

Responsible Sourcing Policy
June 2015

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1 Purpose, Scope & Priorities

1.1 Purpose

The purpose of this document is to describe Capita's approach to Responsible Sourcing for the management of arrangements with its suppliers.

1.2 Scope

This Policy and Standards apply to ALL suppliers, external and internal, material and non material, UK and non-UK.

The requirements within this Policy are consistent with the principles confirmed within **Capita's Corporate Responsibility Report** regarding assessing and managing the supply chain and with the **Group Procurement Policy**, which should be read in conjunction with this Policy.

1.3 Capita Corporate Supply Chain Priorities for 2015

- Continue to build our understanding of who we may buy from and their capability, so that we can identify opportunities to support SMEs to grow.
- Facilitate ongoing collaboration with the Group Board, the CR Steering Group and procurement teams across the business to ensure high standards across the supply chain.
- Continue to encourage Capita businesses to procure services from within the Group.
- Phased roll-out of external CR performance assessment.
- Attend best practice forums, such as Action Sustainability, to deliver the best value and results from our supply chain

2 Introduction

We believe that our sustainable development framework is more than just an ethical duty, it's key to sustained growth. These priorities need to be reflected in our day-to-day business, including the way we select and work with our suppliers. Capita Group will engage with their suppliers of goods and services to promote the following principles, and work towards implementing these principles throughout its supply chain.

Our sustainable procurement approach also helps us to leverage the procurement process and select suppliers who help us to achieve our **Corporate Responsibility (CR)** goals. Therefore, Capita expects suppliers to either adopt our business principles in full themselves or have similar principles in place and be able to demonstrate them.

To ensure that suppliers comply with our policy and standards, we use a wide range of measures, from pre-evaluation processes through to audits in situ. Capita has been promoting supplier self-evaluation through the EcoVadis web based solution, a platform based on international corporate responsibility standards which evaluates 21 sustainability criteria and which is used by leading corporate companies.

We recognise that good procurement practices have a direct influence on our business performance. We need to manage our supply chain effectively ensuring that the goods and services that we buy are provided by suppliers who meet the highest ethical standards and comply with our **Responsible Sourcing Policy (RSP)**.

Non-compliance with RSP can adversely affect our trading relationship with the supplier concerned. However we are committed to working with our suppliers to help them achieve full compliance where necessary. We encourage supplier diversity and provide all suppliers with the opportunity to work with us. In turn, we ensure that we treat our suppliers fairly, dealing with them openly and adhering to contract terms.

What we expect from our Suppliers

Each supplier is responsible for identifying and managing the associated risks, as set out in the United Nations Guiding Principles on Business and Human Rights and in the Sectoral guides drawn up by the European Union, presented in June 2013.

Capita expects suppliers and their sub contractors to meet the requirements and key principles of Capita's policies and principles, which can be found on Capita's websites below. In addition, apply a continuous improvement approach, including agreeing schedule of improvement plans with their suppliers:

<http://www.capita.co.uk/responsibility/cr-downloads/policies-and-principles.aspx>

<http://www.capita.co.uk/~media/Files/CR%20Downloads/Policies%20and%20principles/AntiBriberyCorruptionPolicy.pdf>

2.1 Business conduct

The Ethical Code of Business Conduct has been approved by the Board of Capita plc and applies to all businesses and to all staff (permanent, temporary or on contract) engaged to work within or on behalf of the Group. It applies in all jurisdictions in which the Group operates regardless of local laws or culture and is available on our website <http://www.capita.co.uk/responsibility/cr-downloads/policies-and-principles.aspx>.

What we expect from our suppliers

We expect all our suppliers are aware of and to be fully compliant with the requirements of the UK Bribery Act 2010, and shall maintain policies, procedures and guidelines that are applicable to all members of the Supplier Group and Supplier Personnel (including Subcontractors) to the extent engaged by the Supplier in providing the Services to Capita.

2.2 Environment

Caring for the environment is an integral part of the way we run our business. We believe that good environmental practice is also good business practice and fully accept our environmental responsibilities on behalf of our shareholders, customers, employees and the communities in which we operate.

Our Environmental Policy reflects our commitment to responsible management of the environmental effects, in particular, we will:

- Comply with all relevant existing environmental legislation and other requirements
- Reduce harmful emissions wherever practicable
- Seek to reduce consumption of materials in our operations and promote recycling and the use of recycled goods
- Manage energy and water usage wisely in all our operations
- Incorporate environmental considerations into the procurement of goods and services

What we expect from our suppliers

We expect all our Suppliers to be aware of and comply with local environmental laws, and show sensitivity to other environmental issues that may impact on local communities.

