

Submission

No 6

INQUIRY INTO INQUIRY INTO SUSTAINABLE PROCUREMENT

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Theme:

Summary

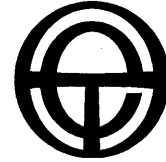
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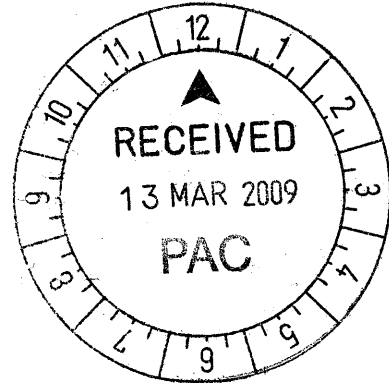
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12 March 2009

The Committee Manager
Public Accounts Committee (PAC)
Parliament House
Macquarie St
Sydney NSW 2000



Dear Sir/Madam

Re: Inquiry into sustainable procurement

Total Environment Centre (TEC) welcomes the opportunity to make this submission to the Public Accounts Committee inquiry into sustainable procurement. NSW Government expenditure on goods and services is in excess \$10 billion per year, making it one of the larger single purchasers of goods and services in South East Asia. The size of the NSW procurement budget points to its importance in determining the environmental footprint of the NSW Government.

Government purchasing decisions can have major environmental impacts, while favouring more sustainable goods and services will have significant environmental, economic and social benefits. In addition, the purchasing power of the NSW Government has the potential to act as a major driving force for the development of more sustainable products and services.

In 2008 TEC presented a review of Australian Commonwealth, State and Territory government procurement policies and practices to the 2008 Sustainable Procurement Conference in Brisbane. A copy of our conference paper is attached and is directly relevant to the present inquiry.

In general, it was noted that NSW is lagging behind other jurisdictions in terms of procurement policies and accountability measures. It was also noted that sustainable procurement in NSW has been weakened by the 'simplification' of a number of key documents into the current policy in 2004.

A key finding of our review was that there is substantial opportunity (and need) for sustainable procurement policies and accountability measures to be improved in all Australian jurisdictions.

The present inquiry thus provides a timely opportunity for NSW to become a leader in sustainable procurement. TEC urges the Committee to adopt a bold approach and recommend major reforms of procurement policy in NSW. We also urge the Committee to recommend rigorous sustainability reporting and accountability requirements for NSW Government agencies and State Owned Corporations.

Yours sincerely

A handwritten signature in black ink, appearing to read "Leigh Martin". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Leigh Martin
Environmental Advisor

Sustainable Government Procurement – An assessment of current policies, practices and opportunities for improvement.

Leigh Martin
Total Environment Centre

Abstract

By practicing sustainable procurement governments can significantly reduce their environmental impact and encourage the development of more sustainable products and services. There has been progress on development of sustainable procurement policies by Australian governments in recent years, most recently through the Australian and New Zealand Government Framework for Sustainable Procurement. Despite this progress current policies are flawed in key respects and there are considerable opportunities (and necessity) to improve sustainable procurement policies.

A common feature of government procurement policies is a requirement to consider whole of life costs and non-price factors in assessment of value for money. There is, however, a lack of guidance on making procurement decisions where products and services with superior sustainability performance are not the lowest cost item. The traditional dominance of price considerations continues to present a barrier to the selection of products with superior environmental and/or social credentials.

Development of rigorous monitoring and reporting criteria is crucial in improving the sustainability of Commonwealth, State and Territory procurement. While several jurisdictions have developed monitoring and reporting approaches there is a lack of consistency across agencies and jurisdictions.

Introduction

Government procurement policies and practices have a vital role to play in promoting sustainability. Total non-defence procurement across all levels of government (Commonwealth, State, Territory and Local) in Australia has been estimated to be in excess of \$50 billion (ACCI, 2003). The Commonwealth Government's non-defence procurement comprises approximately \$16 Billion or 40% of this figure (Good Environmental Choice – Australia, 2004).

