



House of Commons
Environmental Audit
Committee

**Sustainable Public
Procurement**

Sixth Report of Session 2004–05

*Report, together with formal minutes, oral and
written evidence*

*Ordered by The House of Commons
to be printed Tuesday 22 March 2005*

HC 266

Published on Wednesday 13 April 2005
by authority of the House of Commons
London: The Stationery Office Limited
£15.50

The Environmental Audit Committee

The Environmental Audit Committee is appointed by the House of Commons to consider to what extent the policies and programmes of government departments and non-departmental public bodies contribute to environmental protection and sustainable development; to audit their performance against such targets as may be set for them by Her Majesty's Ministers; and to report thereon to the House.

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A list of Reports of the Committee in the present Parliament is at the back of this volume.

Committee staff

The current staff of the Committee are: Mike Hennessy (Clerk); Lynne Spiers (Second Clerk); Eric Lewis (Committee Specialist); Elena Ares (Committee Specialist); Louise Combs (Committee Assistant); Caroline McElwee (Secretary); and Robert Long (Senior Office Clerk).

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References

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Sustainable Public Procurement

1. The combined annual procurement budget of central and local government in the UK is in the region of £125bn a year.¹ The implications for sustainable development of how this very significant amount of money is spent by the public sector are enormous. Not only are there direct impacts from purchasing decisions, there is also enormous potential for Government procurement to transform the market and encourage innovation in the area of sustainability. However, there are constraints on how procurement money is spent, both to ensure that those in Government are achieving value for money for tax-payers and, within the context of the EU, to maintain free competition across all Member States. Whilst these two considerations have dominated public procurement policy until recently, the Government's role in ensuring sustainable development through procurement is at last becoming a third serious consideration.

2. Our Committee examined the issue of public procurement and the environment within the context of sustainable timber procurement in 2002. Our report, *Buying Time for Forests: Timber and Public Procurement*, was published in July 2002.² Although this report focused on timber we were able to come to some conclusions on general public procurement policy. In particular, we found that the biggest barrier to green procurement in the UK was not the constraints of EU legislation but rather the HM Treasury's traditional hard line of not using procurement to achieve environmental objectives.

3. Two and a half years on, the need to ensure that sustainable development is at the heart of everything the Government does is becoming increasingly urgent as pressures on the environment generally, and the impacts of climate change in particular, are becoming clearer. At the same time, the implementation by HM Treasury of the recommendations of the Gershon Review of public sector efficiency has set significant saving targets for central and local government of £20bn annual efficiency gains in 2007-08. As a result there is a danger that what could have been the beginning of a shift in how sustainability and the environment are considered within public procurement will be thwarted as the result of the perception -and sometimes the reality—that green procurement costs more money and is therefore contrary to the need for efficiency gains across Government recommended by Gershon.

4. We launched this inquiry with the aim of examining how sustainable public procurement policy is being implemented within Government. We wanted to know if there was a clear strategy across Government for implementing a sustainable procurement policy. We also wanted to determine how clear EU and UK guidance was on legislation relating to sustainable procurement and to establish the potential for EU legislation to limit sustainability considerations within procurement. Both of these factors were considered within the context of the Efficiency Programme and the savings this requires.

1 HM Government, *Securing the Future: Delivering UK Sustainable Strategy*, Cm 6467, March 2005

2 EAC, *Buying Time for Forests: Timber and Public Procurement*, July 2002, HC 792-I

5. We received fifteen memoranda in total, for which we are grateful, and held three evidence sessions during which we received evidence from the Department for the Environment, Food and Rural Affairs (DEFRA) and the Office of Government Commerce (OGC), among others.

6. Within the current Parliament we do not have time as a Committee to pursue in more detail some of the issues that have arisen in the evidence before us and come to final conclusions and recommendations. As a result procurement is an issue that our successor Committee is likely to want to return to in the next Parliament, not only in order to examine the issue of sustainable procurement at a strategic level in further detail, but also to focus on more specific areas, such as PPP and PFI procurement, food procurement or construction, and on the procurement activities of individual Government departments. In the meantime there are certain broad issues that we wish to highlight.

7. Since the publication of our previous report, DEFRA and the OGC have published a *Joint Note on Environmental Issues in Purchasing* in October 2003. Furthermore, in response to concerns regarding the restrictions placed on green procurement by EU legislation, the EU Commission published *Buying Green! A handbook on environmental public procurement* in October 2004. Both documents emphasise the fact that EU legislation, for the most part, is compatible with specifying products and services that have a reduced environmental impact.

8. It became clear to us, early on in this inquiry, that the greatest barrier in terms of the legislation on procurement is the perception, rather than the fact, that it restricts the inclusion of environmental considerations in purchasing. There are undoubtedly some areas in which the environment and competitiveness do come into direct conflict. The clearest example of this is the inability to restrict the distance goods travel, a potential environmental benefit, as this could restrict companies' access to markets across Europe, which would be anti-competitive. However, it is possible to specify in a contract the mode of transport of goods or frequency of deliveries, both of which can have environmental benefits. The guidance now available from the EU and the UK Government does make the potential for incorporating environmental considerations into procurement contracts clear: whether the majority of those involved in procurement are aware of this new clarity is, however, a different matter. In actual fact the legislation only really places restrictions on those organisations, such as the Environment Agency or the London Borough of Camden, who already have very high standards of sustainable procurement in place and would like to do more, particularly when taking into account social issues. Elsewhere, there is still a great deal of room for improvement for most bodies within existing legislative constraints.

9. With a public procurement budget of £125bn a year it is clear that this is an area where Government could make significant and swift progress when it comes to mainstreaming sustainable development. We therefore very much welcome the focus on sustainable procurement within the new Sustainable Development Strategy.³ However, as with the previous Strategy, we remain concerned about whether praise-worthy commitments will

3 HM Government, *Securing the Future: Delivering UK Sustainable Strategy*, Cm 6467, March 2005

be translated into action. We therefore hope that our successor committee will examine the Action Plan on Sustainable Procurement when it is published in April 2006, a Plan which will hopefully act as a real driver for action within central and local government.

10. Incorporating sustainability into procurement, as we were told repeatedly in evidence, is not difficult. However there is a perception amongst professionals, as pointed out by the Environment Agency, that it is an onerous task.⁴ There is a need for Government to focus on getting the message across to all those involved in procurement that, in the early stages at least, there are easy environmental, and often financial, gains to be made by the incorporation of sustainability into procurement; and that it is not as legislatively or procedurally complex an area as many think. What is required for this to happen is clear guidance, which now exists in the most part, and clear leadership, which as yet we do not appear to have.

11. The Sustainable Development Commission identified in evidence to us a lack of leadership as one of the main barriers to improving sustainable procurement.⁵ We wholeheartedly agree. The Environment Agency, which is recognised as a leader in the field of sustainable public procurement, told us that in its view this is an issue on which the OGC leads under advice from DEFRA.⁶ The OGC made it very clear to us that it sees its position as advisory to DEFRA, which as far as the OGC is concerned is responsible for sustainable procurement within its sustainable development role.⁷ DEFRA, in its memorandum to us, was not at all clear whom it considered to be the lead Department on this issue.⁸ The Sustainable Development Unit (which works within DEFRA on procurement) was of the view, until recently at least, that it did not see procurement as something on which it would focus in the long term. This is exemplified by the fact that it originally intended ending its direct involvement in the issue by January 2004 (as it hoped sustainable development would become mainstreamed into procurement).⁹ If those who are directly involved in raising the profile of sustainable procurement are themselves confused about who within Government should take the lead on this issue, what hope is there for the rest of us?

12. Achieving sustainable public procurement is an integral part of achieving sustainable development and as such it should be the role of the OGC, the Government's procurement body, to champion it within Government, supported by DEFRA and the Environment Agency. There appears to be little if any internal drive from OGC to pursue sustainable procurement, or any recognition of the significant benefits to the environment and the Government's sustainable development agenda of doing so. It has no dedicated unit or personnel working on this issue, nor does it see itself as having any direct remit in the area. We doubt very much that, as it stands, the OGC would welcome any enhanced role;

4 Q127

5 Ev96

6 Ev27

7 Ev67

8 Ev55

9 Sustainable Procurement Group, *Report and Recommendations of the Sustainable Procurement Group*, p48, January 2005

however we would hope that the commitment in the new Sustainable Development Strategy to embed sustainable development within the OGC would result in an increased willingness on its part to increase its expertise and work in this area. Our conclusion can only be that it is not going to be an easy task to change this position, though change it must if—as the new Strategy states—we are to become leaders on sustainable procurement within the EU by 2009.¹⁰ The OGC could begin this process by making sustainable procurement an explicit and integral part of the Gateway Review process.

13. The lack of leadership and clear direction is exemplified by the fact that what would appear to be the first and most obvious approach to disseminating information on sustainable public procurement, a dedicated website, has yet to be put in place. This is despite the Sustainable Procurement Group recommending in January 2003 that such a website should be up and running by autumn 2003. The arguments from OGC and SDU that the section on the OGCbuying.solutions website, which contains the Quick Wins¹¹ list with some extra information attached, fulfils these requirements do not stand up to scrutiny. What is required is a single, stand alone, dedicated site that contains information on all aspects of sustainable procurement and which can act as a focus for all those working on the issue, and those looking for advice and information. Whilst a website alone would not be enough to achieve the significant changes in procurement practice that are needed, it would be a positive step in the right direction and send a clear signal that this is an issue that the Government is beginning to take seriously. Launching this website should not be held back by the proposed Action Plan, which will not be in place until April 2006 at the earliest. Nor should the efforts being made within DEFRA to set up the Environment Direct website for consumers, although very welcome, be seen as meeting this requirement.

14. There is a need to set clear and simple targets for all those involved in procurement to aim for. Whilst the Framework for Sustainable Development on the Government Estate¹² now sets requirements for departments on procurement, there is very little guidance available on how exactly to meet these requirements. There is, for example, a requirement to “*put in place mechanisms to collect data, to monitor, to evaluate and to report performance on procurement activity related to products and services with high environmental risk*” but no actual guidance on how to do this.¹³ And yet, unless guidance is issued to ensure that the approach taken across departments is standardised, there will be limited scope for measuring and comparing targets across the whole of the Government estate, and therefore a much reduced incentive for departments to improve their performance. In addition, there is the problem that the targets that already exist have not so far had the desired effect. For example, when it comes to construction, an issue on which there are significant gains to be made with regard to sustainable development and procurement, the Sustainable Development in Government Report for 2004 concluded that - from the limited data available—only three projects appeared to have achieved an

10 HM Government, *Securing the Future: Delivering UK Sustainable Strategy*, Cm 6467, March 2005

11 A list available from the OGC website of 27 approved environmentally friendly products.

12 All departments must draw up a sustainable procurement strategy and carry out environmental risk assessments; standard environmental clauses should be included in all contracts, where possible; and departments must implement a training and awareness programme for sustainable procurement.

