



National Audit Office

# Addressing the environmental impacts of government procurement

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL | HC 420 Session 2008-2009 | 29 April 2009

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# Addressing the environmental impacts of government procurement

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***Tim Burr***  
**Comptroller and Auditor General**  
**National Audit Office**

**21 April 2009**

The National Audit Office  
study team consisted of:

Martine Combe, Michael Donaldson,  
James Gourlay, Phil Hyde and Matt Ray,  
under the direction of Jill Goldsmith

This report can be found on the National Audit  
Office web site at [www.nao.org.uk](http://www.nao.org.uk)

**For further information about the  
National Audit Office please contact:**

National Audit Office  
Press Office  
157-197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP

Tel: 020 7798 7400

Email: [enquiries@nao.gsi.gov.uk](mailto:enquiries@nao.gsi.gov.uk)

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# SUMMARY

## Background

**1** Government departments and their agencies, excluding the health sector, spent £54.7 billion in 2007-08 on the procurement of non-capital goods and services. The government is committed to sustainable procurement, which means only purchasing goods and services which are really needed, and buying items whose production, use and disposal minimise negative impacts on the environment and society. Procurement is an important tool for helping the Government meet its targets for operating sustainably across the Government estate: for example, by minimising its use of energy and CO<sub>2</sub> emissions, its water consumption and waste levels and increasing its recycling rates. Sustainable procurement also offers the Government the opportunity to lead by example and to use its purchasing power to influence suppliers and the products they develop and

design, for the wider benefit of others in the economy and the UK environment. In particular, minimising the environmental impact of procurement practices is one of the tools for mitigating climate change.

**2** The Department for Environment, Food and Rural Affairs (Defra) is responsible for developing government policy on sustainable development, sustainable products, and the sustainability policy underpinning sustainable procurement commitments. In March 2008 the Government created the post of a Chief Sustainability Officer, supported by a Centre of Expertise in Sustainable Procurement at the Office of Government Commerce (OGC). The OGC is responsible for leading departments in delivering on government's sustainable procurement commitments. The Sustainable Development Commission, government's independent watchdog in this field, reports annually on progress, including sustainable procurement.



**3** This report examines the Government's progress in addressing the environmental impacts of procurement decisions. It examines the OGC's role in supporting sustainable procurement in central government and the procurement activity of four of the biggest government procurers: the Department for Work and Pensions, HM Revenue and Customs, Ministry of Defence, and the Ministry of Justice. It also examines the work of the NHS Purchasing and Supply Agency (NHS PASA) whose responsibilities include negotiating framework agreements which NHS trusts may use. The report focuses on four common routine procurement categories that have significant environmental impact: energy, information and communications technology, office supplies and services, and vehicle fleets.

## Key findings

### On progress against sustainable procurement targets and environmental standards

**4** In its 2005 Sustainable Development Strategy, the Government set a goal to be recognised as amongst the leaders in sustainable procurement across EU member states by 2009. The Government has not defined how it will assess whether this goal has been achieved, and measures for international benchmarking of sustainable procurement are still in development by the EU. In 2006 the Government established a Sustainable Procurement Task Force, which developed a good practice tool, the 'Flexible Framework', to assess progress in sustainable procurement. The Task Force suggested that for the UK to be recognised as a leader by 2009, all public sector organisations would need to be practising sustainable procurement across their business (Level 3 of the Framework) and to be leading in one of the five themes covered by the Framework (the Framework is set out in Appendix 2). Of 22 government departments<sup>1</sup> that reported their progress for 2007-08, only NHS PASA claimed to be at this level by that date and eight of the respondents reported they had only laid the foundations for sustainable procurement, Level 1 performance, in all five areas of activity. Our audit work broadly corroborated the self assessments of the five departments we reviewed, with NHS PASA already at the required level over a year early and the Department for Work and Pensions close to it, but the other three departments some way from having embedded sustainable procurement into their working practices.

**5** In 2003, the Government set minimum environmental standards for the procurement of a variety of goods – the 'Quick Wins'. These are mandatory within central government departments and agencies, though not elsewhere in the public sector. For 2007-08, 15 of 21 central departments reported to the Sustainable Development Commission that they were complying with these standards. However, six of those 15 reported that they did not have systems to measure compliance, which would confirm whether they have always purchased products which meet minimum environmental standards. In the five departments we examined, we found that only NHS PASA had undertaken an audit of compliance with Quick Wins (for procurement within the Department of Health, as Quick Wins do not apply to the NHS). The other departments did not have systems to measure their compliance with Quick Wins, and not all staff were committed to buying Quick Wins in all cases.

**6** Leadership and governance of sustainable procurement has recently improved in the five departments. They had established corporate commitments, although their action plans varied widely in level of detail and practicality, and they faced challenges in making sure their staff understood and adopted the strategies and action plans established. Staff at the Department for Work and Pensions, which had a strong communications programme, displayed the greatest understanding of their sustainability policy.

**7** The Department for Work and Pensions and NHS PASA routinely conduct risk assessments of procurement activity to identify sustainability impacts. The other departments we reviewed did not, although the Ministry of Defence had undertaken some initial work. There were examples of effective demand management in most departments, though some staff considered demand management an operational matter and departments were not systematically addressing it within their procurement action plans. Departments had started to specify sustainability requirements in tenders, including provision of Quick Wins, but most did not have arrangements in place to ensure that all staff followed best practice. Most of the contracts we reviewed were signed some time ago and very few referred to sustainability requirements. But departments had, in some cases, promoted sustainability by using break clauses, amending service level agreements, or making supplementary agreements. There was very limited use of key performance indicators to monitor the sustainability performance of suppliers.

<sup>1</sup> The 22 departments include 17 Departments of State, plus the Export Credits Guarantee Department, Food Standards Agency, Forestry Commission, NHS Purchasing and Supply Agency and Office of National Statistics.

**8** There are positive examples of the five departments working with suppliers to achieve sustainable outcomes, but there is more that they could do to analyse and engage their supply chain. Only the Department for Work and Pensions had assessed risks to prioritise supplier activity, although the Ministry of Defence had carried out an initial risk assessment. The Ministry of Defence had also encouraged its key suppliers to sign a Sustainable Procurement Charter. The Ministry of Justice and NHS PASA were promoting sustainability by encouraging potential suppliers to develop innovative products by undertaking to purchase significant numbers once the products have been launched. The OGC is developing a strategy to identify how it can give more support to departments in engaging suppliers.

**9** The Department for Work and Pensions and NHS PASA had structured training programmes to embed sustainability across their procurement businesses, and NHS PASA had built sustainable outcomes into its staff appraisal processes. The other departments we visited did not give staff incentives for addressing sustainability, although it will be a part of the Department for Work and Pensions' staff competency framework from April 2009, and the Ministry of Defence is also considering options to improve incentives. Where good practice initiatives were taking place, they were often due to the efforts of individual champions who were committed to sustainable procurement. Some procurement staff, however, considered that progress was held back by a range of barriers, including budgeting rules, perceived restrictions from EU legislation, and uncertainty over how to determine whether purchasing products with lower environmental impact represents value for money.

### On securing value for money while addressing the environmental impacts of procurement

**10** Government guidance requires procurement decisions to be based on their value for money across their product life and their costs and benefits to society, environment and economy. The Quick Wins, which set minimum environmental standards for selected products, have been based on average standards within the market and not on whole-life environmental impact analyses. Defra has now undertaken cost-benefit analyses of ten priority categories of product, which will enable it to update the relevant Quick Wins. For procurement not covered by minimum standards the departments had applied only some elements of these whole-life cost-benefit techniques. Procurement staff remain confused about how to apply the techniques and government guidance does not establish when and how to use them.

**11** The 2006 Sustainable Procurement Task Force identified ten types of product or service which the public sector should prioritise for sustainable procurement action, based on an assessment of environmental or social impact, the potential of government procurement to influence the market and the scope for procurers to do better. Government has prioritised these areas, and some departments have also identified priorities relevant for their particular businesses, but more departments could benefit from a risk based approach to ensure their effort is targeted most effectively.

**12** The OGC has established collaborative programmes, open to central government and the wider public sector, covering five procurement categories with potential environmental impact – energy, vehicle fleet, ICT, office solutions, and travel. These programmes were established to achieve financial savings, but over time have devoted more attention to sustainable outcomes. Collaborative procurement of energy and vehicle fleets has delivered financial savings and reductions in carbon emissions. Initiatives were taking place in the other collaborative programmes, though they were less advanced. There is scope for more departments to use these arrangements, and for collaborative programmes to be extended to other procurement categories.

**13** The Centre of Expertise in Sustainable Procurement at the OGC and collaborative programme teams have a role to play in sharing learning opportunities and examples of good practice with commercial directorates within departments. Our audit identified scope for sharing good practice across all areas of the Flexible Framework and the four product categories covered in detail by this audit, including: producing action plans; using risk assessments to prioritise action; engaging with suppliers; working around existing contracts; staff training and appraisal, and specific policies on the use of new technology.

### Conclusion on value for money

**14** Sustainability is recognised by the Government as a core component of good procurement, and in 2008 significant steps were taken by the OGC and departments to improve their leadership and governance on the issue. Some departments are on course to be practising sustainable procurement across their business by the end of 2009, the Government's target year. Progress has been made and there are initiatives which have reduced environmental impact and saved money.

**15** There is, however, scope for improvement across Whitehall and in the various product categories. Most departments are not routinely complying with minimum environmental standards, and have made limited progress in building environmental considerations consistently into procurement processes, engaging suppliers, and giving their staff appropriate skills and incentives.

**16** To achieve value for money, procurement decisions need to be based on a thorough understanding of costs and benefits and environmental impacts. Departments are not routinely identifying and quantifying environmental impacts, and opportunities for reducing them. Defra has now started to obtain better information on costs and benefits to incorporate in its setting of environmental standards for products purchased by government.

## Recommendations

We make the following recommendations:

- i Government's primary goal – to be recognised as a leader in the EU by 2009 – has not led to quantifiable targets for departments. While the Flexible Framework provides a good basis for assessing progress towards best practice, results are based entirely on self-assessment, there is no check for consistency, and the Framework does not measure outcomes.**
  - The OGC and Defra should work with other departments to put in place a new goal after 2009, covering what progress departments are expected to make by when in embedding best sustainable procurement practice and achieving sustainable outcomes.
  - To assess progress towards best practice in a consistent fashion, the OGC should set out specific measures, such as are provided in the Flexible Framework, which could, for example, include: the proportion of procurement staff given sustainability training within a certain time period; the proportion of contracts in place upon which a sustainability risk assessment has been carried out; the proportion of procurement spend covered by sustainability initiatives with existing suppliers; and the number of high risk supply chains for which sustainability audits have been carried out.
  - The OGC should also examine what indicators of sustainable outcomes resulting from procurement decisions could be gathered across government (which could include quantifiable reductions in environmental impact, increases
- ii Staff are uncertain as to how and when to evaluate the benefits and costs of sustainability within procurement decisions. Current Quick Wins standards have not historically been based on analysis of benefits and costs because they were set at market average levels. There is also uncertainty over the extent to which EU legislation allows the inclusion of sustainability within procurement specification. Some procurers mistakenly believe that they are legally prevented from pursuing more sustainable practices.**
  - Quick Wins standards adopted by government should reflect robust analyses of costs and benefits carried out by Defra or others. Results of central analysis of value for money of standards should be made available to departments to help them decide whether to go beyond minimum standards.
  - For items not covered by Quick Wins, detailed and robust analyses of costs and benefits and environmental impacts are more appropriate for major procurement projects where there are significant environmental impacts. The OGC should establish criteria for determining when such analyses are required, and should identify where such analyses have been used and disseminate the methodologies and findings to departments.
  - The OGC should make available to departments expert advice on the obligations placed upon procurers by EU legislation, in cases where departments request it, and should share the lessons learned and emerging precedent.
- iii Not all departments are abiding by mandatory Quick Wins standards and few have systems in place to adequately monitor compliance.**
  - All departments should conduct regular audits to check for compliance with minimum standards and take corrective action. Departments should identify where frameworks or contracts are non-compliant, and commercial teams should report to senior management what will be done to work around or replace them. Departments should develop robust management information systems to enable monitoring of performance against standards and targets.