The size of the government procurement market has clear implications for fostering sustainability. The purchasing power of governments has the potential to act as a major driving force for the development of more sustainable products and services.

This paper assesses current procurement policies and strategies of the Commonwealth, State and Territory governments and the extent of progress towards implementing green procurement in recent years. Current barriers to sustainable procurement are identified and a range of options for improving the quality of procurement decisions are advocated.

Discussion

Current Government procurement policies

Australian and New Zealand Government Framework for Sustainable Procurement

The Australian and New Zealand Government Framework for Sustainable Procurement was released on September 2007 and provides a set principles to guide the Australian Commonwealth, State and Territory Governments and the New Zealand Governments in the integration of sustainability principles into procurement decisions (APCC, 2007). It is the first procurement agreement between two countries to include economic, social and environmental aspects (Grob, 2007).

The four key principles of the framework are:

- Adopt strategies to avoid unnecessary consumption and manage demand;
- In the context of whole of life value for money, select products and services which have lower environmental impacts across their life cycle compared with competing products and services;
- Foster a viable Australian and New Zealand market for sustainable products and services by supporting businesses and industry groups that demonstrate innovation and sustainability;
- Support suppliers to government who are socially responsibility and adopt ethical practices.

(APCC, 2007)

A key weakness of the framework is that it does not provide any guidance to overcome the current dominance of price. In this respect it may not be sufficient to overcome the barrier that products with superior environmental and/or social credentials traditionally lose out to products with a lower price.

The framework also provides no guidance on development of monitoring and reporting processes. It is simply recommended that monitoring and reporting systems be developed and that sustainable procurement reporting be considered in annual reports. Monitoring and reporting of the sustainability of procurement decisions is a crucial element of ensuring that procurement decisions reflect the principle of sustainability.

Commonwealth Government procurement polices

Commonwealth Government non-defence procurement is guided by the *Commonwealth Procurement Guidelines – January 2005*.

While the current guidelines provide some scope for consideration of environmental and social factors in procurement they do not provide clear criteria for sustainability assessment. In particular there is no guidance on deciding between competing products and services where products with superior environmental and/or social credentials may not be the lowest price option.

The guidelines also lack any monitoring and reporting criteria on the sustainability of procurement by government agencies.

A further weakness is that the guidelines do not necessarily apply to bodies subject to the *Commonwealth Authorities and Companies Act 1997* which are legally and financially separate from the Commonwealth (DOFA, 2004).

Queensland Government procurement policies

Consideration of sustainability in the Queensland Government's State Procurement Policy 2008 falls largely under the objectives of advancing government priorities and achieving value for money. Value for money includes non-cost factors such as sustainability and whole of life costs, including disposal. Whole of life costs are defined as initial purchase costs plus costs arising from holding, using, maintaining and disposing of the goods and services (DPW, 2007a). This definition of whole of life costs does not specifically include externalities such as environmental, health and social impacts. This represents a significant shortcoming of the current policy which should be addressed in order to improve the sustainability of Queensland Government procurement.

General guidance on environmentally sustainable procurement is also provided in the Better Purchasing Guide – Environmentally Friendly Purchasing (DPW, 2000). While this guide provides important information to use in assessing the environmental credentials of products it does not set criteria or standards to be met.

A key requirement of the State Procurement Policy 2008 is that budget sector agencies should progressively increase the proportion of their procurement expenditure on sustainable goods and services from year to year. These agencies must set, measure and report annually on sustainable procurement targets. Budget sector agencies must also incorporate sustainable procurement strategies in their Corporate Procurement Plans (DPW, 2007a) and comply with product based targets set by the Queensland Government Chief Procurement Officer (DPW, 2007b), however, not applying these same requirements to non-budget sector agencies diminishes the effectiveness of the procurement strategy.

