



Procurement Strategy

2022 - 2025

Balfour Beatty



Foreword

This document outlines Balfour Beatty's 3-year Procurement Strategy. It builds on recent achievements and sets out Balfour Beatty's procurement priorities and how we will do business with our valued supply chain partners.

We spend two thirds of our revenues in procuring goods and services from our supply chain partners. Making sure that we are spending this money wisely is therefore a priority. Our goal is to deliver continuous improvement and bring value to Balfour Beatty, our customers and the communities we work within. We do this by using technology and standardisation to continue to embed efficiencies which optimise savings and deliver the best value for our business, customers and supply chain, and for the communities we work in and with.

Procurement is one of the key delivery levers for Balfour Beatty's priorities as set out in our Build to Last Strategy, Building New Futures Sustainability Strategy and our Cultural Framework. It helps us deliver Balfour Beatty's five values: Lean, Expert, Trusted, Safe and Sustainable and it's a practical way of making it clear what we expect of those who we work with and what we hold ourselves accountable to. The principles we follow are:

- > Deliver sustainable value which leaves a positive legacy for the future.
- > Become the customer of choice for the best of the supply chain by being easy to do business with.
- > Ensure that we have the right, skilled people for the job, a strong talent pipeline and that we provide an environment where they excel.

- > Put in place processes that work, are compliant and transparent, making the best use of technology to deliver for our business and for our supply chain partners.
- > Mitigate and manage risk through early and closer integration with our supply chains.
- > Work together to identify market risks and sharing forecasts that enable early commitment and investment where it is needed.
- > Keep safety and wellbeing at the forefront of all that we do – it underpins every relationship, transaction and choice that we make.

Combined, these support us in maximising our efficiency on each project and purchasing goods, services and materials in the most cost-effective and sustainable way.

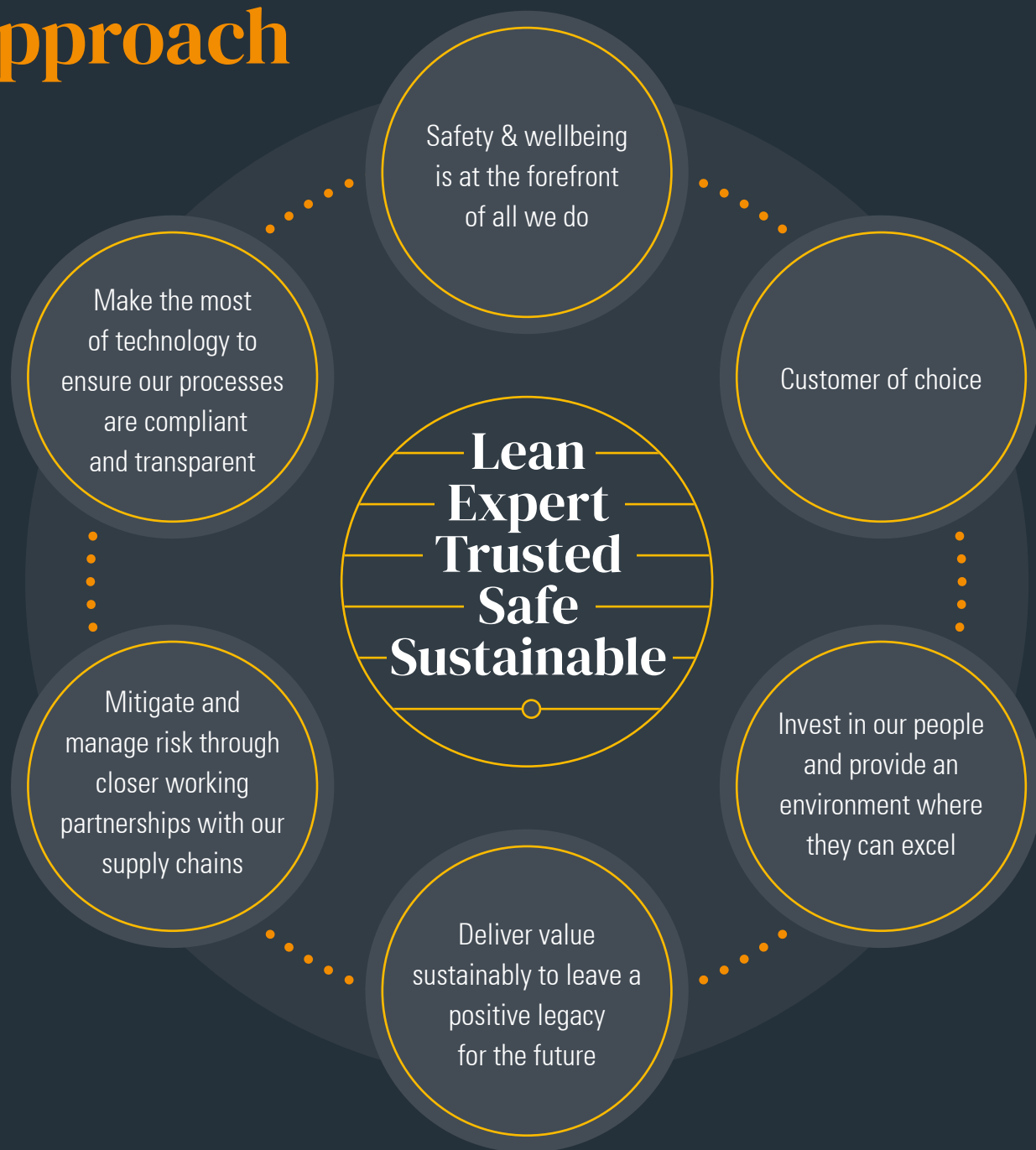
This Strategy is based on doing the right things well, balancing priorities and thinking holistically about our work and what we want to achieve. It sets out our direction of travel – but it isn't the final word. We will continue to push the envelope and explore new ways of constantly improving.