13 DEFRA, *Framework for Sustainable Development in the Government Estate*,

“excellent” BREEAM¹⁴ rating, out of a total of 147 new build construction projects undertaken in 2003-04. This is despite an “excellent” rating being a requirement for all new construction projects commissioned by departments since March 2003.¹⁵ Even DEFRA, which has a clear commitment to green purchasing, found that its guidance requiring the use of recycled paper only resulted in 43% of such paper being purchased. As a result it made a policy decision to only buy recycled paper, which now means they achieve their 100% target.¹⁶ These are stark examples of how targets alone are not enough.

15. The implementation of the efficiency savings put forward by Sir Peter Gershon, although they do not in themselves preclude the incorporation of sustainability into procurement and the use of whole-life-costs when determining best value, has sent a very strong signal that there is a need to make cash savings through procurement. In actual fact, as was pointed out in evidence to us, the drive for efficiency could, if approached in the right way, also be a drive to encourage whole-life-costing and highlight the potential for long-term savings frequently associated with more sustainable products and services. Strong leadership is required to ensure that the momentum that has so far been gained on the issue of sustainable procurement is not lost as the focus shifts to cost savings. There is already a misconception that including environmental and social considerations in purchasing will automatically result in increased costs. It is a great shame that Gershon did not make it explicit within his Review that the drive to produce efficiency savings should not be at the expense of a more progressive and sustainable procurement policy.

16. When our successor Committee addresses this subject, as we hope it will—both through its own work and the work that the National Audit Office is currently undertaking for us—we would hope to see improved leadership within Government on this matter; clear progress in creating a dedicated website for sustainable public procurement; an increased willingness within the OGC to take on this agenda and move it forward; and progress towards setting clear and measurable targets for sustainable procurement within central and local Government, backed by strong policy decisions aimed at achieving them.

14 Buildings Research Establishment Environmental Assessment Method

15 Sustainable Development In Government Report, 2004

16 Q250

Formal minutes

22 March 2005

Members present:

Mr Peter Ainsworth, in the Chair

Mr Colin Challen
Mrs Helen Clark
Sue Doughty

Mr Paul Flynn
Mr Simon Thomas

The Committee deliberated.

Draft Report (Sustainable Public Procurement), proposed by the Chairman, brought up and read.

Ordered, That the Chairman's draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 16 read and agreed to.

Resolved, That the Report be the Sixth Report of the Committee to the House.

Several papers were ordered to be appended to the Minutes of Evidence.

Ordered, That The Chairman do make the Report to the House.

The Committee further deliberated.

[Adjourned till Tuesday 5 April 2005 at 3pm.]

Witnesses

Wednesday 2 March 2005

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Mr Ken James, Chief Executive Officer, and **Mr Roy Ayliffe**, Director of Professional Practice, Chartered Institute of Purchasing and Supply.

Ev2

Mr Ray Georgeson, Director of Policy and Evaluation, and **Mr David Moon**, Procurement Programme Manager, Waste and Resources Action Programme.

Ev15

Wednesday 9 March 2005

Dr Paul Leinster, Director of Operations, **Mr Mark Yeomans**, Head of Procurement, and **Mr Chris Browne**, Procurement Strategy Manager, Environment Agency.

Ev30

Dr Gordon Murray, Improvement and Development Agency, **Mr Colin Cram**, Director of the North West Regional Centre for Excellence, and **Ms Katherine Cope**, Sustainable Procurement Officer for London Borough of Camden.

Ev46

Wednesday 16 March 2005

Ms Jill Rutter, Director, Strategy and Sustainable Development, **Mr Bob Andrew**, Principal Procurement Adviser, Procurement and Contracts Division, and **Dr Andy Davey**, Environment, Business and Consumers Division, Department for Environment, Food and Rural Affairs.

Ev58

Mr Peter Fanning, Deputy Chief Executive, and Executive Director for Access to Skills and Know-How Directorate, **Ms Anne Turner**, Director of Procurement Policy, and **Mr Mike Davis**, Procurement Policy Unit, Office of Government Commerce.

Ev68

List of written evidence

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Jane Griffiths MP	Ev91
Metropolitan Borough of Wirral	Ev93
Office of Government Commerce	Ev67, Ev76
Sustainable Development Commission	Ev96
Waste and Resources Action Programme	Ev13, Ev22

Past reports from the Environmental Audit Committee since 1997

2004-05 Session

First	Housing: Building a Sustainable Future, HC 135
Second	Corporate Environmental Crime, HC 136
Third	World Summit on Sustainable Development 2002: A UK Progress Report, HC 381
Fourth	The International Challenge of Climate Change: UK Leadership in the G8 and EU
Fifth	Environmental Education: Follow-up to Learning the Sustainability Lesson

2003-04 Session

First	Annual Report 2003, HC 214
Second	GM Foods – Evaluating the Farm Scale Trials, HC 90
Third	Pre-Budget Report 2003: Aviation follow-up, HC 233
Fourth	Water: The Periodic Review 2004 and the Environmental Programme, HC 416 (<i>Reply, HC 950</i>)
Fifth	GM Foods – Evaluating the Farm Scale Trials, HC 564
Sixth	Environmental Crime and the Courts, HC 126 (<i>Reply, HC 1232</i>)
Seventh	Aviation: Sustainability and the Government Response, HC 623 (<i>reply, HC1063</i>)
Eighth	Greening Government 2004, HC 881 (<i>Reply, HC 1259</i>)
Ninth	Fly-tipping, Fly-posting, Litter, Graffiti and Noise, HC 445 (<i>Reply, HC 1232</i>)
Tenth	Budget 2004 and Energy, HC 490 (<i>Reply, HC 1183</i>)
Eleventh	Aviation: Sustainability and the Government's second response, HC1063
Twelfth	Environmental Crime: Wildlife Crime, HC 605 (<i>Reply, HC 438</i>)
Thirteenth	Sustainable Development : the UK Strategy, HC 624

2002-03 Session

First	Pesticides: The Voluntary Initiative, HC100 (<i>Reply, HC 443</i>)
Second	Johannesburg and Back: The World Summit on Sustainable Development–Committee delegation report on proceedings, HC 169
Third	Annual Report, HC 262
Fourth	Pre-Budget 2002, HC 167 (<i>Reply, HC 688</i>)
Fifth	Waste – An Audit, HC 99 (<i>Reply, HC 1081</i>)
Sixth	Buying Time for Forests: Timber Trade and Public Procurement - The Government Response, HC 909
Seventh	Export Credits Guarantee Department and Sustainable Development, HC 689 (<i>Reply, HC 1238</i>)
Eighth	Energy White Paper – Empowering Change?, HC 618
Ninth	Budget 2003 and Aviation, HC 672 (<i>Reply, Cm 6063</i>)
Tenth	Learning the Sustainability Lesson, HC 472 (<i>Reply, HC 1221</i>)
Eleventh	Sustainable Development Headline Indicators, HC 1080 (<i>Reply, HC 320</i>)
Twelfth	World Summit for Sustainable Development – From rhetoric to reality, HC 98 (<i>Reply, HC 232</i>)
Thirteenth	Greening Government 2003, HC 961 (<i>Reply, HC 489,2003-04</i>)

2001-02 Session

First	Departmental Responsibilities for Sustainable Development, HC 326 (<i>Reply, Cm 5519</i>)
Second	Pre-Budget Report 2001: <i>A New Agenda?</i> , HC 363 (<i>HC 1000</i>)
Third	UK Preparations for the World Summit on Sustainable Development, HC 616 (<i>Reply, Cm 5558</i>)
Fourth	Measuring the Quality of Life: The Sustainable Development Headline Indicators, HC 824 (<i>Reply, Cm 5650</i>)
Fifth	A Sustainable Energy Strategy? Renewables and the PIU Review, HC 582 (<i>Reply, HC 471</i>)
Sixth	Buying Time for Forests: <i>Timber Trade and Public Procurement</i> , HC 792-1, (<i>Reply, HC 909, Session 2002-03</i>)

2000-01 Session

First	Environmental Audit: <i>the first Parliament</i> , HC 67 (<i>Reply, Cm 5098</i>)
Second	The Pre-Budget Report 2000: <i>fuelling the debate</i> , HC 71 (<i>Reply HC 216, Session 2001-02</i>)

1999-2000 Session

First	EU Policy and the Environment: An Agenda for the Helsinki Summit, HC 44 (<i>Reply, HC 68</i>)
Second	World Trade and Sustainable Development: An Agenda for the Seattle Summit, HC 45 (Including the Government response to the First Report 1998-99: Multilateral Agreement on Investment, HC 58) (<i>Reply, HC 69</i>)
Third	Comprehensive Spending Review: Government response and follow-up, HC 233 (<i>Reply, HC 70, Session 2000-01</i>)
Fourth	The Pre-Budget Report 1999: pesticides, aggregates and the Climate Change Levy, HC 76
Fifth	The Greening Government Initiative: first annual report from the Green Ministers Committee 1998/99, HC 341
Sixth	Budget 2000 and the Environment etc., HC 404
Seventh	Water Prices and the Environment, HC 597 (<i>Reply, HC 290, Session 2000-01</i>)

1998-99 Session

First	The Multilateral Agreement on Investment, HC 58 (<i>Reply, HC 45, Session 1999-2000</i>)
Second	Climate Change: Government response and follow-up, HC 88
Third	The Comprehensive Spending Review and Public Service Agreements, HC 92 (<i>Reply, HC 233, Session 1999-2000</i>)
Fourth	The Pre-Budget Report 1998, HC 93
Fifth	GMOs and the Environment: Coordination of Government Policy, HC 384 (<i>Reply Cm 4528</i>)
Sixth	The Greening Government Initiative 1999, HC 426
Seventh	Energy Efficiency, HC 159 (<i>Reply, HC 571, Session 2000-01</i>)
Eighth	The Budget 1999: Environmental Implications, HC 326

1997-98 Session

First	The Pre-Budget Report, HC 547 (<i>Reply, HC 985</i>)
Second	The Greening Government Initiative, HC 517 (<i>Reply, HC 426, Session 1998-99</i>)
Third	The Pre-Budget Report: Government response and follow-up, HC 985
Fourth	Climate Change: UK Emission Reduction Targets and Audit Arrangements, HC 899 (<i>Reply, HC 88, Session 1998-99</i>)

Oral evidence

Taken before the Environmental Audit Committee

on Wednesday 2 March 2005

Members present:

Mr Peter Ainsworth, Chairman

Mr Colin Challen
Mr David Chaytor
Sue Doughty

Paul Flynn
Mr Mark Francois
Mr Malcolm Savidge

Memorandum submitted by The Chartered Institute of Purchasing and Supply

The Chartered Institute of Purchasing and Supply (CIPS) is pleased to have the opportunity to respond to the Environmental Audit Committee's (EAC) inquiry on Sustainable Procurement Policy and thanks the EAC for the short extension given to allow us to respond. CIPS is giving a strong focus to the issue of sustainable procurement as well as the wider CSR agenda, both as part of the public good remit enshrined within the CIPS Charter and because we believe that good purchasing and supply management practices are crucial to the success of sustainable procurement.