- iv **Greater collaboration in government procurement can drive more sustainable outcomes and achieve financial savings, but has not been taken up fully by all departments.**
  - The OGC should collect evidence on the extent to which departments use the collaborative frameworks that cover sustainable products and services; and where departments would be able to reduce the environmental impact of their procurement by taking a collaborative approach, it should challenge them to engage more.
- v **Departments have begun some positive initiatives with suppliers to embed sustainability in their supply chain, but this work could go much further.**
  - Departments should prioritise actions based on risk assessments of social or environmental impact, materiality of spend, potential damage to reputation, and the scope to make improvement. Departments should work with key suppliers to agree a clear timetable for action which mitigates those risks. For example, sustainability requirements could be inserted into contracts where this is relevant to the delivery of the goods and services being procured. Where sustainability considerations are not relevant to the performance of the contract or would alter fundamentally the nature of the contract, departments should work with suppliers on a voluntary basis. Results should be reported to senior management as evidence of progress against suppliers' action plans.
  - As part of its strategy for supporting departments' engagement with suppliers on sustainability, the OGC should develop a model which sets out what action will be taken at government-wide level (with businesses that supply many departments) and what are the minimum requirements for supplier engagement within departments.
- vi **Departments are making progress at different rates, both in terms of procurement categories and underlying processes. There is scope for government to share good practice across all areas of the Flexible Framework to help all departments progress together.**
  - The work programme of the OGC's Centre of Expertise in Sustainable Procurement should include sharing good practice in areas where we have identified different rates of progress. These include: producing action plans; using risk assessments to prioritise action; working around existing contracts; and staff training and performance.

# PART ONE

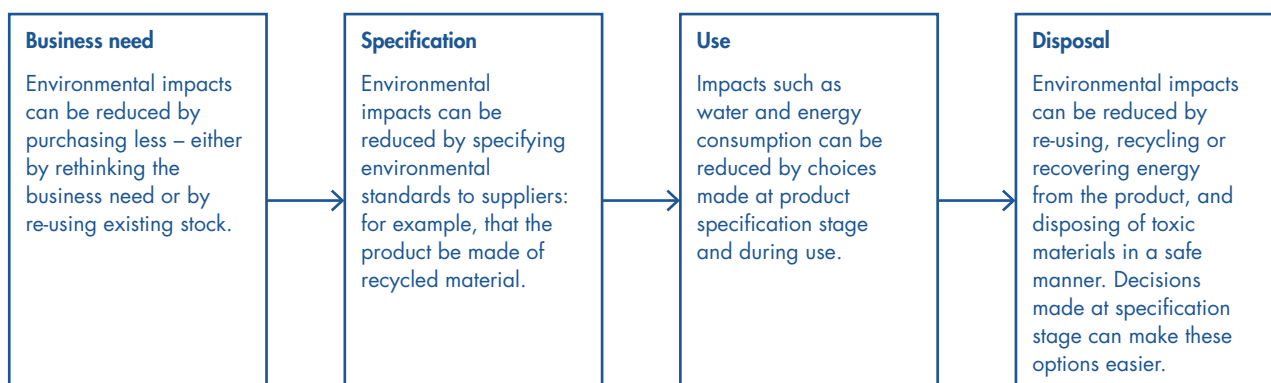
## Sustainable procurement in government

### The importance of sustainable procurement in government

**1.1** In 2007-08 government departments and their agencies spent £54.7 billion on the procurement of non-capital goods and services, and the Department of Health and NHS spent a further £51.7 billion<sup>2</sup> (capital expenditure, which is not covered in this report, was £21.1 billion). The Government has identified procurement as an important opportunity to further its sustainable development objectives, in addition to traditional approaches such as regulation, tax and subsidy.<sup>3</sup> The government expects all public bodies to adopt sustainable procurement, which has been defined as meeting 'their needs for goods, services, works and utilities in a way that achieves value for money on a whole-life basis to generate benefits to the organisation, and to society and the economy, whilst minimising damage to the environment.'<sup>4</sup>

**1.2** The government intends that sustainable procurement will address social, economic and environmental objectives. Social and economic objectives can be addressed by, for example, undertaking procurements that will create jobs and wealth in regeneration areas, promoting contract opportunities for Small and Medium Enterprises, Ethnic Minority Businesses and the Third Sector, and specifying services from contractors so as to promote adult basic skills, disability, race and gender equality.<sup>5</sup> Environmental objectives focus on using resources more efficiently and minimising impacts; **Figure 1** shows how they can be addressed in procurement decisions. Within the cycle of products, sustainability considerations should cover: design; non-renewable material use; manufacture and production methods; logistics; service delivery; use; operation; maintenance; reuse; recycling options; disposal; and suppliers' capabilities to address these

#### 1 How procuring sustainably can reduce environmental impacts



Source: National Audit Office

- <sup>2</sup> HM Treasury. *Public Expenditure Statistical Analyses 2008*. The figures are estimated outturn for 2007-08 and include purchases of minor pieces of equipment and IT systems that are not treated as capital, outsourced services such as cleaning, consultancy services, and purchases of military equipment. Capital expenditure is excluded because this report does not cover construction projects.
- <sup>3</sup> HM Government, *Securing the Future*, March 2005.
- <sup>4</sup> Sustainable Procurement Task Force, *Procuring the Future*, June 2006.
- <sup>5</sup> OGC, *Sustainable procurement and procurement efficiency implementation*, February 2005.

consequences throughout the supply chain.<sup>6</sup> Beyond that cycle, sustainable procurement can stimulate wider markets to innovate and to produce more cost effective, competitive and sustainable products and services for the public sector, business and consumers. It is also a way of setting an example for business and the public, and demonstrating that government is serious about sustainable development.<sup>7</sup>

## The development of sustainable procurement in government

**1.3** The Government has, for many years, issued guidance for buyers on how to include environmental and social issues in procurement decision making, updating and expanding it in 1999, 2003 and more recently. In 2001 a cross-Whitehall Sustainable Procurement Group was established to provide practical help for buyers and address cross-departmental issues. The group reported to Ministers in October 2003 that government had not yet put sustainable development at the heart of its business. Its recommendations led to the establishment of minimum environmental standards for procurement known as 'Quick Wins'.

**1.4** In its 2005 sustainable development strategy, the Government established a goal **to be recognised as amongst the leaders in sustainable procurement across EU member states by 2009**. The Government established a business-led Sustainable Procurement Task Force to advise it on the actions it needed to take to achieve its goal. In June 2006 the Task Force reported that although sustainable procurement should be a crucial aspect of good procurement practice, there was a lack of leadership in government. The Task Force developed a 'Flexible Framework' to help organisations identify how they could make and measure progress (detailed in Appendix 2). Government responded in March 2007 with a **Sustainable Procurement Action Plan**, in which it accepted most of the Task Force's recommendations.

**1.5** A number of commentators have identified poor progress and barriers to sustainable procurement. The NAO reported in September 2005 that in many government departments a gap existed between high level commitments and operational practice.<sup>8</sup> In March 2005 and March 2006 the Environmental Audit Committee identified a lack of leadership and a misconception that sustainability was not compatible with the emphasis being placed on financial efficiency following

Sir Peter Gershon's 2004 review.<sup>9</sup> The Sustainable Development Commission, the Government's independent watchdog on sustainable development, also identified slow progress in its annual Sustainable Development in Government reports for 2006 and 2007. In August 2008 the Government responded with a detailed **Delivery Plan** for improving the governance and effectiveness of its sustainable procurement drive including operations, and established a new unit at the centre of government to support delivery. Progress against the Delivery Plan was reported in December 2008, and the Government intends to continue to report progress every six months. Appendix 3 outlines these key developments since 2001.

**1.6** The Delivery Plan was accompanied by revised governance arrangements (**Figure 2**):

- Delivery is overseen by the **Commercial Delivery Board of the OGC and the Cabinet Secretary**, supported by boards comprised of officials from the OGC and central departments.
- In March 2008 the post of a **Chief Sustainability Officer** was created, with responsibility for leading on the sustainable procurement commitments that departments must deliver. The Chief Sustainability Officer works within OGC's wider role to transform government procurement by: setting out the procurement standards departments need to meet, monitoring progress, and enforcing remedial action; making sure procurement staff are suitably skilled and incentivised; and demanding collaboration from departments when buying common goods and services.
- The Chief Sustainability Officer is supported by a **Centre of Expertise in Sustainable Procurement within OGC**, whose objectives are to:
  - provide strong central coordination of performance management, principally through the development of delivery plans with milestones and trajectories to assure delivery against commitments made in the Sustainable Procurement Action Plan and framework for Sustainable Operations on the Government Estate (set out in more detail in Part 2), and to monitor implementation of these plans in departments;
  - develop a programme of engagement with the Government's suppliers to promote sustainable operations within the Government's supply chain;

6 Sustainable Procurement Task Force, *Procuring the Future*, June 2006.

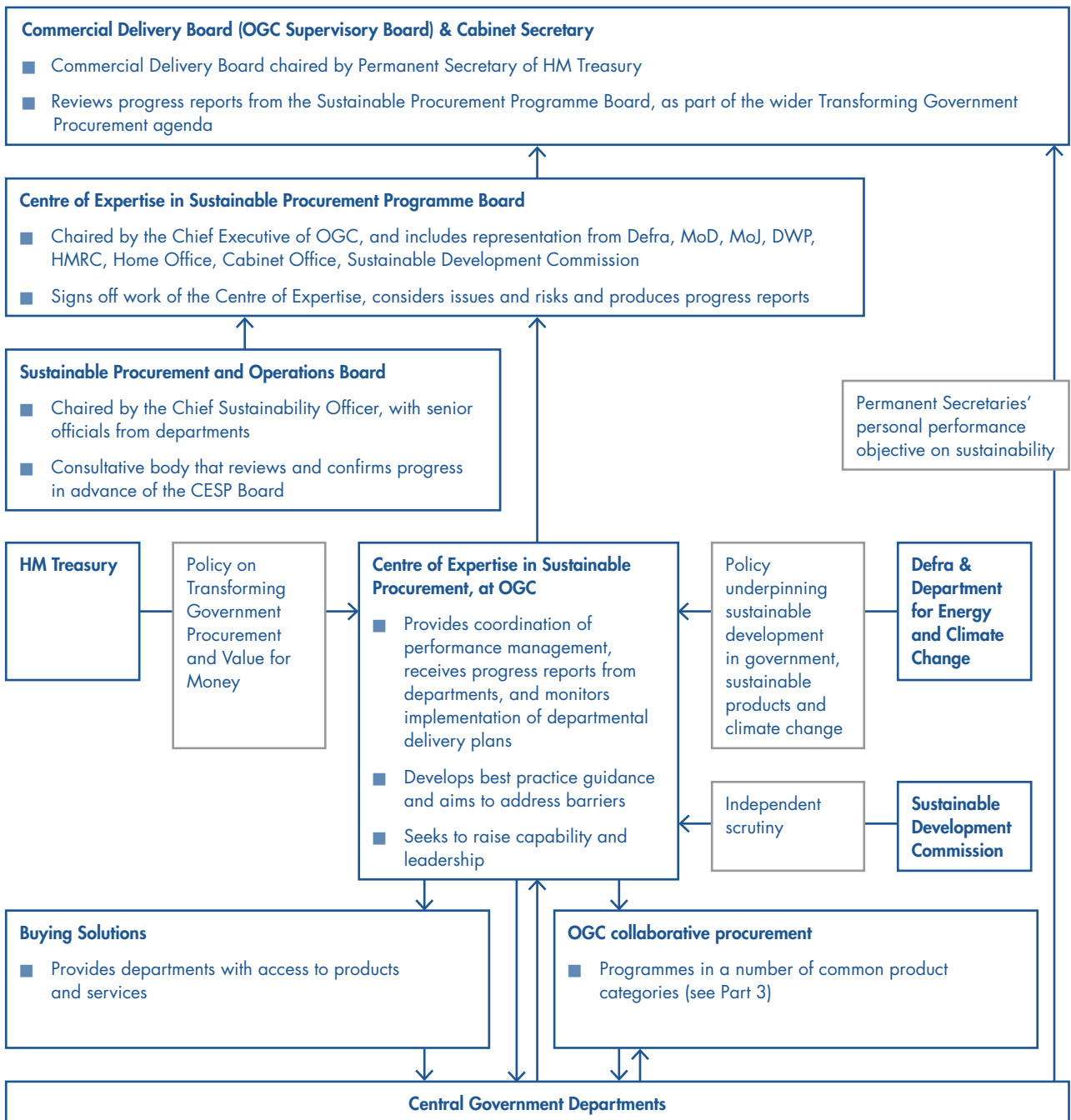
7 HM Government, *Securing the Future*, March 2005.

8 National Audit Office, *Sustainable Procurement in Central Government*, September 2005.

9 Environmental Audit Committee, *Sustainable Public Procurement*, March 2005, *Sustainable Procurement: the Way Forward*, March 2006.

- develop best practice guidance to assist departments in improving performance on sustainable procurement and sustainable operations;
  - ensure the removal of barriers that prevent further progress in government; and
  - raise government’s capability and leadership in sustainable procurement and operations.
- The **Department for Environment, Food and Rural Affairs (Defra)** is responsible for developing government policy on sustainable development in government and sustainable products. Defra is responsible for the sustainability policy underpinning government’s commitments, with input from procurement experts in OGC and other relevant organisations that represent the wider public sector.

**2** Governance of sustainable procurement and operations since 2008



Source: National Audit Office

- OGC’s executive agency, **Buying Solutions**, provides public sector organisations with access to products and services through a range of framework agreements and managed services. Its website for public procurers highlights sustainability considerations.
- Within **central government departments**, from 2008-09 all Permanent Secretaries’ responsibility for improving sustainability has been highlighted in their personal objectives.
- The **Sustainable Development Commission** provides independent scrutiny of the Government’s progress against targets for sustainable procurement and operations.