A further problem is that there is no defined process by which targets are selected that would ensure genuine progress toward sustainability. This creates a risk that agencies may select modest, easily achieved targets rather than targets which would genuinely drive progress toward sustainable purchasing.

New South Wales Government procurement policies

Under NSW procurement policies, Environmental and other sustainability considerations are included in the assessment of 'value for money'. In addition to price, evaluation criteria include whole of life costs (including disposal), tenderer's environmental management practices and performance and economic, social and environmental development aspects (NSW Treasury, 2004).

The NSW Government Procurement Policy is complemented by the NSW Government Procurement Guidelines to Environmental Management (NSW Department of Commerce, 2006) which provides a list of environmental factors should be considered in procurement:

The value of the guidelines is weakened by requirements that environmental considerations within the value for money requirement should be based on cost neutrality. That is "substituting the use of products with lower environmental impact costs where the overall effect on the agency's business is cost neutral or favourable" (NSW Department of Commerce, 2006). Thus price is likely to remain the dominant factor in procurement decisions.

A lack of reporting requirements on the sustainability of NSW Government procurement is a further weakness of current policies.

Australian Capital Territory Government procurement policies

ACT Government procurement activities are governed by the *Government Procurement Act 2001* (Australian Capital Territory, 2007a) and the *Government Procurement Regulation 2007* (Australian Capital Territory, 2007b).

Factors to be considered in procurement decisions include:

- existing government policies;
- whole of life costs;
- design for the environment;
- environmental labels;
- environmental performance; and
- demand management opportunities.

(ACT Procurement Solutions, 2007)

These requirements provide valuable guidance in assessing the sustainability credentials of goods and services. There is, however, no specific requirement to select goods and services on the basis of triple bottom line impacts or any clear sustainability criteria. In the absence of such requirements or guidance it is likely that price will remain a dominant factor.

Lack of reporting requirements for the sustainability of procurement activities is a weakness of current procurement policies.

Victorian Government procurement policies

As with other jurisdictions consideration of sustainability in Victorian Government procurement decisions falls largely under the criteria of "value for money. Assessment of value for money includes whole of life costs and understanding of triple bottom line impacts (VGPB, 2007).

While these principles provide important guidance on matters to be considered in procurement decisions they require strengthening in order to genuinely drive progress toward sustainable procurement. As with other Australian jurisdictions, there are no clear sustainability criteria against which products and services may be assessed. In the absence of such guidance price is likely to remain the dominant factor in procurement decisions.

While staff with procurement responsibility are to be offered training in environmental procurement there is no mandated requirement for this to occur or indication of the extent of training to be provided.

Tasmanian Government procurement policies

Tasmanian Government procurement policies apply to inner-budget agencies as well as any consultants and contractors who have been contracted to undertake purchasing activities on behalf of those agencies. They do not, however, apply to State Owned Corporations or Government Business Enterprises. (www.purchasing.tas.gov.au).

As with other jurisdictions the value for money principle is most relevant to consideration of sustainability in procurement decisions. Value for money considerations include environmental

factors, energy conservation and contribution to the achievement of other government policy objectives.

Specific environmental requirements are limited to avoiding ozone depleting substances, and giving preference to energy efficient and recycled/recyclable goods even if more expensive providing the benefits of doing so can be justified within value for money considerations.

While these directions are important in specifically allowing recycled/recyclable and energy efficient goods to be given preference even if more expensive than less sustainable alternatives their value is limited by only applying to energy efficiency and recycling considerations.

Current Tasmanian Government procurement policies and principles do not include reporting requirements for agencies making it difficult to assess the effect of current policies or agency compliance with them.

Northern Territory Government Procurement Policies.

The Northern Territory Procurement Framework consists of the *Procurement Act 1995*, Procurement Regulations, Procurement Directions, the Northern Territory Procurement Code and Procurement Circulars (DCIS, 2006a).

Value for money and environmental protection are most relevant principles of Northern Territory procurement policies to sustainable procurement.