In welcoming this inquiry, we make the following points to the questions asked:

1. *Is there a clear overall strategy within Government for implementing a sustainable procurement policy? How coherent and effective is the guidance made available to departments, non-departmental bodies and local authorities on this issue? Are the roles and responsibilities for dealing with sustainable procurement clear?*

We believe there is a clear overall strategy within Government for implementing a sustainable procurement policy as espoused in "A better quality of life—the UK Sustainability Development Strategy" in 1999, which steers sustainable procurement as part of sustainable development. Also the Modernising Government White Paper of 1999 committed Government, "to produce and deliver an integrated system of impact and appraisal tools in support of sustainable development covering impacts on business, the environment, health and the needs of particular groups in society". In addition, there are a number of specific sustainable procurement strategies and tools that are relevant to the wider public sector, eg IDeA's "Sustainability and Local Government Procurement" November 2003 and an example of a procurement tool is the Forum for the Future's Local Authority Partnership Network Sustainable Procurement Tool (March 2004).

Central Civil Government has its own sustainable development web site that refers specifically to procurement. This can be found at: <http://www.sustainable-development.gov.uk/sdig/improving/contextf.htm>. The Government's commitment to sustainable development has led to the development of the mandatory Regulatory Impact Appraisal (RIA) which now incorporates a full range of sustainable development impacts and it is applicable to all government departments and agencies.

CIPS believes the roles and responsibilities for dealing with sustainable procurement are very unclear at present. There appears to be conflict between the procurement professionals' role and the political direction. This conflict is often exacerbated by the need for procurement professionals to realise actual savings rather than allow a value for money approach. This will need to be addressed because the procurement efficiencies detailed within the Gershon Review are likely to be of the cashable kind rather than non-cashable kind as detailed in the ODPM's recent Efficiency Technical Note (ETN) for Local Government.

2. *What scope do EU Regulations allow for environmental considerations to be included in public purchasing policy? To what extent does the UK Government's public procurement policy fully exploit this scope*

CIPS believes that scope does exist within the EU Regulations for environmental considerations to be taken into account. An example of this is the Helsinki Bus case that the European Court of Justice ruled on in September 2002

Following the Helsinki Bus case, the European Council of Ministers and the European Parliament have recently reached agreement on proposals to amend the EU Directives to make specific reference to environmental and social criteria. A Council press release issued on 3 December 2003 states:

"Both institutions finally reached a compromise on the main issue outstanding—the possibility of attributing contracts according to environmental and social criteria . . . the adjudicating authorities may . . . define, in the call for tenders, the environmental and social criteria when these are linked to the

nature of the contract. [The Helsinki Bus case] transposes the necessary link between these criteria and the nature of the contract. The working methods of a company may be taken into account in this context . . . a public authority will be able to ask in the call for tenders that the company employ a certain percentage of disabled persons.”¹

The OGC has recently issued Joint Notes on Social and Environmental Issues in Purchasing (December 2004 and October 2003) and these notes explain clearly how social and environmental issues can be incorporated within the UK Government’s procurement policy and the EU Procurement Rules.

3. *How are public sector efficiency proposals in the Gershon Review likely to impact on the implementation of a sustainable procurement policy within both central and local Government? How might the inclusion of environmental specification in the procurement process be affected? Is the Office of Government Commerce’s £3 billion cost saving target likely to have a detrimental impact on environmental considerations?*

The Gershon Review focuses on efficiency savings, which are broadly made up of both cashable saving and productivity gains. In the Office of the Deputy Prime Minister’s recent guidance “Efficiency Technical Note for Local Government” January 2005 procurement efficiency gains realised through greater economies of scale or lower prices are cashable. This includes instances where prices have been negotiated to below the level of inflation. Where higher quality goods and services are procured for the same prices (after allowing for inflation), gains are non-cashable. If the focus on cashable savings for procurement is maintained then it may be more difficult for both central civil and local government to implement a sustainable approach.

The OGC was set a new target for the Spending Review 2004 period to deliver a further £3 billion value for money saving by 2007–08 from public sector procurement through improvement in the success rate of programmes and projects and through other commercial initiatives. CIPS believes that this early in the Spending Review Period it is difficult to ascertain the impact of the cost saving targets on environmental considerations.

9 February 2005

¹ http://www.legal500.com/devs/uk/ev/ukev_086.htm

Witnesses: Mr Ken James, Chief Executive Officer, and Mr Roy Ayliffe, Director of Professional Practice, the Chartered Institute of Purchasing and Supply, examined.

Q1 Chairman: Welcome. Thank you very much for coming along and for your time, and also for your brief memorandum. Can I begin by asking you some fairly general questions about sustainable procurement and its salience within your member companies and the way they think about what they do? Is it a central part of everyday life for you?

Mr James: Yes. The first thing to say is that we represent individuals. We have 36,500 individual members who work in companies, therefore we do not necessarily represent companies. We are a Chartered Institute, which means our ultimate end game is public good. The way we think that works is to help organisations in the private sector generate wealth in a sustainable and socially responsible way and in the public sector spend money in a similar way. For us, corporate social responsibility is a very hot theme, and our president this year has identified that as a theme and we have just issued a challenge to all our members as to how they can become more effective in that area. Therefore, it is one of the key elements of what we actually do. We represent the procurement profession, one element of which is how you ensure sustainability is part of the balanced scorecard when you manage the supply market.

Q2 Chairman: When your president announced his initiative, his challenge, was that an unusual thing?

Mr James: No. We had environmental procurement on our website three years ago, helping with members. I think the environmental part of CSR is probably one of the earlier parts. Ethics has been a

central tenet of our Institute for years. Environment then came along, and social issues and other issues have caught on to add to the CSR programme, if you like. The environmental part of procurement has been very strong for a number of years.

Q3 Chairman: Would you say that overall, however, the focus on this has been more intense of late?

Mr James: Yes, very much so.

Q4 Chairman: Why do you think that is? Why do you think there is more interest in it now?

Mr James: People are realising, I think, that the environmental issue in a general sense is getting stronger. The other issue we have seen is that people have historically understood that the business itself is customer-based, but how you manage the suppliers is something that historically was not well understood by government particularly and private sector organisations. As the supply side of the business gets a higher level of activity and recognition, the issue of how you deal with the supply side and how you ensure the environmental aspects of that are getting clearer and coming to the fore. Business in the Community did a piece of research—they have been doing for six years now—mainly in the private sector about corporate social responsibility and environment specifically, and the environmental measure is pretty strong in the company itself but has historically been relatively weak in how people engage with the supply side. One of our ambitions is to connect the supply side with

2 March 2005 Mr Ken James and Mr Roy Ayliffe

the environmental side and make people understand that, even if you are doing things properly yourself, you could be creating quite a lot of damage back down the supply chain by not interacting with it effectively.

Q5 Chairman: Do you think it is more about saving money than saving the planet?

Mr James: There is an interesting debate we can have later about what really drives procurement because procurement can drive a number of business objectives. One is obviously saving money, one is innovation, one is security of supply, one is transparency—particularly in the public sector—one is sustainability, one is child labour. There are a whole pile of things that the procurement activity can deliver to a business. One of the debates every business has to have is how you actually balance that issue. Certainly, sustainability does not necessarily add cost. In fact, when it is done in an innovative way, we believe that it can actually save money in a whole-life costing sense. We would say that the two can go together very often, but they do not always go together and therefore sometimes a choice has to be made.

Q6 Chairman: I had a look at your website earlier, and I see you are organising a training session on environmental purchasing, which is a very good thing to do, and I noticed that is coming up quite soon, 12 April.

Mr James: Yes. We have had a number of those and this is just the next one in the series.

Q7 Chairman: How well attended are they?

Mr James: We probably get 20 or 30 people to them.

Q8 Chairman: That is not bad considering it seems to cost £385 plus VAT to attend.

Mr James: It is very good value in fact in the market in which it sits. It depends on what knowledge you get for it. It is a good investment, we would say. If individuals do it well, then obviously the benefit outweighs the cost.

Q9 Chairman: I did notice, however, that you have some principles which you expect all your members to sign up to and adhere to. Although it talks about high standards of ethical behaviour, which you would expect as a basic minimum, there is not anything about sustainable procurement or applying the principles of sustainable development to the way that they conduct their business. Do you think that is an omission which should be corrected?

Mr James: My personal view is we can add lots of regulatory things to what we do; we can also add advisory things. In fact, our president at the moment is challenging all our members to take part in a CSR project and email him as to how they can add value, and he is going to test that later in the year. I guess we are doing it by persuasion and training rather than by regulation.

Mr Ayliffe: Also, we have a range of positions on a whole range of supply chain management procurement issues. We have been doing them for about four or five years now, and they are all available on the website, but probably a little bit deeper in the website than you were able to get. One of them is about business ethics, how we believe that organisations—it is not just private sector; it is all organisations—ought to behave ethically, not just the individuals who are members of our organisation. One of the things we are encouraging our members to do through that document is to encourage their colleagues and their bosses to also operate ethically. So we have a number of things along those lines, and we have others about environmental issues as well, as well as a whole raft of things to do with procurement.

Q10 Chairman: So we are not going to see this issue popping up as one of your core principles in the near term?

Mr James: I think it is a core driver. Principle, yes; regulation, probably no.

Q11 Chairman: How many people who come to these conferences and training sessions you organise are from the public sector?

Mr James: We have 36,500 members. Twenty-five per cent work in the public sector and roughly 25% work internationally.

Q12 Chairman: Do you think the needs of the public sector and the private sector are broadly similar when looking at this?

Mr James: The skill sets are similar. How they are interpreted we believe could be different because the regulatory environment in which the public sector works is different to the environment in which the private sector works. The Procurement Directives have an input into the public sector whereas they do not in the private sector. So the regulatory environment in which the public sector works is stronger, I guess, than in the private sector.

