

# Appendix 1.26: Procurement and Contract Management Policy

Regulatory proposal for the ACT electricity distribution network 2019-24  
January 2018

Disclaimer: On 1 January 2018, the part of ActewAGL that looks after the electricity network changed its name to Evoenergy. This change has been brought about from a decision by the Australian Energy Regulator. Unless otherwise stated, ActewAGL Distribution branded documents provided with this regulatory proposal.

## Procurement and Contract Management Policy

IMS Document Number: PO5001 (Previously 8.4)

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Process Owner: Chief Finance Officer

Version: 6

Date of issue: 24/03/2016

Date of next review: 24/03/2018

eIM Classification: Enterprise Management/ Procurement Management

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### 1. Scope

This Policy applies to all ActewAGL employees, consultants and contractors undertaking procurement and contract management activities, including the acquisition of all goods and/or services, either purchased or leased from Suppliers external to ActewAGL, with the exception of:

- a. the purchase of electricity and gas; and
- b. employment activities through ActewAGL payroll.

### 2. Purpose

This Policy outlines the principles of acquiring goods and/or services at ActewAGL. It is supported by the Procurement Management Manual (PMM), which guides users through the required procurement processes. The goal of all procurement activities is to achieve value for money.

Compliance with this Policy and the PMM will ensure that both ActewAGL and our valued Suppliers:

1. protect the health and safety of ActewAGL employees, contractors and customers;
2. reduce operating costs and improve operating efficiencies;
3. improve the quality of goods and services ActewAGL provides to its customers;
4. promote productive relationships with Suppliers;
5. satisfy stakeholders requirements for good governance and economical operations;
6. shorten procurement cycle times; and
7. adhere to the appropriate probity, risk, regulatory and legislative requirements.

Local processes adopted by Business Units must be consistent with this Policy and the PMM.

### 3. Policy

#### 3.1. Objectives

Operating efficiently and effectively is a key strategic objective for ActewAGL<sup>1</sup>. Procurement management is a critical organisational capability. The PMM has been specifically designed to help ActewAGL achieve this objective, it is comprised of:

1. Phase 1 - Business Requirements;
2. Phase 2 - Sourcing and Selection;

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<sup>1</sup> [ActewAGL Strategic Outlook 2010 - 2020](#)

3. Phase 3 - Contract Management; and
4. Phase 4 - Purchasing.

In order to achieve strategic and operational objectives, ActewAGL is committed to ensuring procurement and contract management is ethical, delivers value for money and minimises risk. ActewAGL Executives and Delegates are accountable for ensuring that procurement and contract management in areas under their control:

- a. is undertaken in accordance with the PMM;
- b. uses an appropriate and approved procurement method; and
- c. utilises existing contracts where possible (avoiding off-contract spend and minimising multiple concurrent contracts with the same suppliers where appropriate).

All ActewAGL employees must undertake procurement and contract management in accordance with the PMM.

### **3.2. Principles of Procurement and Contract Management**

The principles that govern procurement and contract management are:

- a. value for money, being the benefits achieved compared to the whole-of-life costs (e.g. price, quality, reliability, service, delivery, payment terms, disposal costs and strategic Suppliers);
- b. efficient, effective and ethical use of resources;
- c. probity and equity;
- d. risk management considerations;
- e. accountability and transparency;
- f. encouraging competition; and
- g. environmental and sustainability considerations.

### **3.3. Value for Money**

Value for money is the fundamental principle underlying ActewAGL procurement and contract management. In a procurement process, this principle requires a comparative analysis of all relevant costs and benefits of each proposal throughout the whole procurement cycle.

Value for money is enhanced in ActewAGL procurement by:

- a. encouraging competition, ensuring non-discrimination in procurement and using competitive procurement processes;
- b. promoting the use of resources in an efficient, effective, ethical and economic manner; and
- c. making decisions in an accountable and transparent manner.

