcing events to avoid the EU thresholds

3.3 Supplier Database

All suppliers must be approved prior to being used. NWL has an established supplier creation process that requires certain information to be provided and appropriate approval to be given before a vendor can be approved for use.

Please refer to the Procurement page in Cascade for more information on how to get a new supplier onto the database ("Supplier Set Up").



The number of approved suppliers are reviewed periodically and suppliers removed who have not been used in the past 18 months.

3.4 Direct Debits and Standing Orders

Direct Debits and Standing Orders are only used by NWL for a limited range of transaction type suppliers, eg payments to Barclaycard, to settle monthly invoices for T&E and Purchasing Cards.

A new Direct Debit or Standing Order can only be approved by authority of two cheque signatories, one of which must be either the Financial Accountant, Financial Accounting Manager or NWL Financial Controller.

3.5 Roles and Responsibilities

It is the responsibility of the NWL Procurement Team to ensure that this Procurement Policy is published and accessible to all appropriate parties. It is the responsibility of all NWL employees to make sure that their actions comply with it.

Compliance with this policy is mandatory and all users are responsible for ensuring that the subject of expenditure meets business requirements, is technically acceptable and are responsible for ensuring this Policy has been complied with and that the appropriate level of financial authorisation is provided in advance of an order or contract being placed with a supplier in accordance with the NWL Financial Approval Rules.

3.6 Intellectual Property

Where possible, intellectual property, patents or copyrights arising from work commissioned by NWL should become the unrestricted property of NWL. For further guidance contact the Head of Procurement.

3.7 Procuring Information Systems (hardware or software)

All information systems (hardware or software) must be procured after consultation with the Information Systems Directorate.

3.8 Procuring Insurance Services

All insurances services are managed centrally by the NWL Insurance Team. The annual renewal process provides for a fair and competitive marketing exercise on each insurance contract. Award recommendations are made by the Insurance Manager and approved by the Finance Director.

3.9 Procuring Pension Services

The Pension Schemes are separate legal entities to NWL and are not subject to the Utilities Contract Regulations 2016

Where NWL is required to purchase or facilitate the purchase of services as part of its pension obligations, this spend will be advised to procurement, but will not be subject to the standard sourcing process.

3.10 Procuring Legal Services

All Legal Services must be procured after consultation with the Head of Legal Services

3.11 Procuring Vehicles (including Lease arrangements)

All fleet vehicles must be either purchased via VLS with agreement with the Fleet Services Manager). All short term hire requirements must be agreed in advance by the Fleet Services Manager and hired through VLS.

3.12 Sustainability

NWL is committed to sustainable procurement and has embedded processes for procuring works, goods and services that takes into account social, economic and environmental considerations. Sustainability is to be considered at each phase of the procurement process through positive engagement and constructive challenge with a focus on the following:

- Supply chain risk (environmental, labour standards, material scarcity)
- Sustainable products and renewable sources (reduce, re-use, recycle)
- Ethical, transparent, fair and compliant supplier assessment
- Whole life costing e.g. operating costs, waste, transport, efficiency, disposal
- Working together with local MSBs and SMEs to support their growth and development
- Positive social impact in local communities (apprenticeships, social enterprise)
- Strong supplier relationships supporting the joint development of innovative and creative solutions
- Promotion of equality and diversity throughout the supply chain

3.13 Payment Terms

NWL standard payment terms are via BACS, 45 days for goods and services and 40 days for construction contracts from when a valid and correct invoice is received. Small suppliers may be placed on 14 days subject to certain criteria being met

Payment will only be made for goods and services that have actually been received, where the invoice quotes the correct purchase order number and the purchase order has been receipted in the system. Please contact the Procurement Department for guidance.

3.14 Whole Life Costing (Total Cost of Ownership)

The principle of whole life costing examines more than just the initial unit cost of the item being procured and moves away from making purchasing decisions based purely on 'cheapest is best'. It is particularly important to follow this principle when the life of the item is expected to last a number of years.