Q13 Chairman: I thought that since the Helsinki Bus case of great renown the situation in the public sector had got a lot better.

Mr James: Yes, it has, but you are still regulated. I will give you one example. When you are buying things in the public sector, you can take into account the environmental issues to do with the product, but you cannot take into account the environmental issues to do with the behaviour of the organisation which you procure from. So you cannot use the £120 billion that is being spent in the public sector to change behaviour. You can get it to change the product they are offering whereas in the private sector, if you said you wanted to buy something and you wanted to identify that organisation as having a particular ethical or environmental code, you could specify that, whereas you cannot in the public sector. So the

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ability to drive down the supply chain in the private sector behavioural changes I think is more available than it is in the public sector.

Q14 Chairman: Would you say that, as a result of those limitations on what the public sector can do, the private sector is actually doing better than the public sector?

Mr James: We are asked this question a lot. I think it is patchy. The best private sector organisations are doing very well in this area. There are some great laggards and, as I said before, the Business in the Community report said on average the private sector was not doing as well on the supply side as it was on other aspects of the environmental issue. So I do not think the private sector can say it is doing wonderfully well and the public sector is doing badly; I guess it is patchy in every situation. Certainly we would say there is a massive amount of advice, guidance and initiatives happening in the public sector to drive the sustainable and the environmental agenda. It is a very hot issue. Everybody is talking about it and it is being driven with lots of guidance material. I think there is an announcement next week from Defra, is there not, about what their sustainable plans will be for sustainability generally? It is an issue that is a high-priority issue, and it is evaluated in lots of different ways.

Q15 Mr Challen: Do the private sector ever react negatively to the guidance and advice that you give them? Do they feel they are being overburdened with requirements? The CBI have told us that that is the way they feel about things.

Mr James: Can I back up a bit, and just briefly identify why we believe certain things? There is a difference between what you specify and how you award the contract, and it is a very important issue to get clear. What you specify is an end user requirement, so you could decide that you want to have a computer for disabled people, and that is a decision that the end user needs to make. It is then the job of the procurement guy to go out and get best value for that computer that you are specifying. So I would not want to identify it as just a procurement activity; we would see the procurement people advising the end user or the government department how they operate in this particular area. We see it as a partnership between the procurement people and the end users to make sure we get this bit right. So the specification in the first place is where you can really be innovative and add value. Then when you go out to market you can also be innovative, but there the procurement person probably leads. But when they are specifying the requirement, it is the end user that leads, with advice from the procurement guy. The important issue, I guess, is that when you are going to market, particularly for SMEs and people like that with the public sector, it is very important that the way the specification is written is very clear and open to everybody.

Q16 Mr Challen: Procurement people are obliged to report to senior directors or whoever, who might feel, despite what you have said, that there is still too much interference in their business. Do you get feedback of that sort?

Mr James: Yes. I think the word “interference” is an interesting challenge. We are doing some research on this with international public sector organisations next week or the week after with some of our professors. The challenge for this area is different drivers from different parts of the public sector for different requirements. You are a procurement guy. One minute you are asked to take money out in terms of cash. The next minute you are asked to look at environmental issues. The next minute you are asked to look at SME development. The next minute it is innovation. The big challenge, we feel, from a procurement point of view is sometimes you can put ticks in all those boxes on a particular contract, and it is good if you can do that, and we work innovatively to be able to do that. Sometimes you cannot. The real challenge for the procurement guy is how to get a balance between all those different drivers. The real issue is how we actually get, in some of these major contracts, a proper balance between all the different requirements that people want to use when they are talking about the significant spend that the public sector has.

Q17 Chairman: Can you give us a sense of which government departments, in your experience, seem to be taking this most seriously?

Mr James: Defra have been very strong in this area for a long period of time. The OGC are very involved in it. A lot of the advisers in the public sector for local authorities have done lots of guidance material. There is an issue of are you taking it seriously; are you driving good practice? Then you have to research how that good practice is developing. I have just seen a piece of research in the public sector, for instance, about local authorities, and we are trying to ensure that all local authorities have a procurement strategy. Forty-five per cent of them currently have one which is embedded and the others are working on one. In that 45%, environmental issues were clear and measurable in about 50% of those, whereas the others had them in but they were not necessarily measured the way we think. What we are seeing here, as you said earlier on, is the supply side is going up the agenda, the environment is going up the agenda, people are trying to do the right thing and it is just taking time for that cascade to percolate down and actually be seen in practice.

Q18 Chairman: Would you see yourselves as being the primary organisation to help local authorities to sharpen up their act in this field?

Mr James: They have a lot of advisers. There is an organisation called IDEa, which helps the procurement people in local authorities. There is 4 Ps, that looks at the larger project spend where

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they use gateway reviews. They have set up centres of excellence in each of the regions so there are a number of advisers around that specifically look at the local authority sector. What we can do as an Institute is to bring between sectors good practice and move it around. So if we see something really good happening in one sector, we can move it into the local authority sector, for instance. We would see our role as being effectively delivering—because all our members have to get themselves qualified. Being a chartered body, a full member of the Institute has to pass through a degree-equivalent qualification, so our main remit is to get those people qualified in the basic principles and knowledge across a syllabus of skills and then enable those people to operate. It is a bit like a general practitioner, if you think of it. That is the way we operate. So we are trying very hard to get as many practitioners qualified as we possibly can, and I think the graduate diploma, the CIPS qualification, in the research is the one that most people in the local authority sector actually have. So it is the universal qualification for procurement people, and obviously, we are concerned, I think, in the public sector that the National Audit Office report and others have said that there is an insufficient number of people working in procurement in the public sector who have that qualification. So again, there is a majority initiative to get more people qualified. We believe that, if they are qualified and they understand how to be innovative in this area—and I can describe that later on if you want me to—then they are more likely to be doing a good job.

Q19 Chairman: You have said 25% of your members are from the public sector. Roughly what is the split between central government and local government?

Mr James: One thousand in central government; 1,000 in local authorities, or 900; 1,000 in the NHS; 1,000 roughly in the MoD; 350 in the judiciary and the police; and about 50 in the fire service. It is fairly well spread around various aspects of the public sector.

Q20 Chairman: Have those numbers grown in recent years?

Mr James: Yes, they have. They have grown by about 40% across the last three years, and the Institute has grown by about a third of that, so our growth in membership in the public sector in the UK has been greater, I guess, than on average.

Q21 Mr Chaytor: If I can just pursue the question of qualifications, can you tell me again the basic qualification for purchasing officers, procurement officers?

Mr James: It is called the CIPS graduate diploma. It is a degree-equivalent qualification, regulated by the QCA in the UK. It is at degree level and about two-thirds of a degree volume qualification.

Q22 Mr Chaytor: Of your 36,500 members, how many have that?

Mr James: About half are qualified and half are trying to get themselves qualified, so we are very active in getting students through that process. Of the half, some are part qualified and some not.

Q23 Mr Chaytor: So you can be a member of the Institute without having the full qualification?

Mr James: Yes, but you cannot be a full member, and you cannot put a thing called MCIPS after your name, which is what the job ads tend to ask for.

Q24 Mr Chaytor: You referred earlier to the seminar specifically on sustainable procurement. You have 36,500 members. The seminar that is taking place in April will have 20 people attending. On my maths, that is 1,825 seminars will be needed. Can you tell us a bit more about what you are doing over and above the basic?

Mr James: Basically, the first thing we do is give them knowledge. If you go to our website, there is a whole piece on environmental procurement in there which they can download for free, which was written three years ago and is used in lots of government departments about how you do environmental purchasing. We have just produced a leaflet, which I can show you, which talks about corporate social responsibility. We have booklets that they can buy which help them to pursue this particular area. The training methodology is one way of getting people more up to speed. Publications and information is another way of getting people up to speed, and of course, the qualification itself, although it does not have a lot of detail about sustainability in it, would have the underpinning knowledge that people need to have to say this is an area you need to take seriously. So our guidance material would be the route to get to most people in terms of volume. If you go to our website and put a key word search in, if you are a member you can download—you will not see this if you are a non-member—it will give you all the information on the website that is to do with that particular subject. That is a very time-efficient way of getting lots of written information and guidance material about a particular subject. We would say the website is probably becoming the main route to communicating with people. We produce a magazine—this thing—every two weeks. There is our president's face on the front saying "Time to get serious—are you up to it?" He is challenging all our members to do something on corporate social responsibility and send him an email as to what they are going to do, and he is going to evaluate that at the end of the year as part of his presidential year. We also have awards that we give organisations, and one of those is a CSR award, so people put their best practice forward or good practice forward and it is judged at the end of the year. So we publish information, we send people on training courses, we do a whole variety of routes to market, if you like, to make this information available to people. We also work with lots of

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government departments. We work closely together with OGC, so a lot of the guidance material you see coming out on the OGC, IDeA and people I mentioned earlier on will probably have quite a lot of work that we have done. The last thing I would like to say is that we do a lot of research. We sponsor four professors, and a lot of the research work could well be in the sustainable environmental area. We are trying to understand what good practice is and what the tricks of the trade are to try and square this circle.

Q25 Mr Chaytor: You said earlier that you did not detect any striking difference between the performance of the public sector and the private sector in this respect. What do you think about government performance on the issue of sustainable procurement? That is something we are particularly interested in. Do you think that the United Kingdom government as currently constituted is doing enough? Is its progress fast enough? Where are the blockages? What are the roles of different government agencies? How does the OGC compare with similar organisations in other countries?

Mr James: My personal view, looking round the world, is that in the UK we are probably one of the leading countries, if not the leading country in procurement generally, and I would put the sustainable bit in the middle of that. So if I look round the world, there are 42 institutes around the world, and we are one of those. We are the biggest, and when I work with the other institutes—because we have a federal structure—I would say that the UK can hold its head up pretty well in terms of how it is doing in procurement. We have 25% of our members internationally, and that is a good benchmark for us. We should not knock ourselves and say we are terrible, but that is not to say we are doing everything that we should. What I see is that we have got the initiative, we are pushing lots at that marketplace, there is lots of guidance material. It is really getting embedded now that is the crucial point, and I can talk about that if you want in terms of how we think that should be done.

Q26 Mr Chaytor: What are the next steps? You are saying the general approach of government is right, the Government is sending out the right signals, but in terms of improving the performance and the implementation, what are the two or three most urgent things that need to be done now?

Mr James: The first issue is to get the end users to understand a bit more about procurement, because when you are writing a specification and defining a need, it is very important for people to be innovative. If a procurement guy is saying you will get a better deal on travel, do you have to travel or can you use video conferencing? There is all that innovative stuff at the very beginning that is important. We see there being a need for education on procurement and sustainable procurement in the non-procurement end users. There is a whole debate about whether permanent secretaries and people at high level have really got this message yet, and I think that is a debate we could have.