Value for money is defined as achieving the best return on Government expenditure, not necessarily the lowest price (DCIS, 2006b). Value for money considerations include whole of life costs (DCIS, 2007), however there is no reference to assessing triple bottom line impacts.

As with other jurisdictions, however, there is insufficient emphasis on sustainability in value for money considerations to overcome the dominance of price. This could be alleviated by specifically requiring assessment of triple bottom line impacts of goods and services.

Lack of public reporting requirements is a major weakness of current Northern Territory procurement policies. Clear monitoring and reporting requirements should also be put in place to drive improvement and allow the sustainability of procurement practices to be readily assessed.

South Australian Government Procurement Policies

Under the *State Procurement Act 2004* value for money is the most relevant consideration for sustainable procurement. Elements to be considered in value for money assessment include whole of life cost, sustainability and intangible costs/benefits (State Procurement Board, 2008).

In common with other jurisdictions there are a number of areas in which South Australian Procurement policies could be improved.

The policy to provide preference to recycled/recyclable or energy efficient goods if they provide equal or better value for money (State Supply Board, 1999) is a superior approach to simply providing preference if price is equal or better as is the case in some jurisdictions. Value for money considerations allow consideration of non price factors including sustainability. There is, however, a lack of guidance on how to assess sustainability in value for money considerations. In the absence of this guidance price is likely to remain a dominant factor.

There are no specific requirements to report on the sustainability of procurement activities or performance against environmental impact policies. This is an area that should be addressed in order to provide a comprehensive picture of the sustainability of procurement activities and to drive improvement.

Western Australian Government Procurement

Procurement principles set by the State Supply Commission with relevance to sustainability are value for money, sustainable procurement and disposal of goods (www.ssc.wa.gov.au).

The sustainable procurement policy requires public authorities to consider procurements that will deliver best value for money through reduced greenhouse emissions, reduced energy efficiency and support for the use of recycled and recyclable materials. Environmental impacts are also to be considered during the procurement process (Department of Treasury and Finance, 2008).

While these requirements provide important guidance on factors to be considered in assessing the sustainability of competing goods and services, there is little detail on how these assessments should be undertaken. Nor is there any specific guidance on value for money assessment that would allow goods with a higher price but superior sustainability to be given preference.

A further shortcoming is a lack of requirements for public authorities to report on the sustainability of procurement activities. This should be addressed by requiring agencies to report on their performance against the requirements of the sustainable procurement policy.

Conclusions

Examination of government procurement policies throughout Australia reveals common themes and opportunities for improvement.

While current procurement policies seek to include assessment of sustainability and other non-price factors in the assessment of value for money there is little clear guidance on how sustainability is to be assessed. In the absence of clear sustainability criteria to assess competing products and services it is unlikely that decisions to favour more expensive products with superior sustainability credentials could be easily justified. Thus price will remain dominant over sustainability considerations.

Current value for money calculations also fail to consider the long term benefits and foregone costs (such as future environmental repair) associated with choosing more sustainable products and services that may be initially more expensive than less sustainable alternatives.

This shortcoming should be addressed by the development of clear sustainability criteria for assessing products and services and requiring the use of triple bottom line assessment in procurement.

Monitoring and reporting of sustainable procurement performance is a key factor in driving improvement in government procurement activities; however, requirements in this regard are scant. Procurement policies should be amended to require agencies to report on the sustainability of their procurement activities.

A major factor in determining the sustainability of procurement for government agencies is the level of training and expertise in sustainability of staff with responsibility for procurement. Procurement policies should clearly require all staff with procurement authority to be given detailed sustainability training.

Exemption of non-budget agencies from sustainable procurement requirements in many jurisdictions weakens the contribution of governments to advancing sustainability and reduces the potential market for sustainable goods and services. Non-budget agencies should be subject to the same requirements as budget sector agencies in relation to sustainable procurement.

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