3.15 Specifications and Performance Criteria

It is essential that standard specifications should be used wherever possible. Specifications as far as possible should be generic and not reference specific brands or trademarks unless absolutely essential. They should also be output specifications i.e. stipulate what the works, goods or services are for and the performance levels required and not dictate how the service should be performed or goods used. Fitness for purpose must be considered at all times and the avoidance of over/under specification is essential. The specification is to be completed by the Business.



3.16 Best in Class Suppliers

Through robust selection and award procedures, NWL will appoint and work with the best suppliers in the market place. NWL is committed to the principle that all works, goods and services delivered shall be subject to continuous improvement - so that the best suppliers become better.

NWL's policy is to engage suppliers who:

- Deliver best value;
- Have a robust financial standing;
- Have demonstrable health and safety practices;
- Demonstrate a sustainable approach to delivery;
- Respect the communities in which they work;
- Invest in their people; and
- Are creative and willing to share knowledge

3.17 Collaboration

NWL may from time to time, enter into collaborative procurement arrangements, with other organisations for good, works or services where commercially advantageous supply chain arrangements can be delivered

SECTION 4 - GOVERNANCE

Clear and transparent governance is critical to ensure that NWL achieves best overall value. The governance framework for NWL procurement activities includes compliance with the following:

4.1 Financial Approval Rules

The Financial Approval Rules detail the award and other approval processes for all transactions. All procurement activities must comply with these Rules. Users must familiarise themselves with them before entering into any transaction.

4.2 The Utilities Contracts Regulations 2016

The Utilities Contracts Regulations 2016 apply to all procurement, specifically those valued (in aggregation) above the EU thresholds. Failure to comply with the Regulations not only damages NWL's reputation but may also have severe consequences for the business, such as the suspension of contract awards, the setting aside of decisions taken and/or the payment of damages to third parties.

To ensure compliance, all above threshold selection and award processes are carried out consistently and are based on objective price/quality criteria that provide a fair, transparent and objective method of evaluation.

EU Thresholds applied to Utilities (valid from 1st Jan 2018):

	Goods	Services	Works
Water Sector	£363,424	£363,424	£4,551,413

To apply any threshold value, the total cost of the requirement (and similar requirements), over the planned term must be aggregated. Guidance must be sought from the procurement team.



There are only a number of General Exclusion to the Utilities Contract Regulations (Reg 2) including:

- Contracts for the acquisition of Land
- Contracts for services for arbitration or conciliation services
- Contracts for Financial Services
- Contracts for Research and Development which is not exclusively for NWL's benefit and where NWL is not paying for all of the services

If any of the above apply then the contract is excluded from the regulations

In addition contract awards may be made without a call for competition in the following circumstances

- Where tenders have previously been issued but no tenders were received or none suitable and that the terms of the original contract have not been substantially altered
- If the contract is purely for the purposes of study, research and development which are not for profit and where development costs will not be recovered
- For technical or artistic reasons, or in order to protect its exclusive rights, can the contract only be performed by one particular supplier
- In extreme urgency brought about by unforeseeable events, it is impossible to comply with the normal timescales for awarding contracts.
- For goods contracts only, where the goods are needed to partially replace, or add to, existing goods or an installation where using goods from a new supplier would mean technical incompatibilities or disproportionate technical difficulties in operating or maintaining the goods / installation, Where a contractor is to supply additional works / services not anticipated in the original project and for technical or economic reasons a different contractor cannot provide them without major inconvenience to NWL or they could be provided by a different contractor but they are strictly necessary to allow the current contractor to perform the original contract.
- Where a current contract to provide new works are a repetition of the works for which the original contract was awarded
- Where the contract is to be awarded under a framework agreement which was originally awarded to the contractor in accordance with the regulations
- Where a goods contract is for a very short time, available at a very good price, considerably lower than normal market price
- Where a goods contract is taking advantage of a closing down sale or a sale due to the supplier being wound-up or being made bankrupt

Any decision on the applicability of exclusion criteria can only be made by and in consultation with the Procurement Team

4.3 Bribery Act 2010

NWL will not tolerate any form of bribery and will reject any tender or cancel any contract with a supplier who engages in corrupt or fraudulent practices at any time.