All Capita suppliers should have:

- An Environmental Policy or statement in place applicable across Supply Chain
- A process in place to monitor compliance with the policy or statement
- Measure and report on environmental performance to the level required by legislation as minimum

All Capita suppliers are required to:

- Comply with all relevant existing environmental international, national and local legislation and other requirements
- Have a clear process in place for improving environmental performance and implement a corrective action plan where relevant and necessary

- Be aware of the environmental impacts of their own business and supply chain, including the products, raw materials and services provided
- Where relevant and possible have objectives and targets set to reduce significant environmental impacts and reports on progress
- Perform periodic audits to ensure compliance with Capita requirements, all relevant existing environmental legislation and other requirements
- Take account of the principles of sustainable development in the design, production, use and end-of life disposal of their supplied products and services. In particular, we expect suppliers to:
 - Use the minimum amount of raw materials consistent with being fit for purpose
 - Safeguard biodiversity
 - Use energy efficiently
 - Minimise the impacts during use and disposal
 - Provide, on request, data on the environmental performance of the processes and materials used in the products or services supplied
 - Be willing to work in partnership to progress environmental initiatives that continually improve the performance of the products and services supplied
 - Provide safe and healthy working environment
 - Have programmes in place for improving health and safety performance
 - Demonstrate a commitment to continuous improvement
 - Ensure their activities do not put at risk company employees and others

2.3 Diversity

Whilst being sensitive to cultural differences we expect the development of equal opportunities in employment without discrimination on grounds of race, religion, and gender or any other arbitrary means.

Capita believes that our success is a direct result of the experience and quality of our employees. We are, therefore, committed to focusing our employment procedures and practices on maximising the potential of each unique individual. We believe this is best achieved by developing our employee's talents, whilst recognising their differences.

What we expect from our Suppliers

We expect all our suppliers to act in similar manner and provide equal opportunities in employment without discrimination on grounds of race, religion, and gender or any other arbitrary means.

2.4 Working conditions

Capita believes that its employees are its most valuable resource and that their health, safety and wellbeing are of paramount importance.

Capita recognises health and safety as an integral part of its business performance by preventing workplace injuries and ill health, protecting the working environment and reducing unnecessary losses and liabilities, and considers the successful management to be a key management objective.

What we expect from our Suppliers

We expect our suppliers to meet local country Health & Safety legislation and have health and safety procedures in place, to prevent workplace from injuries, protect the working environment and reduce unnecessary losses and liabilities.

2.5 Human Rights

Capita is committed to respecting the human rights of individuals in all aspects of its operations in the UK and internationally. We also recognise that we have an opportunity to ensure that human rights are understood and observed in the areas that we work.

We are dedicated to providing a safe working environment in which we meet our obligations regarding health and safety, security, equality & diversity and to ensuring that the respect and dignity of all our employees is adhered to at all times.

This policy applies to all the Group's businesses, employees, contractors and sub-contractors.

What we expect from our Suppliers

We expect our suppliers to provide a safe working environment, comply with all relevant legal obligations regarding health and safety, security, equality & diversity.

2.6 Child Labour

We will eliminate child labour, where it exists, with a manner consistent with the best interests of the children concerned. Where relevant we will develop and participate in and contribute to policies and programmes which provide for the transition of any child found to be performing child labour to enable her or him to attend and remain in quality education until no longer a child. We will not employ children and young persons under 18, at night or in hazardous conditions. In any event, the course of action we take shall be in the best interests of the child, conform to the provisions of ILO Conventions 138 and be consistent with the United Nations Conventions on the Rights of the Child.

What we expect from our suppliers

We expect all our suppliers to act in same manner and not employ children and young persons under 18, at night or in hazardous conditions, conform to the provisions of ILO Conventions 138 and be consistent with the United Nations Conventions on the Rights of the Child.

2.7 Wages and hours

Pay will not be lower than that required by local law or, in the absence of a law, the level paid generally within that industry. Hours of work will be in line with local law or, in the absence of a law, the norm within that industry and shall not be excessive, employees shall not be required to work more than 48 hours per week and overtime will only be worked on an optional basis.

What we expect from our suppliers

Not to pay lower wages than required by local law or, in the absence of a law, the level paid generally within that industry. We expect our supplier to set hours of work in line with local law or, in the absence of a law, the norm within that industry and shall not be excessive. Suppliers shall not require employees to work more than 48 hours per week and work overtime only on an optional basis.