Q27 Chairman: What about at the lower level though? We have had evidence from the Sustainable Development Commission, who say that there is a lack of technical knowledge and know-how at the lower levels of procurement practitioners.

Mr James: I think there is the end user, then you have the practitioner debate, and that is where we are concerned. The specialists, if you like, people who call themselves procurement practitioners, if they are not qualified and they have been doing another job and they have been put into the procurement department, do they really have the tools and techniques to do the job? One of the key drivers is to get more people qualified who understand the basics. You would not go to a doctor if they did not have a medical qualification, and we believe that our qualification gives them the underpinning knowledge. Then we need to help them with the specific tools and techniques to do with sustainable procurement. There are two blockages: the end user recognising the need, and the procurement guy, as the adviser, being able to come in with the appropriate skills to deliver that need innovatively. There is a process you go through when you are doing procurement. If you follow that process in an innovative way, you can often square this circle of cost and increased spec to do with sustainability. Sometimes you cannot.

Q28 Mr Challen: On this question of determining a procurement need, is it reactive to legislation and so on, and the regulatory environment, or is it proactive? What is the balance between those two things, where somebody is given the tools to actually think for themselves and go beyond the box, or is it reactive to what the Government says?

Mr James: Are you talking about departments now?

Q29 Mr Challen: The individual procurement officer, wherever they are employed.

Mr James: We would suggest that procurement officers should be advising the end user to take the environmental aspects and all corporate social responsibility seriously.

Q30 Mr Challen: In your training. That is what I am getting at. In your training how do you teach them what is the balance between the individual ability to go out and think for themselves and the need to react to things that are just given, like legislation?

Mr James: I think it is both. At the end of the day, they have to do a number of things. A procurement guy has to understand the EU Procurement Directives very clearly, so he has to understand the rules and regulations. He has to understand what good practice is, how you do procurement, because it can be very innovative, so how you engage with the supply market and leverage real benefits from it is very important; how you define a spec in an innovative way. For example, if you send a spec out to the marketplace that is product-centric, you will get that product; if you say it is performance-centric, then you may get more innovation back from the marketplace because they may come up with better ideas than you had thought of. There are all sorts of

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tricks of the trade that we could go through. We need to get that good practice in hand. The other issue is I think they need to be brave enough to be able to engage at a very early stage with the government departments when things are being thought about in the specification sense early on. One of our big concerns is, if a specification is written by an end user department, and then later on they call in the procurement guy just to do the tendering, they may well miss quite a lot of the innovative debate that can come from a better understanding of what might be out there. So I think there is a need for us to get clear generally in procurement and on the sustainable area why it is important, before you write a specification or decide what you want, to engage with a guy who understands the supply market very clearly, otherwise you are missing all the innovation at the very beginning. There is a need for the procurement guy to be educated, and there is a need for the department to recognise that if you engage very early on with somebody who understands what is out there, you may well write that specification differently. We see lots of occasions where somebody has written a spec, they decide exactly what IT system they want, and then they tell the procurement guy to go and buy it. It may well be if they had thought about it more they could have written that specification in a more innovative way. One of the blockages we are talking to the OGC a lot about is how you get the procurement process and the procurement expertise engaged earlier in the process so that the specification is an iterative one between the supply market and the end user department. That is a really key point that we would like to make to get that process working more effectively.

Mr Ayliffe: I have an example of something innovative to ram home that point. Sometimes, procurement people create supply markets because there is not one already. So a need is generated, and the user knows there is a Microsoft or somebody like that around, but you do not want to always go to a Microsoft; you may want to have for the future a more competitive situation. Of course, that is not a competitive situation. So what a procurement professional will do is set about over a period of time to create a market from which it can buy for the long term, and that is sustainability.

Mr James: A good example is BA, which is trying to redesign the inside of their aircraft. The suppliers in that marketplace were limited, so they went to a boat building company and said, "Are you interested in designing the inside of aircraft?" because it is a very similar skill set. That was quite innovative in terms of approaching the marketplace. If there is a need for a sustainable product, with the weight of government procurement, if we do it well, it may well be possible to get a supplier for that that does not currently exist.

Mr Challen: It might reassure passengers if the plane crashes into the sea as well. A double benefit.

Q31 Mr Chaytor: Can I return to the question of specific government departments? Are there any departments that strike you as being ahead of the game? Are there any models of good practice in any of our government departments?

Mr James: I do not have enough detail of exactly how they all operate. I would say Defra probably do quite a bit of work, and certainly from our perspective we see the OGC giving a lot of advice out, and certainly I see a lot of activity in the local authority sector. What you find is some councils, like Kirklees Council, for instance, are very hot in this area, and others are not. I could identify particular departments or councils who seem to have got this message, and what we do need is to find some beacon councils or departments that are doing it well so that we can spread that best practice around. The OGC would probably be more knowledgeable than I am about exactly what is going on inside each department.

Q32 Mr Chaytor: What about the Environment Agency? The Environment Agency has been quite proactive in this, in putting out information and guidelines. Is there any risk of tension or overlap between what the Environment Agency is saying and what the OGC are recommending?

Mr James: Looking at all the advisory stuff, it seems to all be coming from the same basic good practice, and the product that we wrote three years ago is used in the OGC document for advice. We helped the Environment Agency produce this book three years ago, so we are in the middle of a lot of what is going on to try to make sure that we share good practice, and the advice we give people is pretty consistent. I think at the moment there is a lot of advice around. It tends to be written sometimes in rather long words. We are trying to get it simplified for people so they do not have to look at loads of websites. That would be a trick of the trade we would be thinking about. The basic principles I think are very clear and there are a couple of issues . . . I have brought something with me. There is a little diagram that looks like that. If anybody wants it, it is in the OGC advice written with Defra on environmental procurement. It is a little diagram that just shows the five stages in the procurement process and how you work in each of those stages to make it work well. That is where the gateway review and other things would come in. So there is a fairly standard process that people go through. The real trick is how innovative you can be in each of these processes, so you are not just following a process but you are thinking outside the box.

Q33 Mr Chaytor: So you are fairly happy that the OGC and the Environment Agency are cooperating on the general aim of raising awareness?

Mr James: I think so, from where we stand. Would you say so, Roy?

Mr Ayliffe: Yes. I think they are all trying to do these things, the Environment Agency, obviously, because it is obviously part of their remit. OGC have a much more challenging operation, because what they have managed to do is, quite rightly, raise the profile of the whole of procurement, right across the public sector, and now, having raised that challenge, they are being required to help manage, without having direct control, a whole range of improved procurement methodologies,

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including those relating to sustainability. So it is a very challenging environment for them, and for all of the government departments and the local authorities to get it together. But it is early days; it is only recently that that kind of remit and that kind of profile has been arrived at. There are very good early signs but there is a long way to go yet.

Q34 Mr Chaytor: There has been a suggestion within the OGC there ought to be a dedicated section working on sustainable procurement. Would that be an advantage?

Mr Ayliffe: It is possible. Organisational design of another organisation is not our speciality. With a lot of the things about sustainability, it can come right down to the situation on the individual area of spend. What is it that the organisation wants to acquire in order for it to perform its function well? Some of those things will have massive sustainability issues within them, some of them will have hardly any, and the trick is being able to manage all of those, and having the skills to be able to move between those different priorities and get the whole thing right. OGC, by having something that pushes one particular area over another, may well be the right thing to do in order to give some impetus to it for a period of time, but also what you then have to watch out for is that it is not hitting some other great impetus that is there. Currently, the efficiency review impetus is the stronger one, which is all about savings that can be ploughed back. That one is probably stronger than sustainability. If it is felt that that needs to be balanced off, then your suggestion may well be the way to help that to happen.

Chairman: Just before we go on, we are expecting a vote at half past four, and your answers have been very full and helpful. If from now on, would you try and keep them short and helpful, we would be very appreciative.

Q35 Paul Flynn: Could you tell us what the role of the departmental centres of excellence is as far as sustainable procurement is concerned?

Mr James: There are lots of centres of excellence. The OGC is obviously a key one.

Q36 Paul Flynn: The ones set up by the OGC are the ones I mean. Are they working?

Mr James: It is early days. I think the efficiency review starts in March, so our view is it is early days yet. In fact, we have an article from Martin Sykes in here. Our view is that it is likely to work but it is early days and I do not think there is proof that it has not worked yet.

Q37 Paul Flynn: There is no impact on procurement policy yet?

Mr James: Yes. I think there are early wins.

Q38 Paul Flynn: What are they?

Mr James: A lot of the early wins mentioned have been cost savings. There are early wins in terms of, as I described earlier on, organisations like local authorities having environmental issues fairly explicit in their procurement strategies. At least half

local authorities now have a procurement strategy whereas two years ago it was a much lower number. The early wins are moving in the right direction but we are certainly not there yet.

Q39 Paul Flynn: What is the role of the centres of procurement excellence set up by ODPM?

Mr James: They are regionally based in each of the RDA regions, and their idea is to help good practice in each of those regions in consolidating and coordinating practice in each of those areas. They are supposed to be producing a business plan for their area, which I think is currently in hand.

Mr Ayliffe: That is due out in the middle of April.

Mr James: There are drafts around, and their role is to say "How do we pull together all the procurement in our region and ensure that it is properly joined up and well coordinated?"

Q40 Paul Flynn: We have had evidence saying that the regional development agencies are starting to focus seriously on this now. Is this your view?

Mr James: Yes. I think the supply side is certainly going up the agenda and, as I said earlier on, the environmental and sustainable element is one element in that, as is the cost saving element, as is the innovation element, as I described earlier on.

Q41 Paul Flynn: Are there any other bodies you might mention that could play a useful part?

Mr James: Defra have an advisory group, and in the local authority market there are the IDEa and 4 Ps, both of whom have activity going on in the procurement area.

Q42 Paul Flynn: Is there any other department? The list of departments that you have listed as having major achievements seems to be a disappointingly brief one. Are there any more?

Mr James: There are lots of departments having a very good impact on procurement in the round. The sustainable bit of it is the bit that I am not so clear about.

Q43 Paul Flynn: You have mentioned the gateway review process. What is the role of that in public procurement?