This part of NWL Procurement Policy works in conjunction with our policies on fraud, gifts and entertainment as laid out in the NWL Employee Handbook.



Sourcing goods, works or services from relatives or close personal friends without disclosure in writing in advance and involvement of the Procurement Team in the sourcing process (irrespective of value) is prohibited.

The acceptance of gifts, gratuities or hospitality from a supplier involved in a current sourcing process is subject to declaration and approval in advance.

4.4 Competition Act 1998

NWL is committed to open and fair competition. NWL will not enter into any agreement (or other action) that prevents, restricts or distorts competition nor will we take part in any conduct which amounts to an abuse of a dominant position.

4.5 Regulatory Accounting Guidelines

NWL procurement activities must comply with the Regulatory Accounting Guidelines (RAG5) issued by the UK Water Industry Regulator, Ofwat, concerning all trading arrangements between NWL and internal group companies

All proposed framework, contract awards or purchases from any Northumbrian Water group company must be approved by the Head of Procurement in advance.

4.6 General Data Protection Regulations (GDPR)

Where personal data is to be transferred to or received from a potential supplier a Personal Information Assessment (PIA) must be completed in advance. Advice must be sought from the Data Protection Team.

4.7 Non Disclosure Agreements (NDA)

When considering any Non Disclosure Agreements with suppliers, guidance must be sought from Legal prior to any agreement being signed

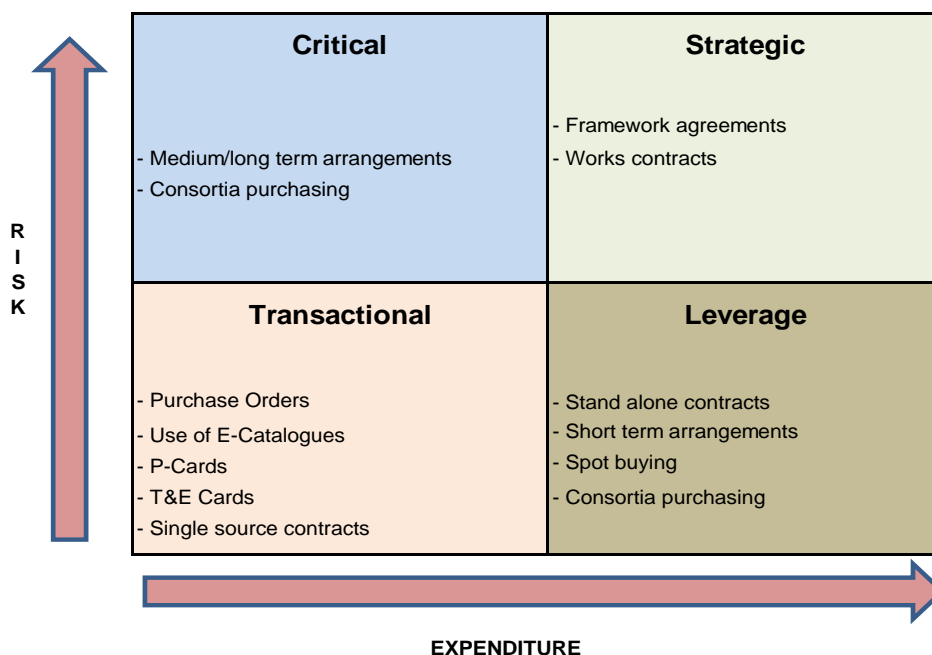
SECTION 5 – SELECTING A PROCUREMENT METHOD

NWL's approach to best practice procurement is based on a 'category management' approach, that takes a long-term, holistic view of our demand, specifications and the market' in order to identify the appropriate contract strategy. It uses a resilient, structured strategic sourcing process for the procurement of all goods, works and services.

5.1 Sourcing Methodology

Category management groups goods, works and services into a number of categories which reflect similar commercial considerations and characteristics. Each category has a dedicated Category Manager within the Procurement Team. Our category management structure is shown on the Procurement page in Cascade.

