

Addressing the environmental impacts of government procurement

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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 CO₂ 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 departments¹ 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.

¹ 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.