Mr James: The gateway review process is a very systematic way of making sure that major spends are managed in the right way, most of them on a project basis. It is a very good way of making sure that all the checks are done at the right stage and that the permissions to move to the next stage are logically reached. Because of that, it has provided a firmness and rigour about the whole process. What is not clear at this stage is how much of that is of a sustainability nature, which is what we are talking about, but certainly the IDEa in their guidance have included some sustainable questions that should be asked at the different stages of the gateway process. That is something they have done, and they have interpreted the gateway process in that way for local authorities, but it is not as clear in central

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government, and it may well be that it is because more detailed guidance on the different major issues needs to be brought out.

Q44 Paul Flynn: From the documentation that we have received, it does not appear to be in practice that the process does include sustainable procurement. It does not play any significant role at all. Is this true?

Mr Ayliffe: It is not overtly there, so from an evidential point of view you are absolutely right, but when they start talking about risks, I think the sustainability issues are likely to appear under that heading some of the time, but we will not know that is happening.

Mr James: I think we need to come back to Roy's point earlier on. The gateway review is a process for ensuring that procurement is done properly. If a particular project has a significant sustainable impact, it would be my suggestion that they should have sustainable hoops that people have to go through at each stage. If it has not, it probably will not be a hot issue in that particular project. It really comes back to an individual project to try and identify for that particular project the relative importance of the balance scorecard I talked about earlier on.

Q45 Paul Flynn: Are you saying that it is stage two that looks at the procurement strategy? Would you agree that an appraisal of how sustainability is incorporated into procurement should be embedded into the review process at that stage or some stage?

Mr Ayliffe: I would agree. I think that is probably the best stage to introduce it, at that point, yes, because it is after the point when the overall need has been identified. That is the point when that can be interpreted from a sustainability point of view.

Mr James: It comes back to my earlier point that the trick here is to ensure that before the specification is written, the environmental requirements are very clear and properly considered. As an example, if you have to fix a road, it is much easier to use that material and recycle it than heave it off and bring some more in. At that stage, if there can be some innovation, when you get from need before you get to final specification, that is one place that innovation can come in. Our documentation talks about people at a very early stage ensuring that they think very clearly and innovatively about how to deal with the requirement and the need rather than jump straight into the obvious solution.

Q46 Paul Flynn: Are there any other ways you think we could use the gateway process to improve sustainability?

Mr Ayliffe: It should be there at every stage really. If sustainability is going to be a major issue within that particular procurement—and as I said before, some it will, some it will not—certainly in a construction environment, which is one of the examples that is given in the IDeA material, it very well is, and they have included it at every stage. There are searching questions about sustainability at each point within that, because that was the right thing to do in a

construction environment used in that way. In other spends it will not be as much. It is horses for courses in that sense.

Q47 Mr Francois: I was going to ask a little later about risk assessment, but this seems a natural point to follow on directly. The Environment Agency makes a very strong case for the need for an environmental risk assessment to be an integral part of every procurement decision. Do you favour its approach of targeting the areas where they think there is most benefit to be had, or do you think it should be an aim to make sustainability an integral part of every procurement decision generally?

Mr James: Our advice is the former. It basically suggests that you look at what you are doing, you get a very good understanding of where the environmental impact and maybe the child labour impact and all the other impacts might be, because a risk assessment is a whole variety of things that you would want to do, and then you focus on the areas of likely highest risk. In a very busy environment, the ability to do everything everywhere in the supply chain, I guess we will end up doing very little.

Q48 Mr Francois: Do you have any specific examples of where risk assessments have been carried out and have been quite successful? Are there any that spring to mind that you are aware of as an example of good practice?

Mr Ayliffe: Not offhand in the public sector, no, but what we do know is that risk assessment and risk management is a much bigger part now of professional procurement than it has ever been before, and it is one of the skills that we develop overall, because it is more understood now that the supply chain elements within risk can sometimes be greater than the risks that happen within the organisation.

Mr James: The bit I can mention is that where I see people working very hard is where you have a long supply chain going into under-developed countries. For example, if you are a retailer and you are buying from China, you might have 300 or 400 procurement people trying to check right back down the supply chain—it is not just your first supplier; it is everywhere—to say: is there any child labour, is there any sweatshop, what are the environmental issues? I guess risk assessment is a very challenging thing to do and that is why I think you have to identify where the highest risks are likely to be on any particular project, and ensure that you have those covered off.

Q49 Mr Francois: How does all this tie to Gershon? Gershon is obviously very financially driven. How do you think this process will play out in that context? Do you think Gershon is focusing too much purely on the money and not enough on some of the environmental gains?

Mr James: It is not our judgment, I guess; it is the judgment of the Government as to which of all these different needs they have. The challenge you have is, if you want to take in procurement 50% of the efficiency in cashable savings, and cashable savings

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do not include a specification increase for the same cost, that in a sense is a bit of a challenge for people. That is where I think the innovation needs to come in. If you can get an increased spec for a lower cost, it is cashable. If you can get an increased spec for the same cost, it is not. That is, I think, where this innovation needs to come in. If you want to try and achieve a sustainable benefit, how do you make sure you get a tick in every box, so you get the increased spec but you also get it for a lower cost? That is what you can do if you are innovative on a number of occasions. Where you cannot, a choice has to be made, frankly. That is where the rubber really hits the road. If you have a major project and from a spec point of view you want to increase it, but that increases the cost, but you are being driven for cash out, who is going to balance that? It seems to me that that is where the end user department has to make that judgment. What they need though is the procurement person to give them advice on all the options. You can run a purchasing project in two phases. You can go for the higher spec and the lower spec, and when you see the cost difference, you can make a choice at that point, but ultimately, that choice has to be made between, sometimes, apples and pears: a higher spec which is more sustainable, or a lower spec that takes cash out.

Q50 Mr Francois: Do you think Ministers have a role in balancing this off?

Mr James: I think on the bigger projects. You almost have to do it on a project by project basis. Certainly Ministers and senior people have to get involved and make that choice. As I said earlier on, it is not always a choice you have to make, because if you can be innovative, quite often, sustainable issues, if you put lifelong costing in, are actually cheaper or more cost-effective. They are not always though, and if they are not, where the procurement person cannot get all those things going in the same direction, the choice has to be made, I think, not by the procurement person but by the department involved, and that is where some senior advice, I think, will be beneficial.

Q51 Mr Challen: It has long been a view that European legislation has prevented people from procuring environmentally good and socially good products and services. That might still apply in the area of transport, for example. Do you think that the recent guidance issued by the Government and by the European Union has gone any way at all in addressing that problem of perception?

Mr James: Yes, I think so. Our view is that at the specification stage it should not be a problem. If you write the specification properly, you can specify something which in fact costs you more and has an upgraded spec. You can take that into account in the product that the supplier is supplying you. What you cannot do is to take the general behaviour of the organisation into account, as I said earlier on. In my view, the guidance that the OGC are producing, both on social and environmental issues, I think is

relatively clear. Of course, you always get the grey areas where you have to go to the real expert and check whether something in the product is genuinely acceptable or not, and that is why there are these court cases. You can specify buying desks from sustainable trees. You cannot say, "I want to check, if I buy paper or something, that you have a diversity policy."

Q52 Mr Challen: We are often accused in this country of gold-plating European legislation—I cannot understand why, but we are. Do you think our own guidance now fully exploits European legislation, that every possible effort is made to make the most of it?

Mr James: I think the guidance is there. This is where you have to be innovative, as I said earlier on. If you are innovative and you just interpret the rules, maybe you are not necessarily getting the full benefit from that innovation, and I guess trying to make sure that you put contracts out which achieve your objective but are also legal is where you have to square that circle.

Q53 Mr Challen: In terms of sustainable procurement, are there any areas of legislation which you think need to be improved? Are there any obvious gaps or flaws in the legislation?

Mr James: From an EU point of view or UK?

Q54 Mr Challen: Either.

Mr James: The main concern I have is that you cannot change behaviour in a supplier from an EU point of view. You can only change behaviour in the products you are buying, and that may well limit you, whereas the private sector can actually drive down the supply change behavioural changes, and that is not allowed from an EU point of view. You have to have a debate about whether that would be fair and reasonable if you did it, but certainly the £120 billion spend that we have in the UK can specify environmentally friendly products; it cannot ensure that that money is spent to drive environmental behavioural changes in the suppliers, whereas in the private sector you can do that.

Mr Ayliffe: If environmental issues were the predominant issues from the UK perspective and the UK government perspective, for instance, if that were the overriding one, it would be a major problem because you would want to use the clout of the large spend that the government has to drive behaviours through the private sector as well, so it would be a problem then, but I do not think necessarily yet it is clear that that is the predominant position, because there are so many other conflicting priorities. For instance, the efficiency, the Gershon review priorities, etc. It rather depends on what we want. We have to be clear in the specification what we want overall as well as what we want in the products that we want to support all of that.

Q55 Mr Challen: I wonder if you would agree with the Sustainable Development Commission. They believe there is a lack of technical knowledge and

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know-how in the lower ranks of procurement specialists. Would you agree with that, and how would you address it if you do agree with it?

Mr James: I do not think it is the lower ranks. I think it is the people who are not qualified who are not actually in the groove of good practice. That is the point I came back to earlier on. Our concern is that, as the supply side becomes an important driver for the Government in terms of its efficiency review, it is very important that we have the right quality of people doing that work, and there is a major initiative to develop that. We work with the OGC in that area, but it is true to say that the proportion of qualified people in the public sector is probably lower than we would all like to see. If those people are more qualified and they have an interaction with all the networks that are going on, the thing will develop. So I do not think it is lower or higher; it is people who are qualified and people doing procurement who maybe are not really professionals in that particular area.

Q56 Mr Challen: Could we address that by perhaps standardising? In the construction industry, for example, having standardised minimum requirements which simply make life simpler for everybody and it becomes obvious and clear what you have to do?

Mr James: I think you can put a lot of regulation around it but at the end of the day it is how innovative you are—the point I made earlier on—to actually engage the supply market in a particular way. There is lots of guidance material out there and case studies on how you do this sort of thing. Ultimately, it depends on the particular people running that project, who can take all that input and actually deliver that project in an innovative way, which is why we believe that procurement is not just about process; it is about process, intellect, brain power, creativity and all the other things that are required. We are trying to get people who actually understand the process and the tools and techniques but who can also think outside the box and come up with innovative solutions.

Q57 Chairman: You are making it all sound very scientific and professional, but let me suggest to you that actually, procurement is not the sexiest bit of any company's activity, that it is actually quite low down the pile when it comes to job satisfaction and reputations within companies, that it tends to be done by people who have done it for a very long time, who have a network of personal contacts, and who maybe get a bottle of Asti Spumante at Christmas from the guy who supplies the biros. I applaud your aspirations but actually in many cases the efficacy of your work has not filtered through.