Cost is not the only determining factor in assessing value for money. Rather, when assessing alternative procurement processes or solutions, a whole-of-life assessment would include consideration of factors such as:

- a. the maturity of the market for the goods or services sought;
- b. the performance history of each prospective Supplier;
- c. the relative risk of each proposal;
- d. the flexibility to adapt to possible change over the lifecycle of the goods or services;
- e. financial considerations including all relevant direct and indirect benefits and costs over the whole procurement cycle;
- f. the anticipated price that could be obtained, or cost that may be incurred, at the point of disposal; and
- g. the evaluation of contract options (for example, contract extension options).

### **3.3.1. Life Cycle (or Whole of Life) Costing**

Life cycle cost for goods is the total cost incurred from the acquisition stage as well as, owning, maintaining, use and disposal of the good/s at the end of their usable life. The life cycle costs for services includes the cost of the services, any continuing costs for the use of the services and any costs that may be incurred in discontinuing the service.

Life cycle costing should be applied to all purchasing decisions (goods or services) where there is an ongoing cost of ownership (e.g. photocopiers). The three (3) broad stages at which Life cycle costing should be applied are:

- a. The conceptual stage, when a Business Case for justification of the purchase is being prepared;
- b. The evaluation stage, when the potential offers from Suppliers are being assessed; and
- c. The in-service stage, when decisions are being made on whether to maintain, improve or dispose of the asset or in the case of a service, discontinue the service.

### **3.4. Efficient, Effective and Ethical Use of Resources**

ActewAGL's Policy PO4402 [Delegations of Authority](#) requires that delegates approving expenditure of ActewAGL funds must first be satisfied that such expenditure is an efficient and effective use of ActewAGL resources.

Efficiency relates to the productivity of the resources used to conduct an activity in order to achieve the maximum value for the resources used. In relation to procurement, it includes the selection of a procurement method (as identified in the PMM at Phase 1 - Business Requirements at Section 3.5.2) that is consistent with this Policy and is the most appropriate to the procurement objective under the prevailing circumstances.

Efficiency in procurement is enhanced by conducting transparent, fair and appropriately competitive processes of a scale commensurate with the size and risk profile of each particular project.

Effectiveness relates to how well outcomes meet objectives. It concerns the immediate characteristics of ActewAGL's outputs, especially in terms of price, quality and quantity, and the degree to which outputs contribute to specified outcomes.

Effectiveness can be achieved by ensuring that the goods and/or service being sought will make the maximum possible contribution to the relevant outcome. This entails correctly identifying the need, accurately drafting functional specifications, rigorously assessing responses and negotiating the final contract, and then diligently managing the contract. Comprehensive monitoring and assessment at all stages of the procurement process further contributes to effectiveness.

### **3.5. Ethics**

Ethics are moral principles that govern an individual's behaviour or the approach of conducting a particular activity, i.e procurement. Ethical behaviour encompasses the concepts of honesty, integrity, probity, diligence, fairness, trust, respect and consistency. Ethical behaviour identifies and avoids conflicts of interests, and does not make improper use of an individual's position. It is an expectation all employees approach procurement and contract management ethically.

A procurement conducted in an ethical manner will enable ActewAGL employees and potential Suppliers to deal with each other on a basis of mutual trust and respect. Adopting an ethical, transparent approach enables business to be conducted fairly, reasonably and with integrity in direct accordance with ActewAGL's Procedure PR4655 [Reporting Fraud and Wrongful Behaviour](#).

A specific aspect of ethical behaviour relevant to procurement is an overarching obligation to treat all participating potential Suppliers as equitably as possible. For example, when providing further information to potential Suppliers during the course of procurement, ActewAGL needs to ensure that procedures are in place to treat all potential Suppliers fairly. The procurement process rules need to be clear, open, well understood and applied equitably to all parties interested in the procurement activity.