Through this category management approach, contract strategies are developed that facilitate the transfer or sharing of risk with NWL and suppliers. We use different approaches to reflect the specific risks in each case. Our high level approach to how we categorise the various strategies is outlined in the risk and value matrix below:



5.2 Sourcing Thresholds

The table below summarises the competitive threshold approach to the management of procurement processes and the choice of appropriate ordering mechanism:

	Expenditure Value (excl VAT, not covered by an existing framework agreement)	Lead	Preferred ordering mechanism
Low Value	<£500	Business	Credit Cards (P Card & Fuel Cards)
	< £5,000 Non invoice payments/ compensation payments	Business with AP	Cheque
	<£5,000 Travel & Entertainment	Business	T&E Card
	< £5,000	Business	One or more Quotes - Oracle PO
Medium Value	£5,001 - £50,000	Business	Minimum 3 Quotes – Oracle PO
High Value	£50,001 - £300,000	Procurement led with Business Support	Competitive tender required (Framework or Contract)
Above Threshold	>£300,000 or High Risk (above EU Thresholds – goods and Services)	Procurement led with Business Support	Competitive tender required - Full EU Compliance (Framework or Contract)



Note - Expenditure is the aggregated value of the total for similar works, goods and services over the duration of the requirement, taking into account any provisions for contract extensions.

Low value spend (Below £5000)

A number of low value / low risk procurement approaches are available to the business. Further guidance on these, can be found at :

- Purchase Orders
- NIPR - <https://nwllivelink.nwl.co.uk/livelink/lisapi.dll/open/61626743>
- T&E Card - <https://nwllivelink.nwl.co.uk/livelink/lisapi.dll/open/81489733>
- P Card - <https://nwllivelink.nwl.co.uk/livelink/lisapi.dll/open/684123>

Note - the splitting of Purchase Orders or card transactions to avoid the correct procurement process or authorisation levels is prohibited. Where user requirements are likely to result in repetitive similar purchases the Procurement Team should be informed

Medium value spend (Above £5000 and below £50000)

Where the proposed procurement activity is low risk, Purchase Orders may be raised, following the required level of competition (usually 3 Quotes) and approved in accordance with the Financial Approval Rules. If the user is uncertain as to the level of risk associated with the proposed procurement activity then discussions should be held in the first instance with the Procurement Team. Where 3 quotes are required these must be appended to the Requisition for review.

The requirement for competition may be waived in certain situations as follows:

- When using an existing framework or contract agreement, subject to their own rules
- Where sole suppliers have exclusive capabilities or rights
- In exceptional market circumstances
- Real emergencies with the potential for adverse effects on customers or serviceability
- Where technical compatibility with existing assets is required and no alternative exists
- In the case of specialist requirements as agreed with the Head of Procurement
- Failure to comply with legal and/or regulatory obligations

Where competition is waived in accordance with the above, the Oracle system will require Level 2 Manager authorisation of the Purchase Order

High Value spend (between £50000 and EU Threshold)

All single requirements or planned multiple requirements over a period, with expenditure exceeding £50,000 and not covered by an existing framework or contract agreement, must be discussed with the Procurement Team in advance, who will determine if a full competitive tender process is required.

Note guidance must be sought from the procurement teams to ensure that planned spend is aggregated to ensure compliance with the EU procurement regulations

Above EU Thresholds

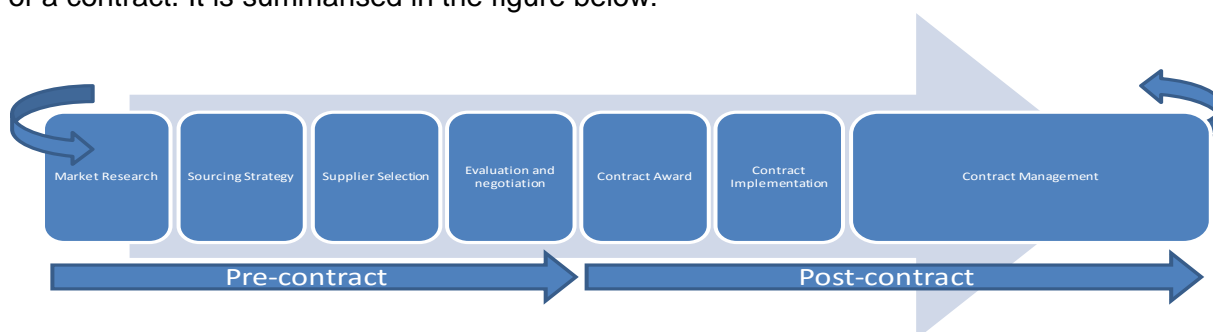
All expenditure (except for the exemptions noted in Section 4.2) above EU thresholds must be competitively tendered, advertised via OJEU or using an EU approved Vendor Qualification system like Achilles UVDB.