Evan Sutherland

UK Procurement &
Supply Chain Director

Our procurement approach



Becoming the customer of choice

We value our supply chain as much more than a group of individual subcontractors and suppliers, we see this critical network as an extension of our business and core to our own performance and reputation as a company. Being able to integrate the expertise of our partners within this network gives Balfour Beatty a real edge in bidding for and delivering schemes across the UK. We aim to build strong, long term partnerships with these companies, based on shared values, to help us deliver excellence to our customers.

To secure the best outcomes for our own customers and our business, we aim to become the customer of choice for our supply chain. In practice, this means being easy to do business with, practical and consistent in our approach, transparent and diligent, communicating well and seeing things from a supply-side perspective. This requires early planning and engagement, proportionate risk allocation, meeting our commitments and holding to our values.

We recognise and aspire to the principles presented by the UK Government in its Construction Playbook. Whilst we see this as a journey of discovery we will take with our supply chain partners, we applaud the move away from adversarial contractor led relationships and welcome the publication. **Our target is to have fully embedded the principles of the Construction Playbook into our own procurement processes by 2025.**

To become the Customer of choice, we will focus our procurement approach on:

- > Aligning with partners who embrace and commit to the same Safety and Sustainability values as we do, and encouraging joint accountability for delivering our commitments.
- > Recognising and rewarding high performance; proactively encouraging a 360 degree

performance assessment culture so that we can jointly identify areas of good practice, learning and improvements.

- > Openly sharing future workload, programme and pipelines, enabling transparent and constructive conversations around capacity and capability which support future growth, investment and early engagement.
- > Sharing technology and innovation, encouraging the sharing of continuous improvement across our supplier networks.
- > Working together to manage demand, engaging where possible in the pre-design phase of projects to influence safety, sustainability and product specifications and jointly accelerate the use of technology to deliver improved efficiencies and productivity.
- > 'Getting Left' and engaging our partners at the earliest opportunity during the tender phase of a project, maximising the planning and development of outcome focussed designs.
- > Ensuring that the contracts we award are structured to support an efficient exchange of data, drive collaboration, improve value and manage risk – setting clear expectations for continuous improvement. We will maximise the use of frameworks which enable us to approach procurement from a programme level perspective and allocate work to the best performing and most capable partners who have the capacity to deliver.
- > Effectively managing risk allocation and ensuring we incentivise the desired behaviours and outcomes.
- > Ensuring we pay in line with the Prompt Payment Code.



London Underground Track Renewals



Creating transparency

Underpinned by digital and automation

Balfour Beatty's Procurement Strategy is closely aligned with our Digital Transformation Strategy. We are constantly seeking opportunities to improve how we communicate and collaborate with our supply chain partners. A key plinth of our approach is to phase out manually intensive, unreliable or slow processes and to streamline, standardise and automate them, using modern integrated tools. We want processes to be efficient and information to be readily available and shareable in both directions in real-time.