ActewAGL needs to ensure that officials involved in procurement, particularly those dealing directly with Suppliers and potential Suppliers:

- a. recognise and deal with any conflicts of interests, including perceived conflicts of interests;

- b. deal with Suppliers and potential Suppliers even-handedly;
- c. consider seeking advice when probity issues arise;
- d. do not compromise ActewAGL's standing by accepting inappropriate gifts, benefits or hospitality in accordance with Corporate Procedure [PR4432 - Acceptance of Gift, Benefits or Hospitality](#);
- e. are scrupulous in their use of ActewAGL property; and
- f. comply with all duties and obligations including ActewAGL's [Code of Conduct](#), the information privacy principles of the Privacy Act 1988, and the security provisions of the Crimes Act 1914.

ActewAGL must not seek to benefit from Supplier practices that may be dishonest, unethical or unsafe.

Procurement of services ought to be conducted in a way that imposes as far as practicable the same level of accountability and responsibility on a Supplier as would exist if ActewAGL carried out the services itself.

ActewAGL employees have access to a whistleblower service provided by Deloitte. The program provides all staff with an avenue through which they can report, either anonymously or by name, actual and suspected workplace misconduct. Further details on the Whistleblower process can be found on the intranet page [Whistleblower Program](#) and in the ActewAGL Code of Conduct.

### 3.6. Probity

Probity<sup>2</sup> with regard to procurement processes is clearly defined and covered in detail in the PMM Phase 2 - [Sourcing and Selection](#), Section 3. Maintaining probity, ethics and integrity in procurement and contract management enables and ensures:

- a. reduction of the costs of managing risks associated with potential improper behaviour, including fraud, theft or corruption;
- b. Suppliers to be dealt with even-handedly;
- c. conflicts of interest are recognised, registered and managed appropriately;
- d. procurement evaluations are conducted without fear or favour;
- e. potential Tenderer's are confident of ActewAGL's ethical behaviour;
- f. processes do not dominate the project at the expense of findings; and
- g. value and cost are evaluated in appropriately.

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<sup>2</sup> Probity is defined as the observance of integrity, uprightness, honesty, equity, justice and fairness in relation to procurement.

### 3.6.1. Conflicts of Interest

ActewAGL staff should avoid perceived and/or real conflicts of interest in accordance with this Policy, particular attention should be given to this if ActewAGL is considering purchasing goods and/or services from Suppliers who:

- a. are current employees of ActewAGL;
- b. are past employees of ActewAGL; or
- c. have a personal relationship with any of ActewAGL employees involved in the procurement process.

Conflicts of this nature must be reported to [redacted] and managed with caution until relevant advice has been received from C&P in consultation with LSD. Transparent procurement practises are essential to avoid potential reputational risk.

Refer to Procurement Management Manual Phase 2- [Sourcing and Selection](#) Section 3.6 Conflict of Interest for further details.

### 3.7. Risk Management

Managing risk is fundamental to achieving good procurement results. ActewAGL adopts a systematic approach to identifying, analysing, evaluating, treating and monitoring procurement and contracting risks. ActewAGL's focus is to share risks, assigning responsibility for each particular risk to the party best able to manage it. This includes:

- a. identifying what, how and why things may go wrong;
- b. analysing the likelihood of something going wrong and the consequences if it does;
- c. evaluating how serious the risks are and putting them in order of priority for treatment;
- d. treating risks by planning and implementing strategies to reduce the likelihood they will occur and/or mitigate the seriousness of their consequences; and
- e. continue to monitor risks by reviewing and documenting their management on a regular basis, to ensure that the overall strategy remains valid.

Risk management must be undertaken in accordance with PO4930 [Risk Management and Legal Compliance Policy](#).

#### 3.7.1. Strategies for Managing Risk

There are several accepted strategies, which may be used either separately or in combination, for managing risk/s, these are:

- a. **avoiding the risk** by not proceeding with the project or by achieving the same outcome by alternative means;

- b. **reducing the risk** by taking appropriate action to reduce the likelihood and/or consequences of a risk occurring;
- c. **transferring the risk** to another party who is better able to control or accept that risk; and
- d. **accepting the risk** by making an informed decision to do so, if the risk cannot be avoided, transferred or the cost to avoid or transfer the risk is not justified.