2.8 Special Requirements for Financial Conduct Authority (FCA) Prudential Regulation Authority (PRA) regulated and Markets in Financial Instruments Directive (MIFID) suppliers

Certain parts of the Capita supply chain are regulated by the Financial Conduct Authority (FCA), Prudential Regulation Authority (PRA) and Markets in Financial Instruments Directive (MIFID). This includes (but not limited) to: Capita Life & Pensions, Insurance Services, Financial Services, Debt & Legal Services.

The **Financial Conduct Authority (FCA)** and the **Prudential Regulation Authority (PRA)** are financial regulatory bodies in the United Kingdom, but operates independently of the United Kingdom government, and are financed by charging fees to members of the financial services industry

The **Markets in Financial Instruments Directive (MiFID)** is the framework of European Union (EU) legislation for: investment intermediaries providing services to clients in relation to shares, bonds, units in collective investment schemes and derivatives (collectively 'financial instruments')

Suppliers within these services must comply with the following related regulation:

Regulatory Context

2.8.1 UK business regulated by the FCA must comply with the following (as confirmed in the FCA Handbook):

2.8.1.1 FCA Principle 3 Management and Control which requires that a business takes reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems; and

2.8.1.2 The FCA Handbook, SYSC Sourcebook 3, 8 and 13 contain the detailed outsourcing rules.

2.8.2 UK business regulated by the PRA must comply with the following (as confirmed in the PRA Handbook)

2.8.2.1 PRA Principle 2 requires that a business takes reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems; and

2.8.2.2 The PRA Handbook, SYSC Sourcebook 3, 8 and 13 contain the detailed outsourcing rules.

2.8.3 A MiFID Investment Business is one to which MiFID applies and these businesses have additional regulatory obligations in relation to outsourcing.

2.8.4 In the UK, the MiFID requirements are detailed in the FCA and PRA Handbooks, which advise that other FCA or PRA regulated firms, which are not MiFID regulated, should take account of the rules as if they were guidance. Capita has made a decision to apply this policy, and the additional requirements below, to all businesses registered with and regulated by the FCA or PRA.

2.8.5 Outside of the UK, those businesses subject to MiFID must comply with applicable requirements set out in the Directive, local regulation and guidance.

2.8.6 In any case, the business must comply with the requirements of this Group Policy and Standards, in addition to those below.

Planning

2.8.7 The business must notify the Risk or Compliance function before entering into a material outsourcing arrangement and ideally as early as possible, to enable appropriate regulatory notification to be met.

2.8.8 The following Regulator notifications are required:

2.8.8.1 UK, the FCA

2.8.8.2 UK, the PRA

2.8.8.3 Jersey, the Jersey Financial Services Commission

2.8.8.4 Ireland, the Central Bank of Ireland

2.8.8.5 Isle of Man, the Insurance and Pensions Authority and / or the Financial Services Commission.

2.8.9 There may be equivalent notification requirements for additional jurisdictions; refer to your Risk or Compliance function for advice.

Contract

2.8.10 Contingency plans must account for exit strategies which must be documented.

Managing Outsourcing Arrangements

2.8.11 A business must notify its Risk or Compliance function of any significant changes to an existing outsourcing arrangement relevant to its regulatory licence.

2.8.12 Additional regulatory notifications may be required depending on the location of the Business, as outlined above.

3 Responsible Sourcing Guideline

3.1 Sustainable Development: Our Supply Chain Strategy

Our impact, and our influence, extends beyond our own operations to include those of our supply chain partners.

The **Responsible Sourcing Policy (RSP)** applies to all suppliers, wherever they operate. However as a company, we may have more influence with the supplier where we are a major customer, giving us a better chance of improving things. So it will normally make sense for us to focus on suppliers with a high level expenditure, supply chain risk or client impact.

If we want to operate in a socially and environmentally responsible manner, then we need to make sure our suppliers are working towards the same goal.

The aim of our supply chain strategy is to:

- Communicate our sustainable development goals to our suppliers,
- Involve them in helping us meet our goals,
- Support and encourage them to improve their own performance.

We will achieve this by working with our suppliers by implementing:

1. The Supplier Risk Assessment
2. Pre-Contract Supplier Due Diligence
3. A dialogue with key suppliers to identify ways of working together to reduce our combined impact
4. An online CSR performance assessment tool either Ecovadis or Sourcing Portal if it is a smaller SME.

3.2 Managing our supply chain

We aim to develop mutually beneficial relationships with our suppliers and we are committed to work with suppliers who meet our business and sustainability standards. Our centralised Group Procurement team manages relationships with our strategic suppliers to ensure that good practice is understood and shared across our supply chain. Capita also has an innovative development with SME's, in growing and nurturing talent together.