## The purpose and scope of this report

**1.7** This report examines the Government’s progress in addressing the environmental impacts of government procurement in an economical, efficient and effective way. We have assessed:

- how far five departments have progressed against government targets for sustainable procurement and environmental standards (Part 2); and
- whether there is scope for securing better value for money while addressing the environmental impacts of government procurement (Part 3).

**1.8** The report focuses mainly on four common categories of routine procurement:

- **Energy**, which covers the type of energy purchased by departments, but not measures installed on their estates to improve energy efficiency.
- **Information and communications technology (ICT)**, which includes hardware, such as desktop PCs, but also telecommunications equipment and software.
- **Office supplies and services**, which includes paper and stationery, and also postal and courier services.
- **Vehicle fleets**, covering vehicles for staff travel, including cars owned by staff, and vehicles for operational uses (but not specialist vehicles like ambulances or military transport). We did not review departmental travel policies more widely.

These procurement categories were chosen to facilitate easy comparison between departments and because they cause significant environmental impacts (**Figure 3**). Major projects’ procurement was excluded from this report as it was covered by a previous NAO report on sustainable construction in 2007.<sup>10</sup>

**1.9** The report focuses on five parts of government, chosen because they represent between them a significant proportion of expenditure. They are the **Department for Work and Pensions (DWP)**, **HM Revenue and Customs (HMRC)**, **Ministry of Defence (MoD)**, **Ministry of Justice (MoJ)**, and **health (primarily covering the remit of NHS Purchasing and Supply Agency (NHS PASA) and excluding**

### 3 Environmental impacts in the categories of procurement that we examined

	Climate change	Resource depletion	Adverse impacts on air, earth, water and ecosystems
<b>Energy</b>	Greenhouse gas emissions from the burning of fossil fuels to generate heat or electricity.	Depletion of fossil fuel resources.	Acidification of oceans via absorption of carbon dioxide, leading to impacts on marine ecosystems.
<b>ICT</b>	Energy consumption during manufacture, use and disposal.	Extraction and use of finite raw materials such as copper, for the manufacturing of products.	Disposal of hazardous materials including heavy metals.
<b>Office supplies and services</b>	Energy consumption during manufacture, use and disposal.	Extraction and use of finite raw materials for the manufacturing of products.	Contamination of water bodies by chemicals used in the paper bleaching process. Hazardous chemicals used in the production of plastics. Use of heavy metals and solvents in pens and glues.
<b>Vehicle Fleets</b>	Emissions of carbon dioxide.	Consumption of fossil fuels.	Air emissions, such as particulate matter and nitrogen oxide. Lead and acid contamination in the disposal of batteries.

Source: National Audit Office

10 National Audit Office, *Building for the future: Sustainable construction and refurbishment on the Government estate*, April 2007.



the smaller procurement budget of the Department of Health itself). Although NHS PASA is an executive agency, for ease of reference in this report we refer to all five organisations as departments. Together they account for £5.5 billion of government procurement expenditure (Figure 4). They also cause a significant proportion of central government's environmental impact: in 2007-08 DWP, HMRC, MoD and MoJ accounted for 2.4 out of the 2.6 million tonnes of carbon dioxide (CO<sub>2</sub>) emitted by central government offices, consumed 36 out of the 39 million cubic metres (m<sup>3</sup>) of water used by central government, and produced 409,000 out of 447,000 tonnes of waste from central government (Figure 5). Of these departments, MoD causes by far the largest impact.

The environmental impacts of the NHS are even greater, and NHS PASA is in a position to help reduce that impact through its leading role in NHS procurement.

**1.10** Our fieldwork was conducted in Summer and Autumn 2008. We reviewed departments' self-assessment of their performance for 2007-08, and reviewed their policies and action plans. We mapped out where sustainability is considered in departments' procurement processes and analysed a sample of contract documents within the four selected product categories. We also reviewed the work that OGC and Defra are doing to encourage better procurement within departments. Our methodology is set out in more detail at Appendix 1.

#### 4 Departmental expenditure in 2007-08 on energy, ICT, office supplies and fleet<sup>1</sup>

	Energy £m	ICT £m	Office supplies and services £m	Vehicle fleet £m	Total £m
DWP	32	991	110	9	1,142
HMRC	33	757	119	18	927
MoD	306	1,855	17	100	2,278
MoJ	69	329	53	7	458
NHS PASA <sup>2</sup>	362	97	50	164	673
<b>Total</b>	<b>802</b>	<b>4,029</b>	<b>349</b>	<b>298</b>	<b>5,478</b>

Source: Estimates by departmental procurement teams

#### NOTES

- Expenditure figures may not be directly comparable because departments define the categories in different ways.
- Figures are for NHS spending under contractual frameworks managed by NHS PASA and NHS Supply Chain, the private sector organisation which runs much of the NHS's logistics operations. Energy, ICT and vehicle fleet are managed by NHS PASA. Office supplies and services is managed by NHS Supply chain.

#### 5 Environmental impacts of central departments in 2007-08

	Carbon emissions <sup>1</sup> from offices Thousand tonnes CO <sub>2</sub>	Carbon emissions <sup>1</sup> from vehicles Thousand tonnes CO <sub>2</sub>	Water consumption Thousand m <sup>3</sup>	Waste arisings Thousand tonnes	Percentage of waste arisings that are recycled
DWP	217	20	952	21	64
HMRC	184	22	758	39	36
MoD	1,896	44	25,900	278	34
MoJ	144	10	8,830	71	22
Other departments	202	53	3,043	38	–
Total central government	2,643	149	39,483	447	35
NHS	4,140 <sup>2</sup>	740 <sup>2</sup>	50,000	600	Not available

Source: Sustainable Development Commission (SOGE data, NHS emissions modelling, NHS Corporate Citizen website)

#### NOTES

- For comparison, total UK CO<sub>2</sub> emissions were 544 million tonnes in 2007.
- Carbon data for the NHS is for 2004.

# PART TWO

## Progress against sustainable procurement targets and environmental standards

### Progress against the Government's goal

**2.1** The Government has not defined how it will assess whether it has achieved its goal to be recognised as amongst the leaders in sustainable procurement across European Union member states by 2009. It has not compared its progress with other European Union members, although a European Union-wide study in 2006 named the UK among seven leading nations (alongside Austria, Denmark, Finland, Germany, Netherlands and Sweden), on the basis of a survey of public sector procurement staff and an analysis of the use of environmental criteria in tenders.<sup>11</sup> The study suggested that other European Union nations were some way behind. In another European Union-wide study in 2008, the UK was ranked highest when measured on the value of products purchased that meet environmental criteria, as a proportion of the total value of procurement. This study was also based on a survey of public sector procurement staff.<sup>12</sup>

**2.2** Sustainable Procurement can be measured in a number of ways, and other EU leading nations have set a variety of primary targets. The Swedish government has stated that by 2010, 80 per cent of public bodies should be issuing environmental requirements, and 90 per cent of contract requirements should be shown to be effective by audit. The Dutch Government has the ambition to have 100 per cent 'green procurement' within central Government by 2010, defined by environmental criteria for specific product groups. The EU is currently developing measures for better benchmarking of sustainable procurement, in line with its own sustainable development strategy.

**2.3** The United Kingdom does not measure procurement performance against a single quantified goal. Performance is instead measured by reference to various initiatives, including the framework for Sustainable Operations on the Government Estate and Sustainable Procurement Action Plan, Quick Wins standards, and the Sustainable Procurement Task Force's Flexible Framework. Part 2 examines progress made to-date against these initiatives.

### The Government's sustainable procurement initiatives

#### Sustainable Operations on the Government Estate and Sustainable Procurement Action Plan

**2.4** Procurement is one tool for helping the Government meet its targets for sustainable operation of the Government estate. Central government assesses the sustainability of its operations through quantifiable targets on environmental impacts, such as energy and electricity use from buildings, water consumption, waste levels and recycling rates. These targets are set out in the framework for Sustainable Operations on the Government Estate ('SOGE'). In its March 2007 Sustainable Procurement Action Plan, the Government added five commitments on sustainable procurement to the SOGE Framework. These commitments encouraged departments to apply the Flexible Framework for sustainable procurement developed by the Sustainable Procurement Task Force and confirmed the requirement for departments to adopt sustainable procurement Quick Wins (**Box A**).

11 Bouwer M, Jonk M, Berman T, Bersani R, Lusser H, Nappa V, Nissinen A, Parikka K, Szuppinger P and Viganò C, *Green Public Procurement in Europe 2006 – Conclusions and recommendations*, August 2006.

12 PricewaterhouseCoopers, Significant and Ecofys, *Collection of statistical information on Green Public Procurement in the EU: Report on data collection results*, January 2009.

## Quick Wins

**2.5** In 2003, the Government set minimum environmental standards for the procurement of a variety of goods. These were mandatory for central government, though not elsewhere in the public sector. The March 2007 Sustainable Procurement Action Plan required departments to adopt these 'Quick Win' standards in all new contracts and within 12 months to have removed from existing agreements the ability to buy any products that fell below these standards. Defra, in liaison with the OGC, has

revised, improved and expanded the number of product standards; by the end of 2008 the standards covered 46 types of product in nine priority product groups. In 2008 they updated the original standards to include voluntary best practice standards as well as the mandatory minimum standards. Most minimum standards are based on the market average for each product group, whilst best practice standards are aligned with the top 10-15 per cent of products in the market and also refer to the European Commission's voluntary green standards (**Box B**).

### BOX A

#### The framework for Sustainable Operations on the Government Estate

Government departments have reported their progress on sustainable operations since 2002. Since 2006, this reporting has been conducted under the Sustainable Operations on the Government Estate (SOGE) framework, which sets mandatory requirements for all central Government departments to reduce their operational impacts. It does not apply elsewhere in the public sector. The framework consists of:

- 14 operational performance targets, covering carbon emissions from offices and road vehicles, energy efficiency, waste, recycling, biodiversity, water consumption and renewable energy generation.
- Eight additional requirements, covering the steps that departments should take to help deliver the performance targets, and improve monitoring and reporting. They include requirements to work towards an accredited environmental management system.

The Sustainable Procurement Action Plan of March 2007 added five commitments on sustainable procurement:

- **Leadership and accountability.** Permanent secretaries are accountable for their department's overall progress and for ensuring key staff have appropriate incentives.

- **Budgeting and accounting practice.** Where responsibility for capital and revenue budgets is divided between different organisations, sponsoring departments will review budgeting arrangements and performance frameworks to resolve any barriers to choosing sustainable solutions.
- **Building capacity.** Departments are to set out the actions they will take on sustainable procurement, and to consider using the Sustainable Procurement Task Force's Flexible Framework to focus those actions.
- **Market engagement and capturing innovation.** The OGC and departments will strengthen their strategic engagement with key sectors to ensure suppliers have plans to lower their carbon footprint and that of their supply chains.
- **Raising standards.** Departments are to ensure that products which they procure meet minimum sustainability standards ("Quick Wins") and to remove from existing agreements within 12 months the ability to buy any products that fall below these standards. OGC will help departments ensure that pan-government procurements meet sustainability requirements.

### BOX B

#### The 'Quick Wins'

The 'Quick Wins' are a set of mandatory minimum environmental standards for the procurement of a variety of goods, including IT equipment, white goods, paper and construction materials. They apply to central government departments and their executive agencies. The standards relate to characteristics such as energy consumption, recycled content, and biodegradability.

The mandatory minimum standards in the procurement areas we examined are:

**Energy** – Not covered explicitly, although a previous sustainability strategy stipulated that 15 per cent of energy must come from combined heat and power sources by 2010. There are also minimum energy efficiency standards for a range of products.

**ICT** – maximum power consumption standards for PCs, workstations, monitors, portable computers. Standards on functionality and manufacture apply to printers, photocopiers and scanners.

**Office supplies and services** – copying paper must have 100 per cent recycled content; paper for printed publications must have 50 per cent recycled content; envelopes must have 100 per cent recycled content (or 60 per cent if used in automated systems).

**Vehicle Fleet** – by 2010-11 the average emissions of new cars purchased for administrative operations should be no higher than 130gCO<sub>2</sub>/km (average UK new car CO<sub>2</sub> emissions were 164.9g/km in 2007).

## The Flexible Framework

**2.6** The 'Flexible Framework' was developed by the Sustainable Procurement Task Force in 2006 as a means by which to measure progress against the Government's goal for 2009. The Flexible Framework identifies five themes for addressing and measuring progress on embedding good practice in sustainable procurement: 'policy, strategy and communications'; 'measurements and results'; 'procurement process'; 'engaging suppliers'; and 'people'. It rates each theme on a level of 1 to 5, reflecting how well sustainable procurement is embedded. The Task Force considered that for the UK to be a leader in sustainable procurement by 2009, all public sector organisations would need to be practising sustainable procurement across their business (Level 3) and to be leading (Level 5) in one of the five themes covered by the Framework. More detail is given in Appendix 2.

