

# Developing our Supplier Code of Conduct

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**SGN**

Your gas. Our network.

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## 1 Introduction

SGN is committed to achieving relationships with suppliers that are mutually beneficial, promote best practices and continuous improvement throughout our operations. As a business, we have historically worked closely with our suppliers to ensure we minimise risk throughout our operations. Following the introduction of the Bribery Act 2010 and later the Modern Slavery Act 2015 we have strived to improve the level of engagement within our supply chain and ensure we, as well as our suppliers, abide to mandatory legal requirements.

Our sustainable approach to procurement has largely been outlined within the Responsible Procurement Charter, which details our intent to operate responsibly and ethically. We will use the remainder of GD1 and GD2 as an opportunity to strengthen the work we have done to ensure we and our suppliers operate responsibly. We will work with both internal and external stakeholder to develop a sustainable procurement strategy and programme; and we will update our procurement processes to embed Circular Economy principles.

In addition, a better understanding of the goods and services we use will be a critical part of our approach to sustainability to fully calculate the environmental impact of our services. We will work with our suppliers to ensure that they can meet the standards and targets we will be looking to adopt in our **Supplier Code of Conduct (our Code)**.

## 2 Social Responsibility

As a company, we are continuously looking for ways to improve and strengthen social responsibility within our supply chain. We recognise and work to minimise our impact on society and the environment; and aim to make a positive impact. Our **Code**, which will build on our existing Responsible Procurement Charter, will support our efforts to deliver the best and most environmentally responsible services to our customers, employees and shareholders. The relationship between us and suppliers is an important component of this: ensuring we are not only achieving the standards of the **Code** but also supporting the wider success of the Environmental Action Plan (EAP).

From now and throughout GD2 a key focus will be on the relationship with our supply chain. We will look at how we can begin to increase the standards we expect from those who provide the products and services we utilise in our day to day activities. As part of this, we have begun the exercise of building on our existing Responsible Procurement Charter to develop a set of standards to address any environmental and social impacts across our supply chain. The **Code** is intended to set out the standard and expectations with respect to our corporate responsibility as well as the standards we expect of our suppliers.

The expectations for suppliers across all industries has shifted, with a call for suppliers to move beyond just meeting minimum compliance to applicable legislation for where and how they operate.

By GD2 we will have outlined the requirements for our **Code**. We will look to actively engage with and support our supply chain to ensure they will be able to meet those requirements. The **Code** will be designed to ensure that our suppliers are working to support the standards outlined, providing a safe

working environment and ensure that goods and services are produced responsibly while minimising environmental impact.

To achieve this, we need to understand the challenges our suppliers may face in developing these standards and provide support and tools to address them. We work with suppliers of various sizes and levels of risk and it is imperative that the **Code** provides a clear pathway to them to meet these standards as well as providing appropriate levels of support to allow them to incorporate them into their business.

To date, we have started the process to map the requirements for a robust **Supplier Code of Conduct**. We began by reviewing current policies and procedures and completed a gap analysis by conducting a benchmarking exercise of a range of Supplier and Business Codes of Conduct. This allowed us to build a more comprehensive understanding of where we are and outline the framework for building a robust **Code**. As we move into GD2 we will continue to look to learn and actively engage with our suppliers, pull from external consultants and support and identify opportunities to engage and collaborate with external participants and organisations.

### 3 Stakeholder Engagement

Feedback from our customers has shown that they are aware of the need to work with our supply chain in the development of a **Supplier Code of Conduct** to ensure that targets set are achieved.

Customers are concerned about the impact this may have on small businesses:

- SGN should provide a window of time for SMEs to adhere to the code of conduct
- SGN should provide support and guidance to smaller businesses
- Should there be a sliding-scale of expectations based on size of company/ profit?

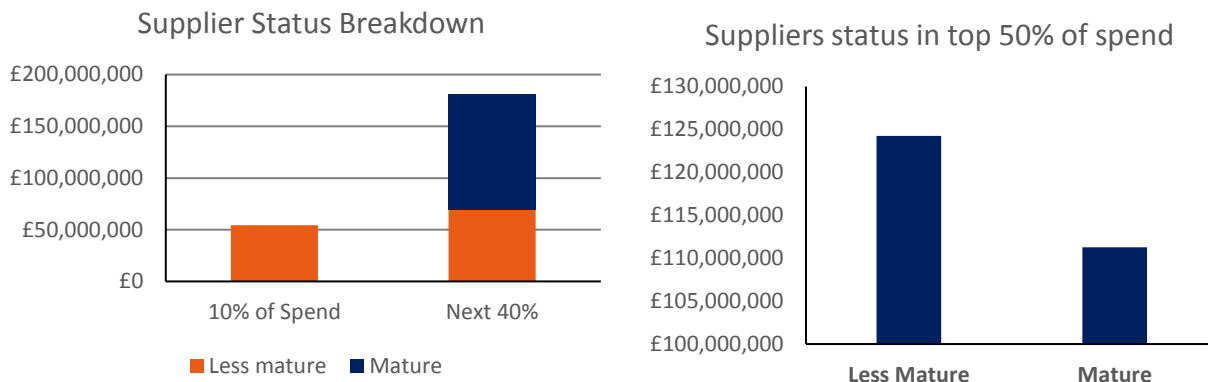
“Customers like the concept of a supplier code of conduct but think SGN need to review their approach to ensure that small businesses are supported/can adhere to expectations.”