Over the past six years, we have introduced technology which has become embedded in our operations through collaborations such as Tradex, providing a digital platform for all invoice payments across the supply chain and site, providing each employee with a digital identity that enables contactless entry to site using biometrics. Our strategy has matured, proving its worth as we responded with agility to the COVID-19 pandemic and delivering increasing benefits to our customers, employees, supply chain partners and to Balfour Beatty.

One of the most noteworthy components of the digital supplier journey is DocuSign – a digital tool for remote, online contract signing which is increasing the speed of completion and reducing paper waste. In 2021, our average was c.61% of contracts digitally signed within a week, with around 12% even being returned within the hour. This significant improvement shows the true benefits of maintaining momentum around the digitisation of manual processes for advantages in time saving and efficiency as well as further developing our relationship with our supply chain partners.

We hold our supply chain partners to the same expectations and standards of performance we abide by ourselves. One of the ways we do this is through Constructionline, a governance tool we use to verify the capability and compliance of supply chain partners. In March 2021, we have introduced a new Common Assessment Standard, in line with the standard created by Build UK. We will continue to work with Constructionline and our suppliers, to ensure that this works as seamlessly and transparently as possible.

By embedding the Jaggaer eProcurement Portal, Balfour Beatty can provide suppliers and customers with a consistent and transparent end-to-end process. The introduction of the tool has already enabled the e-tendering of 2,400+ packages to 3,800 suppliers, and 4,400+ performance scorecards to be completed. It has also enabled Balfour Beatty to centrally define and mandate best practice, managing templates and compliance. This has been successful in the deployment of the risk heat map and assessment of suppliers against sustainable procurement requirements. Jaggaer incorporates a full suite of Power BI dashboards which continues to improve visibility and management across our supply chain. **Our target is to ensure that 100% of our tendering activity is facilitated via Jaggaer by June 2022¹.**

At Balfour Beatty c.32% of our transactions are low in value (c.1.36% of our total annual spend). We have therefore taken the decision to take a catalogue approach to these areas of spend, making them more cost effective to process for both Balfour Beatty and our supply chain partners. The roll out of e-catalogues and the reduced reliance on purchasing cards to simplify the buying process has also helped to cut opaque 'maverick spend'. It has allowed us to significantly reduce costs, increase transparency, better monitor spend and pay suppliers quicker. Catalogue buying has improved straight-through processing and increased the number of invoices paid on time and within agreed terms.

Going forward, we aim to build upon our digital journey so far, refining the use of existing

technology and enhancing and expanding our approach to include:

- > Continuing to develop common coding, we are working with the industry standards bodies to have our Common Coding adopted and incorporated, sharing our learning so that the entire value chain finds it easier to integrate datasets between parties.
- > Maturing our performance measurement to a full 360 degree assessment with dashboards that process and present this information to empower our decision-makers to pinpoint bottlenecks and resolve emerging issues, while aggregate data will allow us to understand trends and similarities, to effectively benchmark – and to quickly spot and address disparities.
- > Digitise our procurement schedules and pipelines so that we can provide greater transparency of demand across not only our business, but also that of the industry and our supply chain. This data will support the closer alignment with manufacturers and the market to ensure that together, we can plan and better forecast demand.

Building stronger relationships with a smaller number of valued supply chain partners and managing demand, capacity, capability and performance consistently allows us to secure supply so we can deliver against our infrastructure investments. It also allows us to provide assurance to our customers that we will be here for the long-haul.

Building capability

In recent years, we have centralised strategic procurement decision-making. The focus on in-house expertise has greatly improved the team's competency and capability, enabling professionals to focus on their specialisms.

Our aim is to provide high-quality procurement support at all times. The Procurement Team brings a positive, solutions-based approach, collaborative working and a view to the bigger picture. We rely on the skills of our people and all those we work with for their professionalism, diligence, knowledge, open-mindedness and leadership to proactively manage supply chain risk and strengthen contract management capabilities across the Group. This requires continuous development of skills and competencies, diversity, broad exposure to experience and learning, and cross functional working with services and market areas for knowledge development.

We are committed to lifelong learning and continual professional development. We invest in our talent pipeline and in skills development, building capability in both our own people and in our supply chain, to evolve our service, improve resilience and ensure the delivery of our Strategy.