**2.7** The March 2007 Sustainable Procurement Action Plan encouraged departments to adopt the Flexible Framework but did not require Departments to apply it, nor mandate which level departments should achieve by when. The Action Plan stated that the OGC would take account of the Flexible Framework in developing a detailed procurement framework that sets out the standards that government procurement functions need to meet to make them capable of delivering high quality services at good value for money. The resulting 'Policy and Standards Framework' includes guidance on considering social, environmental and economic sustainability issues in procurement.

## Progress towards sustainable procurement initiatives

**2.8** Departments have been required to report their progress against the 14 SOGE operational performance targets (Box A on page 15) annually, since they were introduced in 2006. For 2007-08 the data was reported to the Sustainable Development Commission, but for 2008-09 onwards it is planned that departments will report to the OGC's Centre of Expertise in Sustainable Procurement and their performance will be assessed against departmental targets set in milestones agreed between each department and OGC. The Sustainable Development Commission will continue to monitor departments' performance against the SOGE measures and report on it.

**2.9** The five sustainable procurement commitments in the SOGE framework support the 14 operational performance targets but are not subject to quantifiable targets in their own right. In the August 2008 Sustainable

Procurement and Operations Government Delivery Plan, the OGC committed to put in place an additional reporting and performance management system which would specifically address sustainable procurement. This system would be aligned with other milestones used for reporting progress against the operational measures. The OGC did not specify a date for this reporting to begin, and the work is still in progress.

**2.10** The OGC has completed Procurement Capability Reviews of all central departments, assessing how far government procurement meets the standards required to deliver value for money services now and in the future. The first set of Reviews, which was completed in 2008, have checked whether departments have strategies and policies which link procurement to sustainability (alongside other government priorities) but have not monitored progress against specific sustainability targets, standards or frameworks. Future Reviews will be based on a self evaluation model, including the collection of performance data, which will include measures around sustainable procurement.

## Progress against the Quick Wins

**2.11** Most departments reported that by 2007-08 they included clauses for Quick Wins in all new and existing contracts. Of the 21 departments covered by SOGE<sup>13</sup>, 15 reported to the Sustainable Development Commission that for 2007-08 they were compliant. However, six of those 15 reported that they did not have systems in place to measure compliance, which would confirm whether they are still purchasing products which do not meet minimum environmental standards.

**2.12** In the five departments we examined, we found that only NHS PASA had undertaken an audit of compliance with Quick Wins, for procurement within the Department of Health (as Quick Wins do not apply to the NHS), and as a result was working to increase compliance through staff training. Otherwise, departments did not have systems to measure their compliance with Quick Wins, and not all staff were committed to buying Quick Wins in all cases. The five departments had communicated the Quick Wins to staff, for example referring to them on their intranet guidance, but some staff told us they did not routinely apply them. Departments considered it difficult to collect information routinely on compliance for all purchases and procurement contracts. This situation may improve as from January 2009, Buying Solutions has established a new facility on its website by which procurers can easily see which products are compliant (as assessed by the supplier). Progress in each category was as follows:

<sup>13</sup> The 21 departments include 17 Departments of State plus the Export Credits Guarantee Department, Food Standards Agency, Forestry Commission and Office of National Statistics.

- **Energy.** Quick Wins do not explicitly apply to the procurement of energy, because there is a target under the SOGE framework to source 15 per cent of electricity from Combined Heat and Power by 2010. DWP has exceeded this target, and MoD and MoJ have made some progress towards it. The NHS is not covered by this target (though NHS PASA framework agreements for electricity provide for 15 per cent Combined Heat and Power) and HMRC is exempt given the high proportion of 'green' electricity it procures from other sources.
- **ICT.** The departments we reviewed all used some products which met or exceeded Quick Wins standards. However, none of the departments' contracts ensured compliance with Quick Wins.
- **Office supplies and services.** HMRC's contract ensured that paper and envelopes had the recycled content required by Quick Win standards. In DWP, MoD and MoJ, contracts allowed staff to order office supplies and services that do not meet Quick Wins minimum standards. NHS Supply Chain was developing a sustainable procurement business plan which would include steps to increase the availability of products that meet the Quick Wins standards through their catalogues and framework agreements.
- **Vehicle fleet.** All departments we reviewed were making progress towards the 2010-11 average emissions target for new vehicles, and HMRC had already achieved average emissions of 130gCO<sub>2</sub>/km.

## Progress against the Flexible Framework

**2.13** For the first time in 2007-08, departments reported self-assessments of progress against the five themes of the Flexible Framework to the Sustainable Development Commission, which collated the results but did not check them for consistency. Out of 22 respondents (the 21 who responded on the Quick Wins plus NHS PASA), only NHS PASA claimed to be practising sustainable procurement (Level 3) across all five themes, and be leading (Level 5) in one (see paragraph 2.5 above). Eight of the respondents reported that they were no more than laying the foundations (Level 0 or 1) across all five themes.

**2.14** In the self assessments of the departments we reviewed, NHS PASA considered it had achieved the Task Force's suggested goal, with DWP not far short of it. Other departments acknowledged they had more to do (**Figure 6**). The remainder of this part of the report sets out, in more detail, how the departments that we examined have tackled the five themes of the Flexible Framework. We were able broadly to corroborate the progress self-reported by departments, based on a review of departmental processes and practice in four areas of procurement in each organisation (and excluding major projects procurement).

## 6 Departments' self-assessment of progress against the Flexible Framework as at March 2008

Themes:	Policy, strategy & communications	Measurements & results	Procurement process	Engaging suppliers	People
DWP <sup>1</sup>	4	3	3	2	2
HMRC	2	2	2	1	2
MoD	1	1	1	2	2
MoJ	1	1	1	2	1
NHS PASA <sup>2</sup>	5	3	3	3	3

Source: DWP, Sustainable Development Commission

### NOTES

Appendix 2 sets out the Flexible Framework. Level 1 indicates an organisation is laying the foundations for sustainable procurement. Level 5 indicates an organisation considers it is leading the way on sustainable procurement. The five themes are listed here in the order that we discuss them in the rest of Part 2. The Task Force's original order was: People; Policy, strategy and communication; Procurement process; Engaging suppliers; Measurement and results.

<sup>1</sup> DWP assesses progress each November; its figures relate to November 2008.

<sup>2</sup> Figures for NHS PASA indicate the level of the agency's own procurement function (including contracting activity undertaken on behalf of the NHS), but do not read across to individual NHS organisations which have full autonomy over their own procurement activity.

## Policy, strategy and communications

**2.15** The Flexible Framework states that to achieve Level 3 in this area, departments should have a sustainable procurement strategy endorsed by the Permanent Secretary, and communicated to staff, suppliers and stakeholders. From March 2008, all Permanent Secretaries have had a personal objective monitored by the Cabinet Secretary to secure progress against the SOGE targets and Sustainable Procurement Action Plan commitments. We found that leadership and governance had recently improved in all five departments we visited. They had corporate level commitments in their high level Sustainable Procurement Strategies, a policy and an action plan, at least in draft form. The level of detail varied greatly, however, particularly in the action plans. Some set out detailed actions to be taken and the contribution that these actions would make to achievement of SOGE targets, while others were short, aspirational and of much less practical use. Four of the five departments had established governance arrangements, normally with dedicated teams who report to the Board. The MoJ, as a relatively newly formed body, was in the process of establishing a Sustainable Development Board, headed by the Director General (Finance), which has since been meeting regularly.

**2.16** We found that departments still faced challenges in making sure their staff understood and adopted their strategies and action plans. Some staff were familiar with their department's sustainable procurement agenda, recognising the new policies, action plans and governance arrangements put in place in 2007 and 2008. At MoJ and NHS PASA, however, some procurement professionals displayed limited awareness of policies and targets relating to sustainable procurement, and in some instances,

those who were aware of the targets did not consider it their responsibility to meet them. Staff at MoD accepted that there was more to be done to introduce sustainable procurement to all relevant procurement staff. Staff at DWP displayed the greatest understanding of sustainability policy, in part because of a communications programme which included a regular sustainable procurement newsletter, intranet updates and guidance, and an annual conference. DWP has a dedicated team which is available to offer advice, guidance and support.

## Measuring and reporting of results

**2.17** The Flexible Framework states that to achieve Level 3 in this area, detailed appraisal of sustainability impacts of procurement should be carried out, both at a department-wide and individual procurement level. DWP and NHS PASA routinely conduct risk assessments of procurement activity to identify sustainability impacts. The other departments were not routinely appraising sustainability impacts of their procurement activities, although the Ministry of Defence had undertaken some initial work at department-wide level. Data was not always reported to the appropriate levels. For example, HMRC received energy data from its external contractor, but at the time of our review had not routinely used this data to improve energy efficiency, though it has since been used to support a developing carbon management programme. The absence of baseline information, in particular for departments which have recently been restructured, makes it difficult to monitor improvement. There were a number of individual examples of better measurement and reporting of results, however, showing how systematic data collection and monitoring can drive sustainability improvements (**Box C**).

### BOX C

#### Data collection and monitoring

Within the Court Services, a tool called Navigator is used to monitor energy usage. Based on invoices, this tool allows the comparison of sites to identify variations in energy consumption, with a view to reducing energy use and costs.

DWP has a tracking mechanism to monitor progress against all SOGE targets, operated in conjunction with suppliers. Detailed reporting mechanisms for energy helped the department achieve a 10.8 per cent reduction in energy consumption in one year. These are based on half-hourly automatic meter readings for most of DWP's electricity.

MoD, working with other departments, is piloting a Green ICT Scorecard that benchmarks organisational behaviour, policy, governance, procurement, energy efficiency, labelling and disposals. The system aims to enable departments to establish baselines and set measurable objectives, and allow the Sustainable Development Commission to monitor progress independently.

NHS PASA has recently developed a new lease car website which captures management information from monthly data returns from contracted suppliers. This information allows NHS Trust fleet managers to track the carbon footprint of their lease fleet.

## The procurement process

**2.18** The Flexible Framework states that to achieve Level 3, all contracts should be assessed for sustainability risks, and key targets agreed with suppliers. OGC and Defra guidance sets out how environmental and social issues can be addressed through: demand management at the business case stage of the procurement; specifying environmental outcomes when specifying the product or service; selecting the supplier and awarding the contract during the tender process; and monitoring the delivery of environmental outcomes during the ongoing management of the contract and supplier (Figure 7).

### Business case

**2.19** DWP and NHS PASA had both adopted strong risk-based approaches to embedding sustainability in the procurement process, beginning at the business

case stage. DWP has developed a tool, known as the ‘Sustainable Procurement Risk Assessment Methodology’, to identify the sustainability risks associated with a procurement and actions to mitigate or eliminate that risk. It was developed in 2007 and has been made mandatory for all procurement staff to use at the business case stage. NHS PASA has developed a similar tool, known as the ‘Sustainable Procurement Risk and Opportunity User Tool’, to assess sustainability risks during the business case stage, as well as informing wider procurement strategy. Procurement staff were being given training on the tool, prior to it being made a mandatory part of the business case within NHS PASA. In both DWP and NHS PASA, independent checks were in place to ensure that risk assessments are undertaken and acted upon in all cases. In HMRC and MoD all business cases were required to appraise sustainability, though their processes for doing so were less comprehensive than at DWP or NHS PASA.

## 7 How OGC suggests that environmental issues can be addressed during the procurement process<sup>1</sup>

**Business case.** This is the stage at which there is most scope for considering environmental impacts. A key step is considering the need to procure. Through effective demand management the need to procure may be avoided. Alternatively, the need can be defined in such a way as to minimise resources consumed. For example, if the need is for staff to meet, video-conferencing facilities could be procured instead of vehicles.

**Specification.** Environmental considerations should be included where they are relevant to the subject matter of the contract. They include what the product consists of (e.g. cleaning services using products with low chemical content), how it performs its function (e.g. energy efficient light bulbs), and its suitability for responsible disposal (e.g. easily recyclable parts). Certain production processes can also be specified (e.g. electricity from renewable sources, timber from sustainably-managed forests). OGC recommends specifying the environmental outcomes that are desired, and giving tenderers the flexibility to offer different ways of achieving or exceeding these outcomes, offering the possibility of market innovation. It is at this point that the Quick Wins should be referred to.

**Selection.** At this stage, the procurer should ask tenderers for relevant evidence of technical capability to deliver the environmental specifications.

**Award.** All public contracts must be awarded on the basis of value for money on a whole-life basis, not lowest up-front price. It must be evaluated from the point of view of the procurer; wider costs or benefits to society should have already been considered and built in to the specification.

**Contract and supplier management.** Contract conditions should be used to ensure suppliers provide appropriate information on their performance against environmental requirements. Outside of formal conditions, there are often opportunities to work with suppliers and their own supply chain on a voluntary basis to raise awareness of environmental objectives.

