



*This is a summarised version of 3i's full policy*

## Expenditure and Procurement policy

## Budget and expenditure

The annual budget process reflects the resourcing requirements to deliver the strategic plan and is reviewed and approved by the Executive Committee, prior to Board approval before the start of each financial year.

3i employees shall only incur Group expenditure on items where an approved budget exists. Budget holders may only approve expenditure from their budgets within the limits of the expenditure authority delegated to them.

**All expenditure over £100k must be specifically approved by the CEO even if the amount is included in the budget for the year.** All non-deal related costs over £100k must additionally be reviewed by the central Procurement team at the earliest opportunity. Deal related costs for this purpose are fees relating directly to the acquisition or disposal of an investment that are otherwise approved by Investment Committee.

The £100k limit is a gross limit, and approval should be sought when spend of over £100k is expected on behalf of 3i alone, 3i and its associated funds, and inclusive of appropriate taxes. Approval should also be sought where individual invoices for a connected piece of work do not exceed £100k but the cumulative total is expected to.

Each budget holder is responsible for monitoring and controlling expenditure against their respective budget. Operating expense performance, including actual spend compared to the approved budget, will be reported by cost centre in the monthly operating expenses report. A summary of operating expenses will also be reviewed by Executive Committee and the Board in the monthly Board report.

## Procurement

Group Procurement must be engaged at the earliest opportunity to advise on all aspects of the procurement process where the total commitment value with a supplier is likely to equal or exceed £100,000 over time (excluding deal fees). Commitments for less than this level must be referred to Group Procurement, if, in the judgement of the budget holder, they may lead to significant departmental, business or reputational risk and/or involve a relevant outsourcing arrangement, which can have regulatory implications. A relevant outsourcing arrangement is one where a regulated company in the 3i group (such as 3i Investments plc) relies on a third party to perform services on 3i's behalf that are regulated activities.

### DUE DILIGENCE ON PROPOSED SUPPLIERS

An appropriate level of due diligence must be conducted on prospective suppliers before they are appointed and/or expenditure is committed. Group Procurement will advise on what due diligence is required on a case by case basis. However as a general rule:

- Integrity Due Diligence must be conducted on proposed suppliers of goods or services to 3i who are considered high risk for bribery or corruption. 3i staff should refer to the Integrity due diligence procedure to determine whether their proposed supplier falls within this category and follow the procedure accordingly.
- Due diligence on information/data security (including cyber security) must be conducted if confidential 3i data e.g. key corporate data, 3i employee or customer data etc. will be processed or held by the supplier. Where 3i engages third party suppliers to whom information about individuals ("data subjects") is transferred, those suppliers are considered 'processors' for the purpose of the General Data Protection Regulation ("GDPR"). We are liable for their compliance with the GDPR and must only appoint such processors who can provide 'sufficient guarantees' that the requirements of the GDPR will be met and the rights of data subjects protected.

- Due diligence on human rights policies, equal opportunity policies and employment policies must be conducted if Group Procurement deems the supplier or potential supplier to be at risk in these, with particular focus on the providers' commitments on the use of child or forced labour in their operations or those of their supply chain.
- If the supplier is required to produce a slavery and human trafficking statement under section 54 of the UK's Modern Slavery Act 2015 (this applies to suppliers that conduct business in the UK and have an annual worldwide turnover of >£36m including subsidiaries) they must provide evidence of it to 3i.
- In addition to the above, a thorough evaluation of business resilience must be undertaken that will include financial performance of the supplier, insurance cover, evidence of accreditation(s), evidence of contingency planning and 3rd party dependencies.

## MANAGING EXISTING SUPPLIERS

All contracts with a future or remaining commitment of £100,000 or more must be reviewed annually by Group Procurement or the 3i relationship manager.

A Supplier Relationship Management (SRM) framework including an SRM toolkit has been developed to provide a consistent approach to how 3i manages and evaluates relationships with its suppliers. The SRM tool should be used to tier suppliers which in turn will define the relationship activities required to deliver best value for 3i and manage risk. These activities include:

- a detailed consideration of ongoing business resilience;
- performance against service levels and KPIs;
- an annual supplier self-assessment;
- policies or commitments with regards to workplace, environment, marketplace and community policies; and
- completion of an annual outsourcing questionnaire confirming compliance with the FCA's SYSC rules (Ch.8) on outsourcing for key outsourcing relationships, to be submitted to Group Compliance

The SRM tool provides a consistent and comprehensive framework for managing third party supplier relationships, a clear audit trail of assessment and relationship management work and a consolidated overview of supplier risks.

## CONTRACTS

All contract documents for commitments that are equal to or in excess of £100,000 must be referred to Group Procurement. Contracts for less than this level must be referred to Group Procurement, if, in the judgement of the budget holder, they may lead to significant departmental, business or reputational risk, or if the contract involves a relevant outsourcing arrangement, which can have regulatory implications. A relevant outsourcing arrangement is one where a regulated company in the 3i group (such as 3i Investments plc) relies on a third party to perform services on 3i's behalf that are regulated activities. Group Procurement will liaise with Group Compliance as necessary, and obtain legal advice as necessary or ask the budget holder to obtain legal advice if that is more appropriate.

Final executed contracts for amounts in excess of £100,000 should be sent to Group Procurement so that a central register of all major contracts can be maintained. The originals of all contracts below £100,000 should be retained by budget holders.

## EXPENDITURE WITH ERNST & YOUNG LLP (E&Y)

The Chairman of the Audit and Compliance Committee is required to approve expenditure for work allocated to E&Y where:

- The work is not investment-related and the fee exceeds a pre-determined amount; or
- The work is considered internal audit work; or
- The work requires E&Y to audit their own work; or
- The work requires E&Y to make decisions or act as an advocate on behalf of 3i.

Under the EU's Audit rules and the Financial Reporting Council's revised ethical guidelines, effective for 3i's financial year end commencing 1 April 2017, E&Y are prohibited from carrying out particular activities to 3i or its subsidiary companies. E&Y must confirm that the service will not conflict with their role as Group auditor before any work is accepted.

In addition, E&Y can only generate fees from non-audit services provided to 3i Group up to 70% of the audit fee per year.

Fees that are related to the investment portfolio, such as due diligence, will continue to be approved by the Investment Committee. However fee approvals must be given in the context of the annual cap to E&Y.

- Abort costs are payable by 3i Investments plc. Fees paid on successful acquisitions are paid by the portfolio company and are therefore out of scope of this policy.
- The Chair of the Audit Committee is informed where fees are expected to be in excess of a pre-determined amount.

## EXPENDITURE WITH DELOITTE LLP (DELOITTE)

From 1 April 2017, Deloitte will assume responsibility for the audit of 3i Infrastructure plc ("3iN"). This impacts contingent fees payable to Deloitte by 3i.

**Contingent fees** – Deloitte provide due diligence services (ie tax) to 3i where the amount payable is dependent on the outcome of the transaction. Deloitte are able to provide this service to 3i as long as the work on the transaction would not subsequently be reviewed as part of their audit work on 3iN.

Deloitte must confirm that the work will not impact their own audit work on 3iN before any due diligence engagement is accepted.

In addition, no Deloitte staff may be seconded to 3i Group.