In deciding how to treat medium/high risks it is important to bear in mind two general principles:

- a. the cost of managing risks needs to be commensurate with the benefits obtained; and
- b. responsibility for managing risk should be allocated to those who can best control and manage it.

### **3.8. Accountability and Transparency**

Accountability means that ActewAGL employees are responsible for the actions and decisions that they take in relation to procurement and the outcomes. Transparency involves taking steps to enable appropriate scrutiny of ActewAGL's procurement activities. The fundamental elements of accountability and transparency in procurement are outlined in this section.

- a. Efficient and effective procurement practices contribute heavily to corporate governance.
- b. Accountability supports ActewAGL's' business and performance management through visibility.
- c. Records of procurement decisions ensure transparent procurement.
- d. Willingness exists at all levels to be responsible for one's actions.
- e. Visible and auditable processes and procedures are used.
- f. Information flows are linked to procurement outcomes.
- g. Risks are assessed and managed in accordance with the project outcomes.
- h. ActewAGL and their officials conduct procurement in accordance with relevant policy including issues such as environment and workplace, health and safety.
- i. Policies, objectives and aims are 'weighted' relative to one another and considered accordingly in a Business Case approach.
- j. Policies, objectives and aims inhibiting other procurement principles are reviewed as part of a continuous improvement process.

#### **3.8.1. Records**

ActewAGL employees must maintain a level of documentation commensurate with the scale, scope and risk for every procurement and contract activity they conduct. Documentation should provide accurate and concise information on:

- a. the requirement for the procurement or contract;
- b. the process that was followed;
- c. how value for money was considered and achieved;
- d. relevant approvals; and
- e. relevant decisions and the basis of those decisions.

ActewAGL must have access to evidence of agreements with Suppliers, in the form of one or a combination of the following documents:

- a. a written contract;
- b. a purchase order;
- c. an invoice; and/or
- d. a receipt.

Documentation must be retained in accordance with the Territory Records Act 2002 as amended, and the ActewAGL Policy [PO4905 Records Management](#).

### **3.9. Encouraging Competition**

Having a competitive market is vital for achieving value for money and is a key element that must be considered in procurements undertaken by ActewAGL. Effective competition requires non-discrimination and the use of competitive procurement processes.

All potential Suppliers are to be given the same opportunities to compete for ActewAGL business, and must, in accordance with this Policy, be treated equitably based on their legal, commercial, technical, and financial abilities, and not on their degree of foreign affiliation or ownership, location or size. The goods and/or services on offer must be considered based on their suitability for their intended purpose, and not based on their origin.

Participation in a procurement process imposes costs on ActewAGL and potential Suppliers and these costs should be considered when determining a process commensurate with the scale, scope and relative risk of the proposed procurement. The procurement process itself is an important consideration in achieving value for money, as:

- a. Competition promotes economy, efficiency and effectiveness in organisational expenditure.
- b. Contract size and length are key determinants in ensuring effective levels of competition.
- c. Output based specifications, impartial procurement processes and independent evaluation

promotes effective competition.

- d. Any in-house bids should be evaluated using the principles of competitive neutrality.
- e. Requirements are fully disclosed with functional outcomes fully described.
- f. Pre-qualification methods remain responsive to the market and the user variations/changes in its requirements.
- g. Value and cost in combination generate competition.

### **3.10. Environmental and Sustainability Considerations**

ActewAGL (where possible) must consider the protection of the environment by doing business with ethical and socially responsible Suppliers. In accordance with [PO4601 Work Health Safety, Environment and Quality Policy](#), sustainability must be integrated into the procurement process and contract management for the acquisition of goods and/or services.

Sustainable procurement aims to reduce the adverse environmental, social and economic impacts of purchased products and services throughout their life. Examples of environmental, social and economic impacts are:

- a. inputs of natural resources, energy and water in the manufacture, use and disposal of goods;
- b. pollution produced from the manufacture, use and disposal of goods;
- c. costs of operation and maintenance over the life of the goods;
- d. labour conditions in the manufacture, use and disposal of goods or delivery of services; and
- e. loss of flora and fauna resulting from the removal or alteration of natural resources.