Source: OGC

### NOTE

<sup>1</sup> OGC, *Buy green and make a difference*, 2008.

**2.20** There were examples of effective demand management in most departments, though some staff considered demand management an operational matter and departments were not systematically addressing it within their procurement action plans. DWP's strategy committed commercial teams to producing plans to rationalise procurement, and in other departments we found some significant examples of sustainability improvements driven by demand management (**Box D**). NHS PASA is leading five demand management pilots with certain NHS organisations, which aim to help the NHS put in place the skills and expertise to conduct demand management and to record all its benefits.

**2.21** Data availability can be a significant barrier to demand management by procurement teams. For example, the Fleet procurement team within MoD did not have data on mileage across the department, which made it difficult to target where to reduce consumption. There remained further opportunities for demand management to realise significant savings within departments. Staff at MoJ estimated that they could save up to £400,000 through mandatory double-sided printing throughout the Courts Service. HMRC aimed to realise up to £1million in savings through the replacement of copiers and printers with multi-functional devices, thereby reducing energy usage as well as maintenance costs.

### Tender process (specification, selection and award)

**2.22** Departments have started to specify sustainability requirements for goods and services, including provision of Quick Wins, but have not yet done so consistently across all tenders. At DWP, procurement staff were required to use the department's risk assessment tool at the specification stage to check again for potential impacts. At NHS PASA, staff were required to build sustainability into tender evaluation based on the results of their risk assessment tool. At HMRC, Quick Wins are included in standard Invitation to Tender documentation, and a supplier questionnaire is available to investigate potential suppliers' environmental capability. MoD have issued guidance for staff on evaluating tenders for environmental impact. Only DWP and NHS PASA had independent checks in place to ensure that sustainability was properly considered in all procurements.

### Contract and supplier management

**2.23** Most of the 27 contracts we reviewed were signed a number of years ago, before more recent sustainability initiatives were implemented, and very few referred to sustainability requirements or had in place any formal indicators of sustainability performance by suppliers. DWP procurement teams have re-appraised regularly the sustainability risks identified at the business case or specification stage, and have worked with suppliers to take action. Departments have also driven more sustainable outcomes from suppliers by the use of break clauses in contracts, by amending service level agreements or by making supplementary agreements with suppliers (**Box E**). There has been limited use of key performance indicators, which can help departments monitor progress at contract level and obtain evidence for departmental assessments against the Flexible Framework.

**2.24** Contract and supplier management are particularly important where departments outsource much of their operations to suppliers. For example, at HMRC, energy procurement was, until September 2008, outsourced. Although there were sustainability requirements within the contract, these were not enforced and energy management objectives were not being delivered. HMRC used a break clause in the contract and re-contracted its energy procurement under a pan-government framework.

### Engaging suppliers

**2.25** The public sector has considerable buying power, and the ability to influence supply chains to address government priorities such as sustainability both directly and, as recognised by the Cox Review of Creativity in Business in December 2005, through encouraging innovation. Government's Sustainable Procurement Action Plan committed departments to engaging with suppliers (**Box A** on page 15). The Flexible Framework states that to achieve Level 3 in this area, a targeted supplier engagement programme should be in place, with supply chains mapped for priority areas.

**2.26** There are many useful examples from outside central government of how suppliers can be engaged. Unilever has been identifying the impacts down its supply chain, Marks and Spencer has been working with its suppliers to identify opportunities for innovation and the Environment Agency has audited key aspects of its suppliers' operations (**Box F**). Unlike public sector bodies, Unilever and Marks and Spencer are not bound by EU procurement rules, so have greater freedom to impose mandatory conditions on suppliers unrelated to the performance of the contract.



## BOX D

### Positive examples of demand management

DWP has run an IT Transformation Programme and reduced the total number of desktop computers in the Department by over 37,000 alongside introducing more efficient computers. It reports savings of around £2.2 million per annum in electricity costs, with a saving of 7,300 tonnes of carbon.

Similarly, HMRC has reported savings of over £300,000 from its 'Streamline' programme, which removed landlines and duplication of mobile phones and other handheld communication devices.

HMRC has gathered data on fuel and CO<sub>2</sub> emissions from its vehicle fleet and used it to identify under-used vehicles, which were redeployed, avoiding the need to procure more.

## BOX E

### Examples of working around existing contracts

The Office Solutions procurement team at DWP recognised that a contract which came into force in 2007 did not drive sustainability as far as it could. It responded by:

- putting in place a new sustainable procurement strategy for office supplies, written in conjunction with the supplier; and
- encouraging the supplier to suggest sustainable solutions, focused on helping improve DWP's service delivery. More sustainable products have since been added to office products catalogues (though the less sustainable products are still available).

In the health sector, NHS Supply Chain, the private sector organisation which runs much of the NHS's logistics operations, has terms of reference which do not include sustainability. The NHS Business Services Authority (an arm's length body of the Department of Health) has, however, agreed a Memorandum of Understanding with NHS Supply Chain, under which NHS Supply Chain is developing a business plan for sustainable procurement, which will align with the Flexible Framework and include use of the Quick Wins.

## BOX F

### Innovation in engaging suppliers

#### Unilever

Unilever uses a 'Business Partner Code' to communicate to suppliers its expectations that they conduct their business according to principles that are consistent with Unilever's. The key elements of the Business Partner Code include compliance to national law concerned with labour standards, health and safety, environmental management and business integrity.

Where required, Unilever requests its suppliers to complete a self-assessment against these four key elements, to a common format supported by an established third party service and database provider – Sedex – and thereby store and track the information. Unilever intends to use this data to build an accurate picture of supplier networks and standards so that the company can engage with suppliers on priority areas for improvement.

#### Marks and Spencer

Marks and Spencer has established a 'Supplier Exchange', a network for suppliers including a web portal through which it communicates its sustainability objectives to suppliers (for example, reducing the weight of non-glass packaging by

25 per cent by 2012). The network is also designed to drive innovation and action on sustainability by suppliers. As part of the Supplier Exchange the company holds meetings for its largest suppliers to brainstorm priority issues and to share best practice between suppliers and from expert speakers. The company has worked with the Carbon Trust to deliver a high level carbon footprint of its whole UK and Republic of Ireland operations. The company has also carried out analysis of the carbon hotspots for its food and clothing products production. This analysis has enabled the company to prioritise areas for action to reduce CO<sub>2</sub> emissions in the supply chain.

#### Environment Agency

The Environment Agency has assessed sustainability and reputational risk within its supply chain. Based on this assessment, it worked with suppliers to audit certain key supply chains. For example, it conducted an audit of its textiles supply chain, confirming that its clothing suppliers in China met its requirements for labour conditions. It also worked with its timber importers to confirm that the timber it purchases is from legal and sustainable sources. Sustainability improvement plans are agreed with all suppliers on the audit programme.

**2.27** DWP had assessed risks to prioritise supplier activity. MoD had undertaken an initial risk assessment and had a targeted supplier engagement programme in place. It encouraged its key suppliers to sign a ‘Sustainable Procurement Charter’ and planned to ask them to assess their own performance against the Flexible Framework with a view to setting targets for improvement. By the end of September 2008, of the department’s 31 largest suppliers (representing over 50 per cent of departmental expenditure), 21 had signed the Charter. Procurement teams in DWP were assessing supply chain risks to identify key areas to target. NHS PASA had engaged in market dialogue with the pharmaceutical sector to identify priority sustainability issues to address through procurement. NHS PASA had also worked with the medical technology sector to encourage greater consideration of environmental impacts, including the development of a tool to help NHS buyers consider the energy performance of medical devices.

**2.28** All departments could go further in analysing and engaging more of their supply chain, and the OGC is developing a strategy to identify how it can give more support to departments in this area. In 2008 the OGC and Defra took part in an international project to analyse the carbon impact of their supply chains: a pilot which more departments may sign up to in 2009. HMRC is also developing software, whose purpose is to provide an online supply chain sustainability audit linked to HMRC’s existing electronic procurement systems. HMRC intends that this will allow it to benchmark suppliers and become a focus for driving improvement.

**2.29** A particular form of supplier engagement is ‘forward commitment procurement’, which means encouraging potential suppliers to invest in developing innovative products by undertaking to purchase significant numbers of the products once they have been launched. Forward commitment provides the opportunity to realise significant financial and environmental savings through encouraging innovation in the marketplace. The Sustainable Procurement Taskforce recommended Forward Commitment Procurement but take-up has nevertheless been slow across central government departments. In the five departments we reviewed, we found only two examples (**Box G**). To promote and enable take-up, the Department for Innovation, Universities and Skills has launched two initiatives, and is working closely with OGC to develop and implement them: ‘The Innovation

for Sustainability Competition’ and ‘The Forward Commitment Procurement Practitioners Group’. Defra is also committed to supporting Forward Commitment Procurement through a number of work streams to promote new markets identified as having potentially high value to economy and society.

## People

**2.30** The Flexible Framework states that to achieve Level 3, procurement staff should be receiving targeted training on sustainability and should have sustainability in their performance appraisal. We found the amount and usefulness of training on sustainable procurement within departments varied widely.

- NHS PASA and DWP had structured, ongoing, training programmes. NHS PASA had provided training to most procurement staff at the agency by November 2008. It included training on the importance of sustainability, on developing robust business cases, using NHS PASA’s sustainable procurement risk and opportunity tool, and on how to prioritise different environmental and social issues. DWP had held nearly 30 workshops on its risk assessment methodology.
- MoD, MoJ and HMRC did not have a structured, ongoing training programme in place, but MoD was providing awareness training and HMRC had run Defra-sponsored workshops.

**2.31** NHS PASA has built sustainable outcomes into its staff appraisal processes, but the other departments we visited have not done so, although sustainability will be a part of DWP’s staff competency framework from April 2009, and MoD is also considering options to put incentives in place. In NHS PASA, staff had an objective to ‘contribute to delivery of the Agency’s sustainable development policy, action plans and targets’ and managers had been given guidance on how to translate this objective into specific and measurable objectives.

**2.32** Good practice initiatives across the Departments we reviewed were often dependent on the efforts of individual champions who were personally committed to sustainable procurement. There is a risk that, if the local champion moves on, the good practice will cease, technical knowledge will be lost and progress made will not be sustained.

**2.33** Some procurement staff considered that their ability to achieve sustainable procurement was held back by a range of barriers, all of which have previously been identified in earlier reports, including those by the National Audit Office, Environmental Audit Committee and Sustainable Procurement Task Force.<sup>14</sup> The most significant barriers reported to us were as follows:

- Budgeting rules may prevent procurers from realising the long-term benefits of more sustainable options. Departments have limited capital budgets and procurement staff considered they could not invest to save as much as they wished. The Government's Sustainable Procurement Action Plan committed departments to reviewing budgeting arrangements to remove barriers (Box A on page 15). It states that departments should raise any such issues with the Treasury, but we found no examples of departments doing so.
- EU public procurement legislation, which states that requirements for contractors must be non-discriminatory, transparent and relevant to the subject of the contract, may limit evaluation of suppliers on environmental grounds. Suppliers can be judged at selection stage on their ability to deliver the environmental aspects of the contract, but not on their wider environmental performance. Guidance from the European Commission and the OGC states, however, that environmental concerns can be built into tender specifications where they are relevant to the contract and are non-discriminatory (as set out within Figure 7 on page 19).
- Uncertainty over how to evaluate the environmental impacts of goods and services and determine whether they represent value for money. Part 3 addresses how departments can secure better value for money from sustainable procurement.

## BOX G

### Examples of forward commitment procurement

#### Recycled mattresses

MoJ has awarded a contract for a zero waste mattress programme for the Prison Service which would recycle used mattresses and pillows into carpet underlay. The contract will enable the department to significantly reduce the 40,000 mattresses it currently sends to landfill each year. MoJ estimates this programme will save between £4 million and £6 million over a five year period. Other organisations could learn from this programme. For example, NHS Supply Chain manages a framework agreement within which NHS Trusts in England procure about 24,000 mattresses a year.

#### Ultra efficient lighting

The Department for Innovation, Universities and Skills, Department of Health and NHS PASA are working together to encourage suppliers to develop more energy-efficient lighting systems. A pilot project to apply such technology is underway with the Rotherham NHS Foundation Trust. Any gains in energy efficiency would have the potential to deliver substantial energy savings if such lights were then used across the public sector estate.

<sup>14</sup> National Audit Office, *Sustainable Procurement in Central Government*, September 2005. Environmental Audit Committee, *Sustainable Procurement: the Way Forward*, March 2006. See also *Accounting for Sustainability, Realising Aspirations*, May 2005.