SECTION 6 – FRAMEWORKS AND CONTRACTS

NWL applies a strategic sourcing approach for all high value and above threshold requirements to establish best value framework agreements and contracts. Strategic sourcing describes the whole process, from the initial assessment of a business need through to the end of a contract.

This approach formalises the way we gather information and use it to ensure that business needs are met and best value is achieved. Strategic sourcing requires the analysis of what we buy, from whom, at what price and at what volume.

Strategic sourcing is a staged process that brings discipline and procedure into the whole life cycle of a contract. It is summarised in the figure below:



6.1 Framework Contracts and Contract Agreements

When a framework or contract agreement is used, further competition is not normally necessary, unless specifically provided for in the terms and conditions and rules of engagement of the agreements. Note that NWL Procurement Policy and EU Legislation must be adhered to in the normal way before a framework or contract agreement can be authorised. The agreements will contain terms and conditions agreed by NWL's Procurement team. Generally there are no minimum values or quantities attached to such agreements and no guarantees or workload or volume levels.

The procurement of all construction related activities (Works) including capital works consultants (Services) must be through agreed Frameworks. For further information contact the Contracts Procurement Manager

The Procurement Team will decide (in conjunction with the relevant stakeholders) the appropriate sourcing strategy for the category of spend. This will include the lot structure (if required), tender method, evaluation protocol and criteria and the resulting negotiation strategy.

6.2 Minimum Standards

The Procurement Team, when conducting a Sourcing Process will ensure that minimum standards are met, to ensure that the health and safety of employees, contractors and the public is maintained and that quality works, goods and services are delivered to enhance the customer experience with NWL. These standards will include but not be limited to:

- Quality (standards and/or accreditation).
- Health and Safety
- Environmental
- Insurance
- Financials
- Experience
- Key Staff Retention/Qualification/Experience



Where a supplier is appointed by a member of the business on the basis of three quotations (i.e. no Procurement involvement), that person is expected to ensure that the supplier meets basic standards with regards to the criteria listed above. If there is any doubt please contact the Procurement Team

6.3 Evaluating Supplier Bids

Key stakeholders groups must be established at the beginning of the sourcing process and prior to agreement of the supplier bid evaluation criteria. During the evaluation process key stakeholders should be involved in assessing suppliers' responses based on their technical, commercial and/or business expertise. Details such as suppliers invited to bid and submitted bids must be kept confidential.

Key stakeholders must not accept gifts, gratuities or hospitality from a supplier involved in a sourcing process that they are also involved in. Stakeholders must maintain integrity through the procurement process, or excuse themselves from the process.

NWL Procurement Policy requires that the selection, tender assessment and award process must remain confidential, in all respects, until the notification of award is made.

6.4 Awarding Contracts

All tender award criteria must be appropriate, objective, specific to the particular requirements of the contract and relevant to assessing whether tenders provide best value for money

The quality/price ratio appropriate to the type of work required is established before the tendering process commences.

All contract awards are subject to the approval rules set out in the Financial Approval Rules.

6.5 Electronic Sourcing

Where the Procurement Team are leading a full tender process over £50,000, the Ariba e-sourcing tool is used for the purposes of pre-qualification and tender assessment. The system provides safe and secure access to the exchange of confidential and commercially sensitive information.

The Category Manager from the Procurement Team will create the "event" in Ariba and will be the single point of contact in NWL who can access the system. Bids cannot be accessed prior to deadline return times and suppliers cannot submit further or revised bids once the event has timed out and closed.