Mr James: It is patchy. We have done a reward survey. Procurement people now get paid more than IT people and procurement salaries have gone up more than any other profession. So your reading of the situation I think may not be totally accurate. There is patchiness. There are some organisations operating in good practice, and we have a whole tail in the UK, as we have in virtually every other

profession, where people are not doing a particularly good job. Our job is to get the tail up to the good practice area.

Q58 Chairman: This is what is meant though, I think, or this is related to the Sustainable Development Commission's concerns about the lack of technical know-how. What are you doing? The people who come to your conferences are presumably, as ever, the people who have actually bought into the idea in the first place, they are well trained, they are qualified people, they can afford the £385 plus VAT. They are not Bert from Supplies, the guy who sits in a dingy basement office, ringing his mates and ordering the pencils. That is the problem, is it not?

Mr James: That is the way procurement used to be. We see graduates coming into the profession in a way they did not use to. The Government are actually paying more money for people in some government departments if they are qualified than if they are not. The Gershon review suggested that all senior procurement people should be level 3, therefore the individual at the top is the person with the intellect rather than Bert with the pencil. There is a general drive that we have working with central government to get better quality procurement people—and they exist out there. The people working in big banks and in British Airways and places are very valuable people. They spend £4–5 billion a year. The guy at the DWP spends £5 billion a year. Therefore the big government departments are doing as big and challenging a job as some of the big commercial companies. The trick really, in my view, is to get the connectivity between the procurement function in the public sector and senior people right, and put the right quality of people in to run the procurement profession. What big organisations that are doing very well have done is to recognise that and to actually put the right quality of people in. If you have the right CPO in, the right Procurement Director in, as the DWP have—they are trying very hard to get all their people qualified.

Q59 Chairman: Do you know what sort of grade the civil servants who come to your courses are?

Mr James: Yes. They range from grade 3. There are two commercial directors at grade 3 heading procurement up in big government departments now, to grade 5 or 6, who are the lower leaders, to people at a lower level who are doing the operational work. A procurement department, like any other, needs to have an orchestra: it needs the leaders and the people who play the violin and the people who play the cymbals. We believe that you need to have people who are operational, people who are strategic and people who are leaders.

Q60 Mr Challen: When we have a success, we celebrate with House of Commons Lambrusco. Talking about government and local government and that they should be politically driven and they should be market drivers when it comes to

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sustainable procurement policies, do you think that is the case? Are they driving the market through their procurement policies?

Mr James: I think we are seeing more leaders getting engaged, and one of the issues I spoke about earlier on is, if we can get the leaders engaged in this unsexy bit, as you described it earlier on, of their business, which actually is quite important because if you spend £120 billion a year, I would have thought that is a relatively important issue. We are working quite hard, and have done this in a number of councils, to try and help the leaders of councils understand the relative importance of this area, which I agree, historically has not been recognised as being very sexy or very interesting. I think people are now realising that you can add significant value to an organisation by how you interact with that supply side of the market. The leading companies are doing that very well, mainly because the leaders at the top have bought in and they understand the issue. Trying to get permanent secretaries, people in the Cabinet Office, people heading up local authorities to actually really understand this—and it is not the only thing they have to do; there are many other things they have to get right, but this is one element in their strategy that I think they have to focus on.

Q61 Mr Challen: Would the market respond positively if we had more, clearer, simpler targets, do you think?

Mr James: Yes, I think so. I think some of the targets that have been set are fairly clear. To save £21 billion and £7 billion and all that stuff is fairly clear, I guess. The issue really on the sustainable side is what sort of target do we want to set and how do we actually drive that bit of the agenda, and get the two in balance, as Roy said earlier on? Certainly, all local authorities legally have a target for wellbeing in their particular area and the research that they have just done identifies how well they are moving towards that target. As I said earlier on, 50% of them have a procurement strategy. That is not very good. We would like it to be 100%, but it was 25% two years ago. The other 50% either have one or it is in the process of being developed.

Q62 Mr Challen: I just want to go back finally to an issue that we touched upon earlier, and that is the question of how you frame tenders and specifications. If you have to start off, as I understand you do, with a policy that says you must specify an environmentally friendly product or something, that does not give you a full comparative range on which to judge things and sometimes it might make it more difficult. If you have that policy, a director might say, “Actually, we don’t want that because it is going to be more expensive, so we will not have that policy to start with.” Do you see what I mean? I am not expressing it very clearly. So they want to have the policy to start off with for specifying environmental things, or it is purely going to be accidental if they do get something because it has to be cheaper. Is that a problem?

Mr James: This is what I said earlier on. It is very important to get the specification clear, and you can run a procurement activity along two lines to see what the difference in cost is and then make the choice at the end. It is possible for somebody to say, “I think I want this but I am not sure whether I can afford it because I don’t know how much more expensive it is,” and then set the procurement guy to go on that spec and then on a lower spec, and see if they interact with the marketplace what the price difference is, and then make a choice.

Q63 Mr Challen: Are there levels where that becomes difficult because certain people, certainly on very large contracts that have to be advertised across the European Union for example, might bet a bit uppity? They might say, “Well, you are breaking the rules. We will go the Court of Justice or take you to court.”

Mr James: I am not an expert on the EU, but I do not think that breaks the rules. You can specify a product . . .

Q64 Mr Challen: You can have a two-stage specification process?

Mr James: As I understand it, you can, yes, and you can make the decision later on.

Q65 Mr Challen: For everything?

Mr James: Yes, I think for everything.

Mr Ayliffe: Yes. There are rules about how you break up a contract etc, and they have to be adhered to. In terms of sustainability though, just going back to that, it does not really matter. If you want to do the procurement in a sustainable way, whether it is broken up into smaller bits or all put together in one go it does not really matter. The principles still apply to all of those.

Mr James: I guess the end user would want to say, “I ideally would like to increase the specification but I am not sure whether I can really afford it out of my budget.” That is where they need to work on that improved specification to see, by interacting with the marketplace, whether it is possible to get that increased spec without an increase to the budget. That is the skill, I think, of the procurement people. With the weight of public sector procurement, it may be possible to increase the specification but go to market and not necessarily have a cost increase. That is really where the procurement person needs to be engaged at an early stage. If through that process there is an increase in the cost, then a judgment call has to be made by the end user department, saying, “I can’t afford that increased specification because my budget will not stretch to it.” That is really where the choices ultimately need to be made. We talked about innovation and other things coming into the pot, but if you are just talking about cost and sustainability, there ultimately in some cases has to be a choice made.

Chairman: Thank you very much. Thank you for defending the reputation of your interesting and sexy industry. It has actually been a very helpful session and we are grateful to you.

Memorandum submitted by the Waste and Resources Action Programme (WRAP) (SP 03)

INTRODUCTION

1. WRAP welcomes the opportunity to submit evidence to this inquiry looking into how environmental considerations are incorporated into public procurement policy.

2. WRAP was created as a result of actions to boost recycling and market development in the Government's *Waste Strategy 2000 for England and Wales*.² Our mission is to accelerate resource efficiency through the creation of stable and efficient markets for recycled materials and products, and by removing barriers to waste minimisation, re-use and recycling.

3. We work across the United Kingdom, and are funded by Defra (through core funding, and through the Waste Implementation Programme), DTI and the Devolved Administrations. WRAP currently has twelve key programmes, but our comments to this inquiry centre round our experience and expertise running a specific Procurement Programme. Comprehensive information on this work is available from: www.wrap.org.uk/procurement/index.html.

4. In May 2004 we published our second Business Plan,³ setting out our objectives and targets for 2004–06 and describing our work in greater detail than space permits in this submission.

STRATEGY AND GUIDANCE FOR IMPLEMENTING SUSTAINABLE PROCUREMENT

5. The Framework for Sustainable Development on the Government Estate, which applies to Government Departments and their Agencies, provides an overall framework for developing and monitoring sustainable procurement. But guidance to Non-Departmental Public Bodies (NDPBs) and local authorities lacks the same level of coherence. For example, the National Procurement Strategy for Local Government in England requires that, by 2004, every Council should build sustainability into its procurement strategy, processes and contracts. The Improvement and Development Agency (IDeA) has issued guidance to Councils on the process of sustainable procurement, but there is no system of performance measurement to parallel the Framework for Sustainable Development.

6. A MORI survey⁴ on procurement practice in local government, commissioned by WRAP, showed that less than 0.5% of their spending on goods and services knowingly involves recycled materials, with limited awareness of the options outside paper goods. Yet construction is a massive opportunity for increasing the use of recovered materials at no extra cost. Part of the problem is the general paucity of management information within local authorities on what they spend.

7. One of the gaps in public sector guidance on sustainable procurement is a lack of clear benchmarks for what should be bought and specified. One exception is Government's adoption of a list of Quick Win products⁵ that all Government Departments commit to buy. NDPBs and local authorities lack such clear guidelines. However, despite some signs of progress, as this Committee reported in its "Greening Government 2004" report, less than 25% of the eight million reams of desk-top paper purchased by Government departments during 2002–03 met the Quick Win standard for recycled content.

8. In addition, the Quick Wins refer to purchasing of goods. The public sector probably has far greater impact through its procurement of works and services. Here, the Quick Wins approach may not work. In construction, for example, it is better to set outcome-based or performance-based requirements that give the contractor flexibility to find the most cost-efficient solutions for a particular situation.

9. WRAP has been developing the evidence for setting such an outcome-based requirement for recycled content in construction. The proposal is to require a minimum percentage (initially 10%) of the materials value of a construction project to derive from recycled content (not per product). This would encourage the whole supply chain to seek out and develop cost-neutral and cost-saving products with above-average recycled content (such as alternative brands of chipboard containing a higher proportion of waste wood, or blocks with a higher level of recycled aggregate). In turn, by creating demand for recovered materials, this will help to improve the economics of recycling as well as stimulating innovation.

10. WRAP was represented on the Government's Sustainable Buildings Task Group that recommended in its report⁶ "Better Buildings—Better Lives" (May 2004) that the proposed Code for Sustainable Building should include explicit minimum requirements for the efficient use of energy, water and materials, and that this Code should apply to all public procurement. The Group recommended that that "*the revised Building Regulations should specify a minimum percentage by value (at least 10%) of re-used/reclaimed/recycled*

² Department of the Environment, Transport and the Regions (2000), *Waste Strategy 2000—England and Wales Parts I and II*, London: Stationery Office. Cm 4693–1 and 4693–2.

³ Waste and Resources Action Programme (2004), *Resource + Action—Business Plan 2*, Banbury: WRAP.

⁴ WRAP press release (12/03/2004): http://www.wrap.org.uk/news/wrap_delivers_1.html.