# PART THREE

## Securing value for money while addressing the environmental impacts of procurement

**3.1** Part 2 of this report examined how five departments have progressed against government targets and standards for sustainable procurement, in particular the Flexible Framework and Quick Wins. Part 3 examines whether value for money is being secured while environmental impacts are addressed. For this to happen, procurement decisions must be based on an **understanding of environmental benefits and costs** and where best value lies when trade-offs between social, environmental and economic objectives must be made. Government can also ensure it is getting value for money from its sustainability drive by **prioritising areas of greatest risk, making the most of opportunities to collaborate, and sharing and learning from good practice.**

### Understanding the benefits and costs of sustainability

**3.2** Government guidance requires procurement decisions to be based on their value for money across their product life and their costs and benefits to society, environment and economy. HM Treasury policy states that 'value for money must be assessed over the whole lifetime of a procurement project, including disposal... estimating the costs and benefits to society as a whole, not simply those directly relevant to the purchaser e.g. environmental impact'.<sup>15</sup> OGC supporting guidance clarifies that procurers should address the costs and benefits to society and the environment when making the business case for procurement and setting the specification. Later on at contract award stage, they should make their decision from a narrower value for money perspective against the product requirements in the specification (as set out in Figure 7 on page 19).<sup>16</sup>

**3.3** Analysis of environmental and financial benefits and costs should enable best value to be determined, by enabling a procurer to understand how much extra to pay for an option which, for example, reduces energy use or extends a product's lifespan. However, established techniques to identify the environmental impacts of products and to then incorporate them in value for money assessment are too complex and time-consuming to be undertaken routinely by procurers in departments:

- 'Life-Cycle Assessment', is a widely recognised method to identify environmental impacts over a product's life (see Appendix 4, Figure 10). Potential environmental impacts should be identified at the business case stage, prior to setting the specification. Impacts include raw material and energy consumption, and releases into air, water and soil and can arise from the sourcing of the raw materials, the manufacturing process or through the way a product is used. Impacts are measured in a variety of units (e.g. energy consumption in kilowatt hours or CO<sub>2</sub> emissions). The difficulty in applying Life-Cycle Assessment is in obtaining the detailed reliable information required to establish the impacts from suppliers and their supply chain in a form that allows objective and fair comparison. For example, comparing stationery products made from virgin paper from sustainable sources against products made from recycled paper would require expertise in environmental science and access to detailed information on environmental impacts.
- Once environmental impacts have been identified, a value for money assessment requires that they should be given a monetary value so they can be considered within a cost-benefit analysis, alongside other financial considerations determined through

<sup>15</sup> HM Treasury, *Simple guide to value for money and sustainability*, March 2007.

<sup>16</sup> OGC, *Buy green and make a difference: How to address environmental issues in public procurement*, July 2008.

a 'Whole-Life Costing' (see Appendix 4, Figures 11 and 12). Whole-Life Costing is used to determine the cost of a product or service over the period of its use, and includes the up-front price and other financial costs of the product in use, maintenance costs and the cost of recycling or disposing of the product at the end of its useful life. Monetising environmental impacts in a cost-benefit analysis requires expertise in environmental economics.

**3.4** Quick Wins were established to set minimum environmental standards for routine procurement items, but the relationship between the standards and environmental costs and benefits has been unclear. Departments have not therefore had assurance that Quick Wins have been set at a level which ensures that, for society as a whole, benefits outweigh costs, or that the net costs are less than the cost of alternative measures for achieving the environmental benefits. For example, Departments need to know whether the additional cost of purchasing renewable energy compared to the cost of ordinary tariffs, is none-the-less value for money compared with other incentives government provides to suppliers to increase their supply of renewable energy. The Quick Wins standards include:

- Some standards established to meet government sustainability policy. For instance, the Government has stated that from 1 April 2009 only timber and timber products originating either from independently verified legal and sustainable sources or from certain licensed partners will be demanded for use on the Government estate and appropriate documentation will be required to prove it. From 1 April 2015, only legal and sustainable timber will be demanded.
- Minimum standards evolved from data gathered by Defra for compliance with EU regulations<sup>17</sup> and based on the market average for each product group. They have not been based on an analysis of benefits and costs, although Defra is now undertaking such analyses. Cost-benefit analyses commissioned in 2008 will enable Defra to update the Quick Wins for ten priority procurement categories, based on a better understanding of costs and benefits, although it is not currently possible to monetise all costs and benefits. The update will enable departments to apply these Quick Wins without a further cost-benefit analysis. To ensure that such work is robust and that markets can supply the specified products, Defra will need to keep abreast of further developments in quantifying environmental impacts

and valuing some of the costs and benefits involved, and have access to good quality data on demand for products across government.

- Higher, voluntary, best practice standards, which are aligned with the top 10-15 per cent of products in the market and also refer to the European Commission's voluntary green standards. Procurers have no data to help them work out in what circumstances the higher standards might provide better value for money. Procurers need additional analysis to help them decide whether to go further than minimum standards, for example, where they can obtain lower costs than those used in the Quick Wins evaluation or additional benefits.

**3.5** For other products, procurers need to be clear when and how to use the whole-life costing and environmental life-cycle techniques, or how else value for money is to be determined. Current OGC guidance on sustainable procurement refers staff to the Treasury Green Book, which is designed for policy appraisal more generally.<sup>18</sup> The Green Book recognises that valuing environmental impacts is a field of ongoing research, and does not provide an easily accessible set of prices for impacts (with the exception of Defra's shadow price of carbon, which sets prices for CO<sub>2</sub> emissions). Despite the difficulty of identifying and monetising environmental impact, departments have not been encouraged to prioritise such analysis. There is no central repository of research and tools to support departments undertaking this work, nor central collection of the results of such assessments across the public and private sectors and academia for sharing across government. As a result, some departments have undertaken elements of Life-Cycle Assessment and included environmental impacts in Whole-Life Costing but more typically we found confusion amongst procurement staff about when and how they should be applying these methods.

## Prioritising areas of greatest risk

**3.6** The government has prioritised areas of greatest risk, which should help ensure that effort and resource is targeted most effectively. In 2006 the Sustainable Procurement Task Force recommended that the public sector should focus sustainable procurement activities on ten priority types of product or service, based on its assessment of the risk of environmental or social impact, the potential of government procurement to influence the market, and the scope to reduce that impact. The expenditure types were construction, health and social care, food, clothing

<sup>17</sup> In particular, the EU directive on Energy using Products, and the EU directive on Eco Design of Products.

<sup>18</sup> OGC, *Buy green and make a difference: How to address environmental issues in public procurement*, July 2008.

and textiles, waste, paper, energy, office machinery and computers, furniture, and transport. The Government accepted these priority areas, but also decided that efforts should be focused on activities which can contribute most to SOGE targets and help to protect biodiversity. By 2008 the SOGE targets and Quick Wins standards addressed between them all ten priority areas, except food, which is being targeted by a separate Defra initiative.

**3.7** Departments have also begun to take a risk-based approach to their individual businesses. DWP and NHS PASA routinely use risk assessments to identify sustainability impacts and take mitigating action. The MoD has identified its own priorities for sustainable procurement at a department-wide level, though it is not risk assessing each procurement as DWP and NHS PASA do. MoD's priorities go beyond the four areas covered by this report and focus on the procurement of defence equipment, and were based on analysis of impacts, existing activity, scope to do more and business and reputational risk. We found that other departments had not undertaken such analysis, and were working across product areas supporting delivery of the SOGE targets.

## Making more of opportunities to collaborate

**3.8** The OGC, working with commercial directors in departments, has established collaborative procurement programmes in a number of common product categories, including energy, fleet, ICT, office supplies and services and travel, to improve value for money by pooling procurement expertise and giving the procurers greater bargaining power with suppliers. The programmes help departments establish framework contracts, which other public bodies can choose to use. These programmes were established to achieve financial savings, but some have also been proactive in promoting sustainability. From April 2008 all the programmes have reported to the Chief Sustainability Officer. The programmes can drive sustainable outcomes by:

- establishing framework contracts for sustainable products;
- spreading sustainability messages to suppliers; and
- building a network of procurement staff across departments to share guidance and good practice, and to help them manage demand.

**3.9** We found that the energy and fleet programmes were already achieving sustainable outcomes, though there was scope for more departments to make use of the opportunities available.

- The energy programme supports a number of frameworks for contracts which have enabled departments to achieve targets for sourcing electricity from Combined Heat and Power sources at no extra cost and allow for carbon offsetting in the future. All central government departments have joined these frameworks. The programme also provides guidance on energy management and the procurement of energy efficiency measures. The programme has helped the Department for Children, Schools and Families identify measures which it estimates will save £140,000 (about seven per cent of the department's utility bill) and 300 tonnes CO<sub>2</sub> each year, primarily through 'voltage rectification' – a process whereby voltage to lights and electrical appliances is controlled to save energy. The programme will be supporting the establishment of a pan-government framework for voltage rectification in 2009, led by Defra.
- The fleet programme worked with DWP to let a pan-government vehicle purchase framework contract which is available to organisations across the public sector. The scale of this framework, a £1 billion deal with 17 vehicle manufacturers covering 78,000 vehicles, has enabled DWP to negotiate lower prices. The fleet category has established a fleet database which enables participating departments to monitor their usage of this and other pan-government fleet deals, tracking expenditure and CO<sub>2</sub> emissions based on management information received directly from suppliers. To date, 176 public sector organisations have joined the framework, including DWP, MoJ, HMRC and NHS PASA (on behalf of the Department of Health and various NHS trusts) and three other central government departments. In total the framework has saved £18.2 million so far.<sup>19</sup> The programme has also supported NHS PASA to let a pan-government vehicle leasing framework. Some 41 organisations have joined this framework, including four central government departments (the Department of Health, MoJ), DWP and the Department for Transport). Average CO<sub>2</sub> emissions of vehicles purchased or leased under the two frameworks was 1.5 per cent lower in April to June 2008, compared with the equivalent period in 2007.<sup>20</sup> The programme has also been promoting successful policies to reduce travel in staff-owned vehicles including a toolkit and pilots at 13 organisations, including Environment Agency, DWP, HMRC and two NHS trusts (**Box H**).

<sup>19, 20</sup> Based on data from OGC fleet collaborative programme team.

## BOX H

### Opportunities from management of staff-owned vehicles

Some 57 per cent of the distance travelled by public sector staff on business, or 1.4 billion road miles a year, is done in their own vehicles, according to OGC estimates. Staff claim back expenses, typically at 40p per mile. The OGC estimates that if staff use hire or lease cars through contracted frameworks, the cost to their employer can be cut by up to 15p per mile.<sup>1</sup> OGC also deems that carbon emissions can be cut because employee-owned vehicles tend to be older and less efficient than hire or lease vehicles.

A number of organisations, including the OGC, the Environment Agency, and DWP, have implemented successful policies to reduce travel in staff-owned vehicles, for example by stopping staff using their own cars for journeys over 100 miles (thus encouraging use of hire cars, other transport, or not making the journey at all). In 2007-08, DWP cut mileage in staff owned vehicles by about 9.5 million miles, or 20 per cent. Of this, half a million miles were transferred to hire cars, and the rest were not travelled at all. The department estimates that it has saved £3.6 million and 3,000 tonnes of CO<sub>2</sub>.

HMRC has implemented measures to reduce travel in staff-owned vehicles (23 million miles) since 2006. Road travel decreased by 7 per cent from 2006-07 to 2007-08. If the department could establish a policy as successful as that at DWP, it could achieve savings of £1.7 million and 1,450 tonnes of CO<sub>2</sub>.

#### NOTE

<sup>1</sup> OGC, *Grey fleet best practice*, June 2008.

**3.10** We found that the other collaborative programmes were less advanced:

- The ICT programme was established in 2008 and, working with the Energy programme, in July 2008 launched a pan-government framework for software to reduce the power consumption of ICT. Six central government departments have begun to implement this or similar software: the Department for Children, Schools and Families, Department for Culture, Media and Sport, HMRC, the Home Office, MoJ, and DWP (who have done so independently of the collaborative framework). Government has estimated that switching-off PCs when not in use, using this software, can achieve annual energy cost savings of up to £10.2 million (equivalent to £9 per PC) and carbon emission reductions of up to 55,700 tonnes. This work builds on a pan-government Green ICT Strategy under which the Cabinet Office is leading work to identify other technologies with opportunities to achieve savings and reduce carbon emissions.
- The office supplies and services programme has engaged with suppliers and is supporting Defra in developing expectations for future paper standards

with industry. Sustainability criteria formed part of its assessment of tenders for office machinery and courier contracts, and will form part of forthcoming paper and office supplies collaborative procurements. A pre-existing pan-government framework for recycled printing papers has been in place since 2000, and was re-launched in 2005 by the Department for Transport, working with Defra and Buying Solutions. The Department for Transport has reported that by 2005 some 30 central government organisations had used the framework, generated savings of over £4 million, and diverted about 27,000 tonnes of waste paper from landfill to recycling.<sup>21</sup> By aggregating demand across departments, and by actively working with the paper industry, the framework has reduced the disparity in price between virgin and recycled papers. The Department estimates that by October 2009, the framework will have delivered savings of £15 million and diverted 86,000 tonnes of paper from landfill.

- Under the auspices of the travel programme, Buying Solutions, with input from Defra and the Department for Transport, are collaborating to produce guidance on how organisations can make their travel policies more sustainable. The programme is engaging with travel providers and working to build sustainability into the re-letting of government's main travel contracts.