Sustainable procurement looks beyond the up-front cost to make purchasing decisions based on the entire life cycle of the goods and services, taking into account associated costs, environmental and social risks and benefits, and broader social and environmental implications.

#### **3.10.1. Benefits of Sustainable Procurement**

The benefits of adopting a sustainable procurement approach are numerous. The receiver of the benefits can be ActewAGL, the market (or Supplier) or the community. Some benefits can apply to all these groups.

Benefits to ActewAGL can include:

- a. securing best value for money and achieving a more efficient use of resources;
- b. generating financial savings through greater energy efficiency; reduced waste disposal (including reduced packaging to waste); reduced water use; and reusing materials and products, thereby lowering the cost of a product over its life cycle;

- c. achieving positive publicity associated with the purchase and use of products, services and Suppliers with good environmental and social responsibility records; and
- d. providing leadership to the community in demonstrating social and environmental responsibility through the purchase of sustainable products and services.

Benefits to the market or Supplier can include:

- a. increasing the availability of sustainable products and services at more cost-effective prices;
- b. expanding the market for sustainable products and services, with potential benefits for local businesses;
- c. expanding market opportunities gained from stronger product and service differentiation;
- d. reducing transport-related costs such as fuel, vehicle maintenance and road congestion;
- e. supporting and encouraging innovation through demonstrating preference for more sustainable products and services; and
- f. encouraging industry to develop capacity to operate in a clean, green economy.

Benefits to the community can include:

- a. reducing adverse environmental and social impacts arising from procurement decisions;
- b. reducing waste to landfill, saving water and reducing greenhouse gas emissions;
- c. reducing air and water pollution;
- d. reducing consumption of both natural and processed resources;
- e. promoting health, safety and equality in the community;
- f. influencing purchasing decisions to support issues such as recognising equality and diversity, increasing employment and skills, and developing local communities and their physical infrastructure; and
- g. improving social inclusion and cohesion through creating employment and business opportunities for disadvantaged or marginalised groups.

#### 4. References

PO4402 [Delegations of Authority](#)

PR4413 [Delegations of Authority](#)

PO4202 [ActewAGL Code of Conduct](#)

PO4930 [Risk Management and Legal Compliance Policy](#)

PO4905 [Records Management](#)

PR4432 [Acceptance of Gifts, Benefits or Hospitality](#)

PR4655 [Reporting Fraud and Wrongful Behaviour](#)

[Procurement Management Manual - Overview](#)

[Procurement Management Manual – Phase 1 Business Requirements](#)

[Procurement Management Manual – Phase 2 Sourcing & Selection](#)

[Procurement Management Manual – Phase 3 Contract Management](#)

[Procurement Management Manual – Phase 4 Purchasing](#)

## 5. Definitions and abbreviations

Term	Definition
Consultant/Contractor	Anyone engaged in accordance with PO5004 Engagement of Agency Labour Hirees, Consultants and Professional Services Contractors.
Employees	Includes casual, fixed term and ongoing ActewAGL employees.
Executives	Senior managers reporting directly to the CEO.
Governance	Processes, by which organisations are directed, controlled and held to account. It encompasses authority, accountability, stewardship, leadership, direction and control exercised in the organisation <sup>3</sup> .
PMM	Procurement Management Manual

## 6. Document control

Version	Author/editor	Description of changes	Approved by/date
1	██████████	Update for contracts and procurement review	Executive 31/05/2012
2	██████████	Placed in new template	
3	██████████	Update due to implementation of the Procurement Management Manuals.	4/11/2014
3.1	██████████	Updated to include reference to 9.2 P13	05/12/2014
6	██████████	Improved document flow and updated reference material numbers.	

<sup>3</sup> ActewAGL Corporate Policy 5.0 Corporate Governance