In alignment with Group Board and CR Steering Group, Group Procurement provide the framework and tools for best practice CR Supply Chain, in terms of: Procurement Best Practice Guidelines/Policies, Procurement Consultancy, Sourcing toolkit, eSourcing, Procurement web based applications such as Spend Analytics, Contract Management, Supplier Relationship Management (SRM) and a governance model framework for all Capita operating businesses.

Whilst the CR External audit tool Ecovadis is actively used for either strategic, tier 1 or voluntary, it is not deemed appropriate for small SME's, in which case minimum standards can be applied through the registration and management of suppliers via self service procurement portal. Through a series of suppliers completing questions and agreeing to CR & Procurement policies, employees are able to check whether they meet minimum criteria before proceeding commercially or seek advice from Group Procurement.

More information can be found on the Capita Group Sourcing Portal.

<https://www.capitagroupsourcing.co.uk/>

MyPurchasing Governance for Purchases & Invoice compliance

Capita have partnered with Spend360 to provide best in class spend analytics, which is utilised across Capita Group, Group Procurement & Category Management teams. All spend is continuously monitored and reviewed. Spend360 have also helped Capita in monitoring purchase compliance with identified categories through SAP based MyPurchasing.

Capita invested in developing and deploying a SAP based Purchasing system called MyPurchasing. This is a mandatory purchasing system to focus spend on preferred or approved suppliers, sponsored by the Group Board. All invoices not compliant for the mandated purchasing categories are identified by relevant costs centres. Every month a non compliance report is published to Exec Directors of all operating divisions. Escalation and tracking of compliance is discussed each month, between Group Procurement & Group Finance and appropriate action taken where necessary.

Employees are not able to raise a purchase requisition or purchase order for a new supplier without now going through the supplier setup process. If they do not comply with pre qualification and setup, then the supplier invoice will be identified and reported in above governance process.

We engage with the local communities in which we work, committing to making a positive social and economic impact and understanding and managing any negative impacts of our business operations. We also seek to make a positive social contribution through the services we provide to our clients and our clients' customers, particularly in our public service contracts.

Category Management & Procurement Consulting Expertise

In addition to the Group Procurement Category Management team, Capita are able to utilise the Capita Procurement Solutions consultancy practice skills, experience and internal 200+ business experts within the Capita estate. The combination and scale of this multi sector resource, enables us to tailor attractive services and products for clients.

The outcomes for all the supply chain are that through collaboratively working with our clients, suppliers and industry leaders, Capita strives to lead through innovation, whilst delivering the multitude of efficiency and best practice benefits.

4 Suppliers' Risk Assessment

4.1 Managing risk across our Supply Chain

Risk Management is an essential part of good procurement practice. This document forms part of Capita's Group Procurement Governance and Group Policy Framework.

It outlines the approach taken by Group Procurement in identifying types of risk, probability of occurrence, impact and mitigations specific to the procurement and Supply Chain Management activity.

It's important to set priorities therefore we focus our attention on areas of critical risk and on supply chains where we have an opportunity to drive improvement.

All suppliers are required to comply with the **Responsible Sourcing Policy (RSP)** as a minimum standard. In addition to compliance with the RSP, Supplier's risk needs to be determined and categorised as part of the onboarding process.

To assess the level of risk for each supplier, some basic information about the company and their products / services will be needed such as supplier name, list of products supplied, services provided, country of origin for each product supplied, value of spend and other information needed for completion of a Supplier Risk Assessment.

Supplier Risk Assessment forms the basis for identifying and mitigating risks across the supply chain and can be used for individual suppliers, projects or business procurement teams which can be used for individual suppliers to identify and mitigate risk.

In addition to the Supplier Risk Assessment a Pre-Contract Due Diligence Template might be required which will be completed by a relevant Contract Manager in cooperation with a supplier.

Identifying Risk

The process for identifying and quantifying supplier risk is outlined in Capita's internal document 'Supplier Risk Assessment Template'. It is recognized that for each procurement exercise the risk profile could be different and each supplier is assessed against 4 risk areas:

- 1) Product/Service Category Risk
- 2) Geographical Risk
- 3) Level of Spend
- 4) Procurement Risk

Achieved scores are added together in order to determine the total risk score. Furthermore, regardless of financial size, suppliers identified as a potential risk are asked to complete more in depth independent Ecovadis audit or appropriate Capita audit.

Where there is strategic or high value procurement planned; a specific Procurement Risk Register and Pre-Contract Due Diligence is completed by a relevant Contract Manager.