**3.11** There may be scope to extend the collaborative programmes to more of the priority areas identified by the Sustainable Procurement Task Force. Construction, uniforms and textiles, waste and furniture could potentially benefit from more collaborative approaches.

## Sharing and learning from good practice

**3.12** The Centre of Expertise in Sustainable Procurement at OGC has been established to work with central departments, collaborative procurement programmes and other stakeholders to share and spread understanding of good practice from across public and private sectors. In Part 2 and Part 3 of this report we have identified where departments or agencies were ahead of others with reference to the Flexible Framework and had good practices which could be shared. Some departments have made strong progress in important areas, for example, risk assessment or staff training, from which others should learn. **Figure 8 overleaf** sets out progress in the specific product categories we reviewed. Three departments have achieved strong progress in some categories, including initiatives which may be replicable by others. But all could improve in some categories by complying with Quick Wins and learning from the good practice of others.

21 Department for Transport, referenced in Sustainable Development Commission, *Sustainable Development in Government 2007*.

## 8 Some departments are making more progress than others in the categories we reviewed

	Energy	ICT	Office supplies and services	Vehicle fleets
Indicators of progress	<p><b>Targets:</b> Progress against government targets on combined heat and power.</p> <p><b>Evidence of good practice:</b> widespread activity to reduce energy consumption, including action by estates teams and contractors.</p>	<p><b>Targets:</b> Compliance with Quick Wins stated in all contracts.</p> <p><b>Evidence of good practice:</b> widespread activity to rationalise IT and reduce power consumption, and active promotion of sustainability with suppliers.</p>	<p><b>Targets:</b> Contracts which ensure that local buyers act in compliance with Quick Wins.</p> <p><b>Evidence of good practice:</b> widespread engagement with suppliers on sustainability.</p>	<p><b>Targets:</b> Fleet procurement through a framework which enables monitoring and reducing of emissions in line with Quick Win target for 2010-11.</p> <p><b>Evidence of good practice:</b> an active policy to reduce fleet size, including use of staff-owned vehicles.</p>
DWP	<p>DWP sources 43 per cent electricity from combined heat and power.</p> <p>DWP has joined NHS PASA's energy contracts to benefit from collaboration.</p> <p>DWP reduced energy consumption by 10.8 per cent in 2007-08, saving £3.5 million, through 41,000 spend-to-save measures, a communications campaign, and greater controls by building managers. Contractors were incentivised by receiving a share of savings.</p> <p>● (Both of the indicators)</p>	<p>Quick Win compliance is not stated in all contracts. Desktops, telephone ports, servers and data centres are all being rationalised. Sustainability is actively promoted with suppliers, with informal key performance indicators being used to work around existing contracts. Desktops used at DWP exceed best practice Quick Win standards.</p> <p>● (One of the indicators)</p>	<p>Compliance with Quick Wins is not ensured. DWP was engaging suppliers to expand the range of sustainable products and services.</p> <p>● (One of the indicators)</p>	<p>DWP has led a major fleet framework open to other departments. Emissions information demanded of suppliers in the framework allows buyers to monitor and take action to reduce their average emissions. Average emissions from new vehicles: 140 gCO<sub>2</sub>/km. DWP has policies in place to reduce use of staff-owned vehicles, and has estimated that it has achieved savings of £3.6 million in 2007-08.</p> <p>● (Both of the indicators)</p>
HMRC	<p>HMRC is exempt from the target on combined heat and power as it sources 88 per cent of electricity from renewable sources. In 2008 HMRC appointed a sustainability manager to manage the main estates contract. HMRC commissioned an independent study of carbon emissions from its estate to identify priority actions.</p> <p>● (One of the indicators)</p>	<p>Quick Win compliance is not stated in all contracts. HMRC established a team to drive sustainable ICT in 2007. HMRC intends that by the end of 2008-09 a number of significant initiatives will be in place to rationalise IT, use new technology to reduce energy use, and communicate sustainability messages.</p> <p>● (One of the indicators)</p>	<p>Compliance with Quick Wins is ensured. HMRC was engaging suppliers to expand the range of sustainable products and services. In 2007-08 HMRC cut office paper usage by eight per cent and reduced printed paper usage via online services (filing of income tax returns online increased by 31.5 per cent in 2007-08).</p> <p>● (Both of the indicators)</p>	<p>HMRC procure most of their vehicles via the DWP framework. Average emissions from new vehicles: 130gCO<sub>2</sub>/km. HMRC is considering policies to reduce use of staff owned vehicles, and aims to achieve savings of £0.6 million through this in 2008-09.</p> <p>Since 2006, HMRC has reduced its pool fleet by six per cent, and its hire car fleet by 35 per cent.</p> <p>● (Both of the indicators)</p>



## 8 Some departments are making more progress than others in the categories we reviewed *continued*

	Energy	ICT	Office supplies and services	Vehicle fleets
<b>MoD</b>	<p>MoD sources six per cent of electricity from combined heat and power.</p> <p>MoD has a coherent strategy of smart metering and audits to improve energy data and identify priority sites.</p> <p>● (One of the indicators)</p>	<p>Quick Win compliance is not assured in all contracts. MoD has produced tools with the aim of developing stronger, more detailed and varied standards than the Quick Wins. Recycling rates for ICT are high. MoD has set suppliers 18 month targets to raise environmental standards.</p> <p>● (One of the indicators)</p>	<p>Compliance with Quick Wins is not ensured. MoD was engaging suppliers to expand the range of sustainable products and services.</p> <p>● (One of the indicators)</p>	<p>MoD has its own fleet contract that will run until 31 August 2011. Average emissions of new vehicles: 132.7gCO<sub>2</sub>/km. MoD is working with the service provider to achieve a 15 per cent reduction in overall CO<sub>2</sub> emissions. Work to replace the current MoD fleet contract is at the concept phase and will address the fleet size.</p> <p>● (One of the indicators)</p>
<b>MoJ</b>	<p>MoJ sources nine per cent of electricity from combined heat and power.</p> <p>Work within estates to drive sustainability is not extensive.</p> <p>● (One of the indicators)</p>	<p>Quick Win compliance is not stated in all contracts. MoJ is undertaking an exercise to establish baselines for sustainability performance, which it intends will enable more widespread activity.</p> <p>● (Neither of the indicators)</p>	<p>Compliance with Quick Wins is not ensured. MoJ was engaging suppliers to expand the range of sustainable products and services.</p> <p>● (One of the indicators)</p>	<p>MoJ procure their vehicles via the DWP framework. Average emissions from new vehicles at the courts service: 132gCO<sub>2</sub>/km.</p> <p>MoJ has no department-wide policy to reduce use of staff-owned vehicles.</p> <p>● (One of the indicators)</p>
<b>NHS PASA (on behalf of DH and the wider NHS)</b>	<p>Contracts managed by PASA meet the combined heat and power targets.</p> <p>PASA's remit does not extend to estates management.</p> <p>● (Both of the indicators)</p>	<p>Quick Win compliance is not stated in all contracts. Initiatives encouraging NHS Trusts to procure more sustainably include: promoting the most energy efficient, and more recyclable, ICT products; providing mobile phones to enable mobile nurses to manage work with fewer trips to their office; using next generation telecoms networks to enable home working; rationalising ICT; and converting to more efficient technology.</p> <p>● (One of the indicators)</p>	<p>The NHS Business Services Authority (an arm's length body of the Department of Health) has agreed a Memorandum of Understanding with NHS Supply Chain, under which NHS Supply Chain is developing a business plan for sustainable procurement, which will ensure availability of products meeting the Quick Wins through its catalogues and framework agreements.</p> <p>● (One of the indicators)</p>	<p>PASA has led a major leasing contract open to other departments. Emissions information demanded of suppliers allows buyers to monitor and take action to reduce their average emissions. Average emissions from new vehicles: 160gCO<sub>2</sub>/km (PASA fleet) and 185gCO<sub>2</sub>/km (NHS bodies using the framework). PASA has a policy to reduce use of staff-owned vehicles.</p> <p>● (Both of the indicators)</p>

Source: National Audit Office

# APPENDIX ONE

## Methodology

### Key points

- The evidence used in this report was collected between June and September 2008.
- We gathered primary data from five organisations, chosen because they are among the largest procurers in central Government. They were:
  - Department for Work and Pensions
  - HM Revenue & Customs
  - Ministry of Defence
  - Ministry of Justice
  - NHS Purchasing and Supply Agency
- In order to facilitate easier comparison between departments, we focused on four main “categories” of procurement spend:
  - Energy – covering the purchase of energy, but not measures installed on departmental estates to improve energy efficiency
  - Information and Communications Technology (ICT) – including hardware such as desktop computers and screens, but also telecommunications equipment and software
  - Office supplies and services – including paper and stationery, along with postal and courier services
  - Vehicle fleets – including the “grey fleet” (cars owned by staff but used at times for business purposes)
- We contracted out a large part of the fieldwork to Pricewaterhouse Coopers (PwC), which is one of the National Audit Office’s strategic partners. It was appointed after a competitive tendering process with other strategic partners. PwC carried out its elements of the fieldwork between July and September 2008.

### Detailed methodology

#### Interviews with central agencies

We conducted semi-structured interviews with staff from the Office of Government Commerce, Sustainable Development Commission and Defra, and members of the Sustainable Procurement Task Force. We carried out these interviews in June 2008, in order to build a picture of government-wide progress against the Sustainable Procurement Action Plan and to understand how responsibility for encouraging better procurement in Government was being reorganised.

#### Review of literature and good practice

We conducted a review of key cross-government procurement documents, the purchasing press and websites, and academic and government publications, covering the period from 2005 onwards (i.e. from the publication of the UK Government Sustainable Development Strategy). This review allowed us to understand the expectations placed on departments, inform our potential choice of comparators, and include additional examples in the report.

#### Analysis of data collected by the Sustainable Development Commission

Each year, departments complete a self-assessment questionnaire setting out their policies, plans and procedures, and some elements of their compliance with sustainable procurement regulations such as the Quick Wins. We used this data to acquire an additional assessment of performance for the five departments that we examined, and to place them in a wider context against other departments.

## Interviews at the selected departments

At each of the five selected departments, PwC conducted semi-structured interviews with:

- senior procurement staff;
- purchasers and contract managers for the four chosen spend areas (energy, ICT, office supplies and services, and vehicle fleet); and
- contractors for outsourced services.

PwC conducted a total of 36 interviews. The purpose of the interviews was to assess how sustainability issues are seen at different levels of the organisation, and to establish how procedures and policies are handled by frontline staff.

## Review of departmental documents

PwC reviewed all relevant documents, including procurement policies, guidance for staff, job descriptions, incentives and details of collaborative procurement schemes. This allowed us to comment on departmental monitoring and reporting, the extent to which procurement staff are held accountable for their decisions, and the extent of collaborative working across Government.

## Process mapping and benchmarking

PwC mapped out the way that procurement was carried out for each of the four categories in all five departments, establishing at what stage sustainability considerations were taken into account, and making comparisons against highly performing private sector organisations.

## Analysis of contract documentation

PwC reviewed documentation relating to 27 contracts across the five departments. It did this in order to assess the quality of bid evaluation, the extent to which contracts addressed sustainability issues, and the capacity to bolt on provision of more sustainable products during the life of the contract. We did not audit departments' estimates of savings from particular contracts or initiatives.

## Summary of Whole-Life Costing methods

PwC provided a summary of both theoretical and practical approaches to Whole-Life Costing, and an associated discipline called Life-Cycle Assessment. This allowed us to comment on departments' approach to the subject, and to set out the material at Appendix 4.

## International comparators

PwC used its European network to identify how the public sector in other EU states is addressing sustainable procurement. This work fed into the references, in Part 2 of the report, to approaches taken in Sweden and the Netherlands.

## Expert panel

We invited academics and practitioners with expertise in sustainability and procurement matters to review our outline findings and comment on the draft report. The panel included:

- Chris Browne – Sustainable Procurement Advisor to the Government of New Zealand
- Ron Jarman – Former president of the Chartered Institute of Purchasing and Supply
- Jill Michielssen – Green Procurement Policy, European Commission
- Barbara Morton – Director, Sustainable Procurement Limited
- Steve Sherwood – Director of Procurement and Business Services, Pricewaterhouse Coopers
- Dr Helen Walker – Associate Professor of Operations Management, Warwick Business School
- Mark Yeomans – Head of Procurement, Environment Agency

# APPENDIX TWO

## The Flexible Framework

The Flexible Framework (**Figure 9**) was created by the 2006 Sustainable Procurement Task Force. The Task Force suggested that, if the UK was to be able to show leadership on sustainable procurement by 2009, all public sector organisations should be at Level 3 by the

end of that year and at Level 5 in one area by December 2009. The five themes are listed here in the order we discuss them in Part 2; the Task Force's original order was People; Policy, Strategy and Communication; Procurement process; Engaging suppliers; Measurement and Results.