This includes running our Graduate Programmes and Apprenticeships, recognised by CIPS (Chartered Institute of Procurement and Supply). **Our target is to ensure that a minimum of 5% of our Procurement function are in earn and learn positions (including apprentices, sponsored students and graduates on formalised training schemes), at all times, in line with Balfour Beatty's commitment as members of The 5% Club.**

Our investment in talent is complemented by a clear focus on succession planning, with clear development pathways and a strategy which focusses on developing staff and promoting from within. We are committed to promoting internally where possible, with one in two vacancies filled internally.

We value and embrace diversity and equality, putting them at the heart of what we do. We are proud that the gender balance of our team is almost equally balanced and that we continue to recognise the benefits of building a balanced and diverse team, addressing all aspects of diversity.



Balfour Beatty machinery

Delivering social value

We want to create the best value for our customers and our own business and to choose the optimum combination of whole life costs and benefits. This includes the environmental, social and economic impact of our activities through design, material selection, manufacture, transportation, construction, usage and disposal. We work collaboratively with our supply chain to achieve this ambition. Our Building New Futures Sustainability Strategy guides our approach (see Sustainability and Procurement). **All sub-contract tenders will carry a minimum weighting of 10% for sustainability by the end of 2022, subject to customer approval.**

Balfour Beatty delivers a wide range of social value through its contracts. Working with a diverse range of public sector bodies, we have extensive experience of building these into our contract delivery mechanisms. We use the Social Value Portal to help quantify the social value we deliver.

The Social Value Portal allows us to measure and manage the contribution that we and our supply chain make to society by applying proxy values to the social value measures we have identified, following independent best practice. We have a standard Balfour Beatty suite of measures that can be used or they can be tweaked to meet customers specific requirements. In addition, the proxy values can be altered to reflect the local impact for a given area. We can use this at the bid stage to predict what we can deliver and then this follows through onto project delivery once it becomes live.

Balfour Beatty is a global leader in sustainable procurement. In 2017, Balfour Beatty became the first company in the world to be independently

assessed against ISO 20400, the international standard for sustainable procurement.

In 2020, we were reassessed, with the assessors defining our approach as 'Mature'.

We already spend more than any other main contractor in the UK with SMEs - they are integral to how we operate, help create economic growth and support employment across the UK. The UK Government has set a target that £1 in every £3 should be spent, either directly or through supply chains, with SMEs including voluntary, community and social enterprises. We are proud that we exceed this target and are committed to continuing to help these businesses grow by procuring locally and engaging in active supply chain development.

We are a partner of the Supply Chain Sustainability School to support our supply chain to receive free resources, training and tools to address social, economic and environmental considerations over the entire life cycle. Upskilling our supply chain in these areas creates real long-term benefits to the economy, communities and the environment. **Our target is to continue to exceed the Government target to spend over a third of our direct and indirect spend with SMEs, including; voluntary, community and social enterprises.** For us, this is about using procurement and working with our supply chain to address social, economic and environmental considerations over the entire life cycle in ways that offer real long-term benefits to the economy, to communities and to the environment.





Prompt payment of our supply chain partners

Balfour Beatty works with c.12,500 supply chain partners across the UK, processing around 500,000 invoices every year. We know how important it is to our supply chain partners that we pay them on time and to mutually agreed terms and we remain focussed in our efforts to do so. As signatories to the UK Government's Prompt Payment Code, we comply with the principles of the Code.

Since 2015, we have visibly streamlined and improved the systems and tools used in the planning, delivery, progress tracking and payment of supply chain partners with the introduction of Tradex, which provides an e-invoicing platform, supplier invoice status portal and Constructionline.

We continue to embed these digital processes and tools, which also include Jaggaer and DocuSign. This allows us to cut the red tape, improve reliability and speed up payment, to

ensure that supply chain partners are being paid on time. This also ensures that they are supported and our sustainable procurement priorities and requirements are being met and tracked.

These processes and systems are helping us to continue to improve our payment days and enhance our accuracy and transparency including the implementation of catalogue software for a number of key supply chain partners. Moving the supply chain partners onto payment terms of 60 days or less and, from 1 July 2021, paying organisations with less than 50 employees in 30 days or less. Through the use of electronic invoicing and approvals, we have increased the percentage of invoices paid within 60 days to 92% from 91%.

We are committed to paying our supply chain partners on time to mutually agreed terms. Our target is to increase the percentage of invoices paid within 60 days to 95%.