6.6 Security for Due Performance

Consideration should be given to the use of Performance Bonds or Parent Company Guarantees as security for the due performance of the contract once it has been awarded. NWL has a set of guidelines on this matter. The Contracts Procurement Manager will advise.

6.7 Performance Management

The continuous performance management of our suppliers is essential. Supplier performance is measured and managed on an objective basis throughout the life of a contract. Key performance metrics are developed with suppliers, focusing on the needs of NWL and identifying areas of best practice and/or areas for improvement. Regular reviews are carried out with suppliers to facilitate



the continuous improvement process. NWL business Users are required to participate in this process through our corporate Supplier Performance Measurement (SPM) system.

SECTION 7 – ORACLE PURCHASE ORDERS

The Oracle iProcurement system gives NWL business Users access to the on-line requisitioning of goods and services only and has been implemented to automate the ordering process with approved suppliers.

All Purchase Order expenditure must be requisitioned via the electronic Oracle iProcurement system. Users must never commit to make a purchase before a requisition has been raised, approved and the associated Purchase Order is created within Oracle.

7.1 Purchase Orders

Purchase Orders should only be used for the supply of goods and/or for the procurement of low value, transactional type service provisions. Purchase Orders are not to be used for the procurement of construction works contracts or for the provision of capital consultancy services unless where a framework or contract exists where they can be used for work package orders.

All Purchase Orders must, as a minimum, state unambiguously what the goods or services are, when the goods or services will be delivered and the price to be paid.

Users must not include VAT in the Purchase Order price.

All Purchase Orders must be raised in advance of any purchase, except in emergency situations.

All purchase orders above £5000 require a minimum of 3 quotes. Quotations received should be appended to the Purchase Order. All Purchases Orders, where quotations have not been obtained, will be subject to level 2 manager approval.

All Purchase Orders are to be placed according to NWL standard terms and conditions of purchase. Only the Head of Procurement can agree any amendments in advance.

7.2 Emergency Order Process

The process for emergency purchase is as follows:

- Users must seek agreement from their line manager prior to the decision to procure any goods or services in an emergency situation
- For goods or services in excess of £5000, agreement should be sought from a Level 2 manager
- Wherever possible contracted suppliers (where a contract header exists in the Oracle system) should be used when responding to an emergency.
- Once the emergency is over, a retrospective requisition must be raised and authorised in the Oracle iProcurement system. This should be typically completed within 24 hours.
- All emergency orders above £5000 require Level 2 management approval.

7.3 Retrospective Purchase Orders

Retrospective purchase orders, with the exception of emergency orders, are those which are raised and approved after an invoice has been received for payment. This is a practice which NWL does



not allow, as there is no documentary evidence of authority for the purchase being given in advance.

Purchase Orders must be raised and approved prior to the services or goods being required, so that NWL does not commit to expenditure without authorisation. Where the exact value is not known at the time of commitment, a reasonable best estimate should be made and the Purchase Order amended at the time of receipt of the item. Alternatively, for repeat goods or services which have been sourced, the Procurement Team should be contacted to raise a contract or advise of an alternative solution.

7.4 Contract Headers

NWL has a significant number of competitively tendered goods and services supplier agreements. These agreements are set up in iProcurement with an individual contract header number that contains an authorised spend level and contract duration. In the first instance Users must use existing contracts where one exists to purchase required goods and services.

Users must select the correct contract header when raising a requisition for a Purchase Order under the corresponding contract. Failure to do so will result in misreporting of spend and could lead to non-compliance with the Financial Approval Rules if re-authorisations are missed due to under reporting of spend on contract headers.

A list of current contract agreements with their contract header numbers can be found on the Procurement page in Cascade.

7.5 Receipting of Goods and Services

All goods and services must be receipted in Oracle iprocurement accurately and promptly. To ensure that there is no delay in the payment of invoices, the goods or services must be receipted as soon as the goods or services have been delivered and the quality has been checked to be satisfactory.

Users are not authorised to receipt purchase orders prior to delivery.

It is the responsibility of the User to receipt all Oracle i-Procurement purchase orders in this way.