### 4 Proposed Development of the Code

We are developing a **Supplier Code of Conduct** to support our sustainable procurement process, and the calculation of carbon emissions from the materials and products used within our operational activities, with 80% of suppliers (by spend) meeting the code by the end of RIIO-2.

Table 1 below provides an illustration of the status of our suppliers in the top 50% of spend for the last year. Mature suppliers are those we believe to have an element of environmental and social reporting within their operations. The less mature suppliers are those which do not have a consistent approach to environmental and social considerations which may be due primarily to their size and or availability of resources. Those suppliers will require some element of support in terms of meeting any requirements outlined in the **Supplier Code of Conduct**.

**Table 1**

A framework of sustainable requirements against which suppliers are selected, measured and monitored will be adopted. Achieving this will be challenging as a good percentage of our supply chain is less mature than others. For this reason, the requirement to set realistic targets and ensure we provide the correct level of support during implementation will be essential. We will research and consider engaging in external industry wide initiatives like the Sustainable Supply Chain School to provide training and development to those suppliers which may need this.

To realise the above, we will continue the work we have already achieved through the Responsible Procurement Charter and further develop the sustainable procurement processes in place by developing a **Supplier Code of Conduct** and identify appropriate KPIs and public disclosure metrics for our suppliers. We will also work with our suppliers to monitor and report on embedded carbon, in high risk areas of our supply chain and new projects (over £20m) by ensuring accurate and consistent data is provided and work to establish a baseline and target to reduce embedded carbon on appropriate projects.

Success will be measured when 80% of our suppliers, by spend, are meeting the **Supplier Code of Conduct**. In addition, we will seek to gain guidance to work towards developing a robust methodology for measuring embedded carbon in new one-off projects (with a contract value of £20m). Outputs will be measured and tracked on an ongoing basis.

## 5 Options Considered

We have heard the concerns from our customers to ensure that our ambition to develop a sustainable procurement strategy has the necessary support for our wider supply chain. Therefore, we have developed low, medium and high levels of ambition to ensure that we build the appropriate processes and procedures to engage and support the supply chain. A key focus will be to provide all suppliers, regardless of size, with the appropriate support and training to meet the stands in the **Code**. We will be seeking external guidance and support as well as partnerships with external parties such as the Supply Chain Sustainability School.

We have also adopted a staggered approach with our level of ambition with low being the foundation and the medium and high being the stepping stones to a sustainable procurement strategy. The feedback from customers and suppliers, along with the requirement set out by Ofgem, have been reviewed and incorporated into the ambition levels outlined in Table 2 below.

**Table 2**

<p><b>Low Ambition</b></p> <p>Keep up with legislation, <b>10%</b> of supply chain (by value) to sign up the supplier code of conduct</p>	<ul style="list-style-type: none"> <li>•Development of Sustainable Procurement following ISO20400 Supply Chain Standard</li> <li>•Additional Resource to support transition to medium and high ambitions</li> </ul>
<p><b>Medium Ambition</b></p> <p><b>50%</b> of supply chain (by value) to sign up</p>	<ul style="list-style-type: none"> <li>•Explore partnerships to develop appropriate training for suppliers example the Sustainability Supplier School</li> <li>•Develop methodology for embedded carbon monitoring and reporting</li> </ul>
<p><b>High Ambition</b></p> <p><b>80%</b> of supply chain (by value) to sign up to the supplier code of conduct, establishing baseline to reduce embedded carbon on new projects</p>	<ul style="list-style-type: none"> <li>•Encourage all supplier to disclose environmental performance for external assessment by CDP</li> <li>•Explore adopting international standards on human rights, labour, environment and anti - corruption through the United Nations Global Compact</li> </ul>

In line with other ambitions under our EAP<sup>1</sup>, and to meet the requirements set by Ofgem, we will adopt the High Ambition option. This will ensure 80% of suppliers by spend (currently 98 suppliers) sign up to the key requirements of the **Supplier Code of Conduct** and look to calculate the embedded carbon of new projects for one off projects over £20m.