### 9 The Flexible Framework

	<b>Level 1 – Foundation</b>	<b>Level 2 – Embed</b>	<b>Level 3 – Practice</b>	<b>Level 4 – Enhance</b>	<b>Level 5 – Lead</b>
<b>Policy, Strategy &amp; Communications</b>	Agree overarching sustainability objectives. Simple sustainable procurement policy in place endorsed by CEO. Communicate to staff and key suppliers.	Review and enhance sustainable procurement policy, in particular consider supplier engagement. Ensure it is part of a wider Sustainable Development strategy. Communicate to staff, suppliers and key stakeholders.	Augment the sustainable procurement policy into a strategy covering risk, process integration, marketing, supplier engagement, measurement and a review process. Strategy endorsed by CEO.	Review and enhance the sustainable procurement strategy, in particular recognising the potential of new technologies. Try to link strategy to environmental management systems and include in overall corporate strategy.	Strategy is: reviewed regularly, externally scrutinised and directly linked to organisations' environmental management systems. The Sustainable Procurement strategy recognised by political leaders, is communicated widely. A detailed review is undertaken to determine future priorities and a new strategy is produced beyond this framework.
<b>Measurements &amp; Results</b>	Key sustainability impacts of procurement activity have been identified.	Detailed appraisal of sustainability impacts of the procurement activity has been undertaken. Measures implemented to manage the identified high risk impact areas.	Sustainability measures refined from general departmental measures to include individual procurers and are linked to development objectives.	Measures are integrated into a balanced score card approach reflecting both input and output. Comparison is made with peer organisations. Benefit statements have been produced.	Measures used to drive organisational sustainable development strategy direction. Progress formally benchmarked with peer organisations. Benefits from sustainable procurement are clearly evidenced. Independent audit reports available in the public domain.

## 9 The Flexible Framework *continued*

<b>Procurement Process</b>	Expenditure analysis undertaken and key sustainability impacts identified. Key contracts start to include general sustainability criteria. Contracts awarded on the basis of value-for-money, not lowest price. Procurers adopt Quick Wins.	Detailed expenditure analysis undertaken, key sustainability risks assessed and used for prioritisation. Sustainability is considered at an early stage in the procurement process of most contracts. Whole-life cost analysis adopted.	All contracts are assessed for general sustainability risks and management actions identified. Risks managed throughout all stages of the procurement process. Targets to improve sustainability are agreed with key suppliers.	Detailed sustainability risks assessed for high impact contracts. Project/contract sustainability governance is in place. A life-cycle approach to cost/impact assessment is applied.	Life-cycle analysis has been undertaken for key commodity areas. Sustainability Key Performance Indicators agreed with key suppliers. Progress is rewarded or penalised based on performance. Barriers to sustainable procurement have been removed. Best practice shared with other organisations.
<b>Engaging Suppliers</b>	Key supplier spend analysis undertaken and high sustainability impact suppliers identified. Key suppliers targeted for engagement and views on procurement policy sought.	Detailed supplier spend analysis undertaken. General programme of supplier engagement initiated, with senior manager involvement.	Targeted supplier engagement programme in place, promoting continual sustainability improvement. Two way communication between procurer and supplier exists with incentives. Supply chains for key spend areas have been mapped.	Key suppliers targeted for intensive development. Sustainability audits and supply chain improvement programmes in place. Achievements are formally recorded. CEO involved in the supplier engagement programme.	Suppliers recognised as essential to delivery of organisations' sustainable procurement strategy. CEO engages with suppliers. Best practice shared with other/peer organisations. Suppliers recognise they must continually improve their sustainability profile to keep the client's business.
<b>People</b>	Sustainable procurement champion identified. Key procurement staff have received basic training in sustainable procurement principles. Sustainable procurement is included as part of a key employee induction programme.	All procurement staff have received basic training in sustainable procurement principles. Key staff have received advanced training on sustainable procurement principles.	Targeted refresher training on latest sustainable procurement principles. Performance objectives and appraisal include sustainable procurement factors. Simple incentive programme in place.	Sustainable procurement included in competencies and selection criteria. Sustainable procurement included as part of employee induction programme.	Achievements are publicised to attract procurement professionals. Internal and external awards are received for achievements. Focus is on benefits achieved. Good practice shared with other organisations.

Source: Sustainable Procurement Task Force 2006

# APPENDIX THREE

## Developments in sustainable procurement in government since 2001

Major developments in government procurement

Major developments in sustainable procurement in government

Critiques of progress in sustainable procurement

**Gershon efficiency review (July 2004)**

- Highlighted procurement as a key area for financial efficiencies.

**Cross-government Sustainable Procurement Group (2001-2003)**

- Reported in October 2003 that 'Government has not yet put sustainable development sufficiently securely at the heart of its business to remove all doubt about whether it is desirable for buyers to pursue green procurement.'
- Led to the establishment of 'Quick Wins' minimum environmental standards for the procurement of various goods. See Box B on page 15.

**Government Sustainable Development strategy (March 2005)**

- Highlighted procurement as vital to sustainable development.
- Set goal of being an EU leader in public sector sustainable procurement by 2009.
- Established the Sustainable Procurement Task Force.

**Reports by the Environmental Audit Committee and NAO (2005 & 2006)**

- Identified a lack of commitment, and barriers to progress.

2001

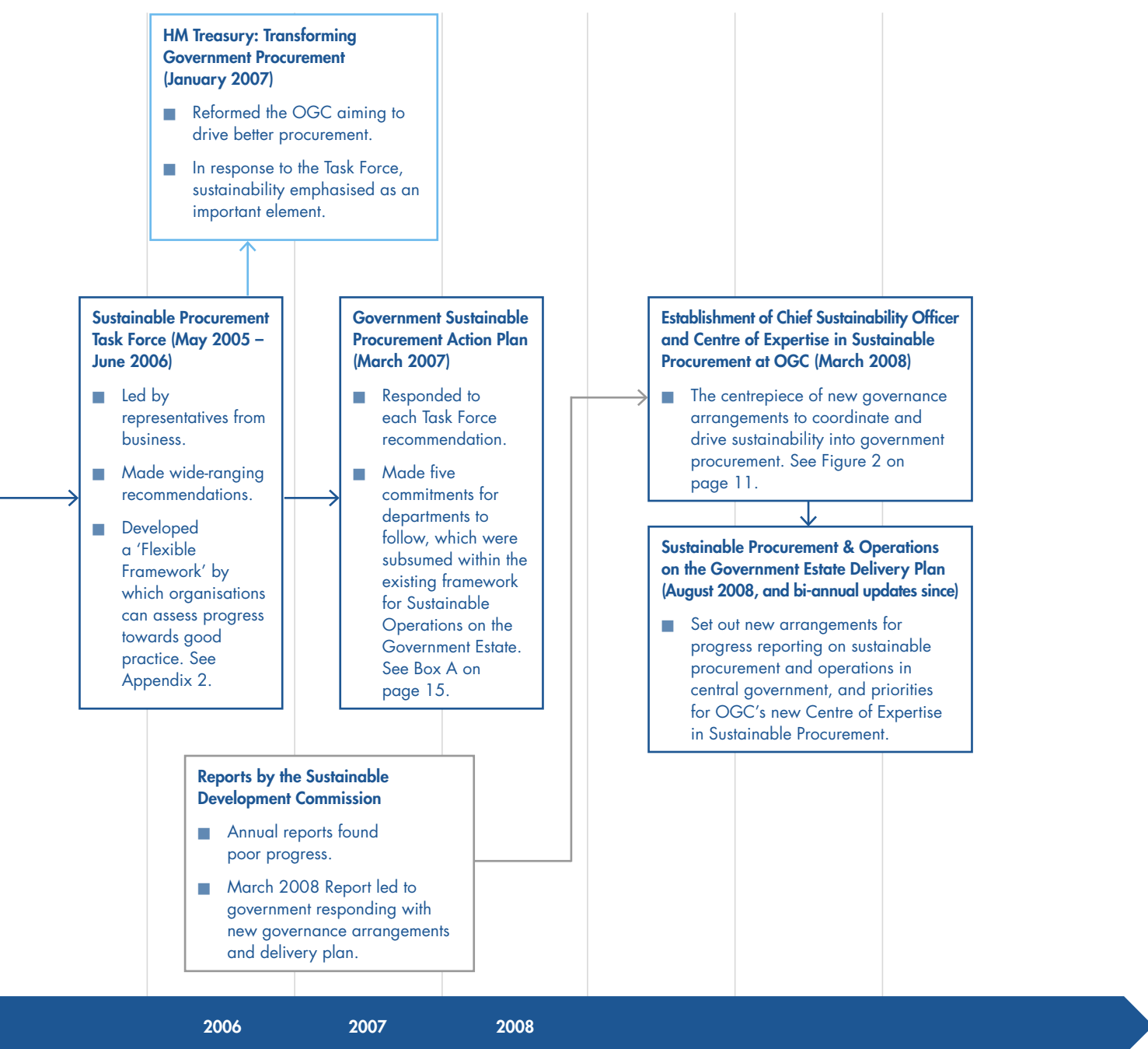
2002

2003

2004

2005

Source: National Audit Office



# APPENDIX FOUR

## Life-Cycle Assessment and Whole-Life Costing

### Life-Cycle Assessment

Life-Cycle Assessment is a methodology which enables the assessment of the overall environmental impacts of products or services over their life-cycle from the extraction of raw materials to their disposal. It is a well established methodology defined by ISO (International Organisation for Standardisation) standards (ISO 14040 and ISO 14044).

**Figure 10** provides an illustration of a Life-Cycle Assessment for a computer. At each stage of the life-cycle of a product, the amount of raw materials and energy consumed are accounted for, as well as the amount of releases into air, water or soil. These environmental physical flows are then used to calculate environmental impacts.

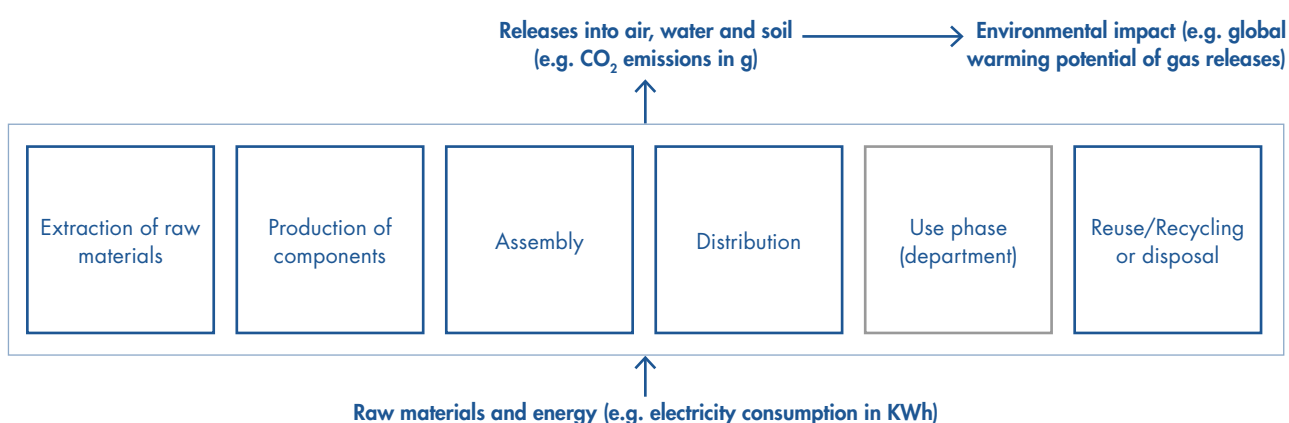
Life-Cycle Assessment accounts for all impacts over the life-cycle of products irrespective of where they are occurring or who is responsible for them. This contrasts with Whole-Life Costing as defined below, which is calculated from the perspective of the user of the product or service.

### Whole-Life Costing

We found differing interpretations of the term 'Whole-Life Costing' amongst procurement staff. Under a narrower definition, the Whole Life Costs of a product or service are considered to be the cost of acquiring, using, operating, maintaining and disposing it. This is also known as the 'total cost of ownership'. Environmental or social impacts of the products or services are not included in this definition.

**Figure 11** sets out an illustrative example for a computer.

**10** Life cycle assessment: illustrative example for a computer



Source: National Audit Office



### A wider definition of Whole-Life Costing

A wider definition of Whole-Life Costing incorporates some or all of the wider impacts of a product or service on society and environment, and could include the results of Life-Cycle Assessment. Techniques exist to convert the environmental impacts identified in a Life-Cycle Assessment into monetary terms, so that they can be brought into a cost-benefit analysis. A cost-benefit analysis should also include the financial costs identified by Whole-Life Costing. The cost-benefit analysis can

then gauge which procurement option represents best value for money, taking into account both financial and environmental impacts, for the user and for society as a whole. **Figure 12** sets out an illustration of how this approach might look.

A number of economic techniques exist to monetise the societal cost of environmental and social impacts. However, these techniques are difficult and controversial and research is still developing in these areas.