Working together to reduce environmental impacts

We are committed to reducing the environmental impact of our work. Our Sustainability Strategy, Building New Futures², charts a course for Balfour Beatty to go further, faster in becoming a truly sustainable business. **It sets firm 2030 Targets and outlines our 2040 Ambitions to go Beyond Net Zero Carbon, to Generate Zero Waste and to Positively Impact More than 1 Million People.**

In terms of our relationship with our supply chain partners, this includes:

- > Working to reduce the key environmental impacts of supply chain operations and ensure legal compliance.
- > Sourcing products, materials and services ethically through recognised standards.

- > Minimising waste and material use, giving preference to materials products and services with greatest circular-economy benefits.
- > Reducing the energy use of our projects and quantifying the embodied carbon of key materials.
- > Protecting and enhancing the biodiversity of our sites and managing the environmental impact of the products and materials we use.
- > Reducing impacts on air quality by controlling dust and harmful emissions.
- > Improving our combined capability to deliver sustainable outcomes.

Our Sustainable Procurement Policy³ sets out how we deliver sustainable outcomes through our procurement activity.

Modern slavery

Modern slavery is a largely “hidden” crime where individuals are exploited for another’s gain. It can take many forms including human trafficking, forced labour and servitude. Almost all businesses face the risk of modern slavery somewhere in their supply chains. No sector is immune. The construction sector can be a prime target for those exploiting others, due to fragmented supply chains, the fluctuating workforce and high reliance on short-term and, in some cases, low-skilled labour.

We know that a particular area of weakness lies in the onward supply chain. For example, using subcontracted workers adds a layer of separation between us and those working on some of our contracts. That’s why we invest in ensuring our supply chain partners have access to free training and guidance via the Supply Chain Sustainability School.

We are clear with our supply chain partners that we expect the highest standards and vigilance from them and their onward supply chain. In 2020, we put in place new steps in this area, including a new requirement for our supply chain partners to provide their modern slavery statement as part of the tendering process to provide us with assurance that they are taking the issue seriously.

It is our target that 100% of our supply chain partners in the UK, regardless of turnover must have a Modern Slavery Statement or equivalent by 2025. We will be using our e-procurement tool Jaggaer and information available from our pre qualification process on Constructionline, to track this data. We are working with the Supply Chain Sustainability School to ensure that support and guidance is available to help our supply chain partners achieve this.



Minimise business risks

During the COVID-19 lockdowns, supply risks were mitigated by identifying markets and suppliers at risk and working closely with our strategic partners to develop solutions. Transparency, constant communications and agility have been the key to maintaining our operations.

Balfour Beatty encourages the early involvement of our suppliers and manufacturers to integrate their designs with our plans and ensure the on-time delivery of the materials to the sites. Close collaboration has encouraged innovation and helped us to tackle sustainability challenges together.

Our supply chain shares regular market forecasts, which ensures that Balfour Beatty can adjust its approach and keep clients informed.

Going forward we will continue to collaborate with our supply chain, remaining proactive to ensure we are able to respond effectively, together, to market challenges and to tackle the issues already affecting our industry, from skills shortages to materials availability and meeting net zero.

About Balfour Beatty

Balfour Beatty is a leading international infrastructure group. Our main geographies are the UK, US and Hong Kong. With 26,000 employees - 12,000 of them based across the UK - Balfour Beatty finances, develops, delivers and maintains the increasingly complex infrastructure that underpins the UK's daily life, with projects across transportation, power and utility systems, social and commercial buildings.

Over the last 112 years we have created iconic buildings and infrastructure all over the world including: the £1.5 billion A14 improvement scheme - Britain's biggest road project; Hong Kong's HK\$5.5 billion world-class harbour theatre project for the West Kowloon Cultural District Authority; and the 12.5 mile \$429 million North Metro Commuter Rail line in Colorado, US. We are proud to be a British company delivering iconic structures, bold engineering feats, behind-the-scenes innovation and joined-up thinking, financing and partnerships.

In the UK, Balfour Beatty has a supply chain of around 8,200 valued partners, many of which we have worked in partnership with for over a decade, and some of which we have worked with for over 30 years. They include large multinational companies, micro businesses and social enterprises. In 2020, our UK net spend with these partners was over £2.7 billion: over 30% of this spend is with our top 100 partners; 42% of our spend is with small and medium sized enterprises (SMEs), including 7% with microenterprises.



Balfour Beatty

5 Churchill Place

Canary Wharf

London

E14 EHU

+ 44(0) 20 7216 6800

www.balfourbeatty.com