### **Cost of implementation**

There will be a cost associated with the development of the **Code**, associated processes and governance, development of the responsible procurement charter, and supporting the wider supply chain in meeting the targets. To deliver this the following will be required:

- 1 additional FTE to lead and manage sustainability within the supply chain;
- Engagement of a consultant experienced in delivering and assuring sustainability within supply chains; and
- Continued support from SGN's sustainability team to launch this initiative and work collaboratively with Procurement and Commercial in the lead up to GD2.

<sup>1</sup> See Appendix 003 Environmental Action Plan

The costs for the High Ambition **Comm**

The detail is provided in Table 3 below:

Table 3

Year	2021/22	2022/2023	2023/2024	2024/2025	2025/2026
	<b>Commercial Sensitivity</b>				
Additional Resource					
Purchase ISO20400 Supply Chain standard					
Training and Learning for suppliers					
Embedded Carbon monitor and reporting					
Supply Chain CDP disclosure					
UN Global Compact Participant					
Sustainable School collaboration					
Create a social value commitment statement					
<b>Total Costs per annum</b>					

## 6 Business Case Outline

### 6.1 Key Business Case Drivers Description

1. Adopt high standards of environmental management in the **Code**, including requirements for public disclosure of metrics and cascading code to their suppliers that are material to company’s inputs
2. Adopt target of more than 80% of suppliers (by value) meeting the **Code** by the end of RIIO-2
3. Mandatory requirement for suppliers to provide carbon emissions data to allow for embedded carbon to be calculated for appropriate new projects

### 6.2 Business Case Summary

The development of our sustainability strategy has seen us aligned to support the United Nations (UN) Sustainable Development Goals and the **Supplier Code of Conduct** will be aligned to support this. A benchmarking analysis has been completed, reviewing international environmental standards outlined in both the UN Sustainable Development Goals and the UN Global Compact. We identified the following key themes to be included within the Code:

1. Transparency and fair competition across the supply chain
2. Human Rights
3. People
4. Minimising the Environmental Impact
5. Health and Safety
6. Cyber/Information Security
7. Governance

We are currently carrying an internal desktop reviews to identify existing good practice that could be incorporated into a sustainable procurement process. This includes developing a robust supply chain

questionnaire to gauge the current level of supplier's capability in relation to key sustainability themes. This will allow us to establish a picture of the "as is" and set realistic Key Performance Indicators (KPIs) and targets. The remainder of GD1 will focus on preparing the KPIs, targets, measurement and monitoring tools.

### 6.3 Engagement with consultants

#### Commercial Sensitivity

### 6.4 Embedded Carbon

Within the supply chain we will develop a mandatory requirement for our suppliers to report on the carbon emissions of the materials they provide to us.

For one-off projects, we will measure the embedded carbon on new projects over £20 million in value. Once this has been calculated, this will be used as a baseline for performance upon which we would look to set appropriate reduction targets for the next project.

We will seek guidance from external consultants to develop a methodology for calculating our company specific embedded carbon for some of the key materials we use within our operations.

We are looking to measure embedded carbon across:

1. PE Pipe
2. Concrete and asphalt
3. Steel pipe and fittings

### 6.5 Sustainable Procurement

#### Pre-and post-tender phase

We will update our procurement processes to embed Circular Economy principles.

We will develop generic/example evaluation criteria and scoring mechanism to utilise in tenders. These will be aligned to sustainable procurement principles and meet the requirements stated in the **Code**.

#### Post tender phase - Continuous Improvement

Continued engagement with our suppliers throughout the term of the contract which may include performance reviews or Supplier Relationship Management meetings. These meetings will include discussions on their performance against the **Code**.

#### Disclosing

We will continue to review our Responsible Procurement Charter and finalise and publish our **Code**.

#### Implementation

We will roll out new policies, procedures, templates and governance. We will ensure effective links across the business are established to ensure a one-team approach to supply chain. We will develop a process to ensure a consistent and compliant application of our **Code** to ensure the requirements and targets that have been outlined in the code and charter are adhered to consistently.



### **Supporting our supply chain**

Enable through facilitation of training opportunities & engagement days. Carried out through classroom based regional training days and meet the buyer events which will include sustainability as a key topic. This will help to reduce costs across our supply chain and ultimately to our customers.

### **Measuring and reporting**

Look to identify an appropriate tool or software, for example PowerBi for measuring and reporting on key metrics for both supply chain sustainability metrics and embedded carbon.

## **7 Conclusion**

We are committed to achieving relationships with suppliers that are mutually beneficial, promote best practices and continuous improvement throughout our operations.

As a company, we are continuously looking for ways to improve and strengthen social responsibility within our supply chain. We recognise and work to minimise our impact on society and the environmental; and aim to make a positive impact. We are therefore developing a **Supplier Code of Conduct** and will ensure 80% of suppliers, by spend, meet its key requirements and look to calculate the embedded carbon of new projects for one off projects over £20m.