⁵ List of "Quick Wins" for Greening Government Purchasing: http://www.ogcbuyingsolutions.gov.uk/environmental/downloads/quick_wins.doc.

⁶ Better Buildings—Better Lives: the Sustainable Buildings Task Group Report (May 2004) http://www.dti.gov.uk/construction/sustain/EA_Sustainable_Report_41564_2.pdf.

materials in building projects”, with a higher threshold being set in the Code. This would send a very clear signal of the standards to be used in this area of sustainable procurement, and we would welcome the Committee’s support for setting these explicit threshold requirements.

11. We have evidence on the economics and practicality of a 10% or higher requirement in applications including schools, housing and barracks, with further work in progress. For example:

- We have analysed two of the DfES Exemplar Designs for secondary schools. At standard practice, these would contain 16–17% recycled content by value. Substitution of competitively-priced products with higher recycled content (such as alternative brands of plasterboard) would increase overall recycled content to 18 or 21%, and give a major (up to 10-fold) increase in the use of recovered materials, equivalent to diverting an additional 3,000–4,000 tonnes per school from landfill.
- The barracks being constructed in Defence Estates’ modernisation programme for Single Living Accommodation already contain 18–19% recycled content by value. Our work identified ways of increasing this figure to 23–24%, using alternative products at comparable cost. Over the remainder of the programme, such product substitution would use ~67,000 tonnes of recovered material that might otherwise have gone to landfill.

We would be pleased to provide more detailed results from these and other studies.

EXPLOITING THE SCOPE TO INCLUDE ENVIRONMENTAL CONSIDERATIONS IN PUBLIC PROCUREMENT POLICY

12. The OGC-Defra Joint Note on Environmental Issues in Purchasing has provided valuable guidance on the scope to include environmental considerations in purchasing practice. However, one year on, we find a continuing lack of awareness of this guidance. The key messages, notably the importance of defining environmental outcomes upfront in the tender specification, still need to be replicated more widely in the “lower-level” documents that guide day-to-day procurement decisions in the public sector.

13. Again, this might be done more effectively by promulgating benchmarks for how to set requirements in individual applications, such as construction contracts. We know, for example, that DfES and Partnership for Schools have already been looking at how to include effective requirements on sustainability in the PFI procurement template for the Building Schools for the Future programme, and we would see this as good practice worth replicating elsewhere.

IMPACT OF THE GERSHON REVIEW

14. Informal comments indicate to us that local authority officers fear that the Gershon Efficiency Review (July 2004) will squeeze out attention to sustainable procurement. This could happen where more sustainable options such as energy-efficient appliances or high-durability fencing made from recovered plastic have a whole-life cost advantage but a higher initial cost than their conventional comparators, since whole-life costs are not yet firmly embedded as the best indicator of value-for-money in the face of annual budgeting.

15. Problems will also arise where the sustainable options are perceived to be more expensive—recycled paper is one example, where costs have come down in recent years, and some local authority buying consortia have achieved price parity. (The DfT and Defra have even achieved a cost saving relative to virgin papers through a framework contract for papers for printed publications—ie using smarter procurement methods and exploiting buying power.) If sustainable procurement is wrongly anticipated to incur higher costs, buyers will not even start down that road.

16. Therefore local authorities and other public sector organisations need a clear steer that they should use the focus on procurement, central to the Efficiency Review, to drive for maximum cost-effectiveness while still seeking sustainable solutions.

17. In construction and highways, there are many cost-neutral and cost-saving opportunities to use higher recycled content, as previously noted. WRAP has commissioned the development of a model or template for asking for higher recycled content at each stage of the procurement process for local authority highways maintenance—since, although a number of local authorities have already demonstrated the technical options and proved the cost savings, few authorities seem to be motivating this option through targeted procurement measures. We are in contact with the Highways Agency who are the change agents to help local authorities achieve efficiency savings in roads maintenance, and we would suggest that all such change agents are given the remit to see how sustainability outcomes can be built into the procurement practices that they advocate.

CONCLUSION

18. After several years of working intensively with Government on a key aspect of sustainable procurement, WRAP’s experience is that:

- there is a high degree of commitment to the principle of sustainable procurement;

- there is useful, high level guidance (such as the DEFRA/OGC Joint Note on Environmental Issues in Purchasing, and the Framework for Sustainable Development on the Government Estate); but
 - there is very limited sustainable procurement actually happening, and so the focus now needs to shift to implementation.
19. We would propose:
- the rapid development of quantifiable sustainability targets for Government purchases;
 - that these should be expressed in output terms—for example, an overall recycled content requirement for a building—to encourage competition and innovation in the supply chain;
 - specific work on the practicality and economics of those requirements, such as WRAP has already carried out on recycled construction products, in order to ensure consistency with the Gershon efficiency review; and
 - that as targets on each aspect of sustainability are developed, these targets are adopted by Ministers.
20. We would be very happy to provide further evidence, either orally or in writing, if the Committee would find this helpful.

3 February 2005

Witnesses: Mr Ray Georgeson, Director of Policy and Evaluation, and Mr David Moon, Procurement Programme Manager, Waste and Resources Action Programme, examined.

Q66 Chairman: Good afternoon. Thank you very much for coming. I know you were listening carefully to our previous session. Given that your primary responsibility is to encourage markets for recycled products—and there are of course sustainable products other than recycled products—to what extent are you involved in promoting the take-up of them?

Mr Georgeson: That is a very good question to start with. As you know, we were set up by the Government five years ago with the task of assisting the Government in the challenge of meeting recycling targets and diverting material from landfill, with European Union Directives uppermost in everybody's mind, particularly the Landfill Directive but others also, including packaging, in which we do have an interest in the materials that go into packaging. That does mean that we have stayed very focused on those tasks, and there are instances where it may well be that what might be deemed a sustainable product which is not necessarily a recycled product may be a more viable option in certain circumstances, but it is not an area we promote. They are areas that we acknowledge that we work alongside, we talk to the relevant organisations that have interests in those areas, but we have stayed very focused on doing the best we can to ensure that recycled materials play an efficient part in the remanufacture and reuse of those materials in products in a way that ensures that they do not end up in landfill sites. We sensibly recirculate materials in the economy.

Q67 Chairman: That is what we would expect, but has this ever created a situation where you have been promoting a product which is actually less sustainable than an alternative option?

Mr Georgeson: I do not believe that to be the case.

Q68 Chairman: But theoretically, it could happen, could it not?

Mr Georgeson: Theoretically it could happen but we have spent considerable time and resource on ensuring that the work we do, particularly to promote the procurement of recycled materials and products, is done on a basis that there is environmental benefit from that action. If there is not environmental benefit from that action, we should not be promoting it.

Mr Moon: To take one example of that, we commissioned the Building Research Establishment to produce a publication based on their green guide to more sustainable specifications looking at which of those specifications could be offered with higher recycled content and still achieve their A rating, and out of probably a couple of hundred specifications, there were a few where, when you went up in recycled content, they dropped down a grade, so we left those out of the publication. There were a few that came up from a B or a C to the A, so we included them and showed that if you went to higher recycled content, they counted. So we do always set our input in the context, say, of sustainable construction so that, although we are pursuing a particular agenda, people can see it in the broader context.

Q69 Chairman: Can you tell us a little bit about the current state of supply and demand within the recycled products market?

Mr Moon: Two of the major areas, the more mature developed areas, are printed matter and construction. Taking printed matter first, in something like newsprint, in 2000 the market share of recycled content was around 60%, and in 2003 that had gone up to 69%, so it is gradually on an upward trend. In coated papers, used, say, for glossy publications, there is a healthy upward trend, something like a 1% share in 2000, 4–5% in 2004. Four per cent is about 40,000 tonnes, so it is quite an upward trend. If you look at something like copying paper, it is relatively static. Tissue paper is downwards. There is an increasing use of virgin pulp rather than recovered fibre.

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Q70 Chairman: Why?

Mr Moon: It is mainly to do with the relative price for virgin pulp and recovered fibre, which is due to a number of factors, but the virgin pulp is imported. One of those factors is, for example, the energy bill. If you are going to de-ink recovered paper, and you do that in the UK, that has an energy cost which you pay in the UK. If you are importing virgin pulp where the mill uses biomass in, say, Scandinavia, their energy cost has been lower and you do not have the climate change issues affecting the local industry. The balance of cost has moved against recovered fibre, both in the UK and elsewhere in Europe.

Q71 Chairman: I asked you about supply and demand. So demand for recycled tissue paper is falling?

Mr Moon: It is really a supply side issue. It is the cost balance that has changed. The demand is for tissue paper. Few people say “I want recycled tissue paper.” They just want tissue paper. In the away from home market, tissue paper used in commercial businesses, you simply buy the cheapest generally. If you can make the cheapest paper using recovered fibre, you will do it.

Q72 Chairman: So you are saying there is no demand for recycled paper really. It is an entirely artificial construct of various organisations.

Mr Moon: It varies according to what particular application you are dealing with. There is a significant demand for recycled copier paper and an increasing demand for recycled paper for printed publications.

Q73 Chairman: What is driving that demand?

Mr Moon: Sustainability, not price. With paper, in the printings and writings sector, you are looking at price parity or possibly a slight price premium for recycled paper, so it is not simply being driven on price, whereas tissue is a price-driven market.

Q74 Chairman: That is a consequence of the different markets, is it, rather than some sort of arbitrary . . .

Mr Moon: I think it is, because the issue of recycled paper as a benchmark of an organisation’s contribution to sustainability is well established, but that is not seen in something like construction. For example, we have had market research done by the opinion pollsters MORI in both the local authorities and the private sector, and they found a high awareness of recycled content in copier paper. If you went to an area like construction, which actually is using quite a lot of recycled content already, there is very low awareness of that recycled content, so it is unconscious use, whereas for copier paper or, saying “My annual report and accounts and sustainability report has got to go on recycled paper,” there is a high demand there.

Q75 Mr Challen: It seems a curious wrinkle in the Climate Change Levy—a consequence we will have to take up with the Chancellor, I think—that the market for recycled tissue paper has been somewhat destroyed.

Mr Moon: It is one factor. I am not saying it is the total.

Q76 Mr Challen: If it makes it more expensive in procurement terms, it is a problem, but it seems to me that when we demand paper that white (indicating), and procurement officers clearly have a key role to play in this decision, when that could actually be a little bit greyer and therefore maybe be produced with less energy input, is that not something that procurement officers could sell to the end users? “We are getting a greyer paper, perfectly good for purpose, because we want to drive the sustainability argument along.” Surely procurement officers have a clear responsibility to do that, would you say?

Mr Moon: Procurement officers have a role in pointing out the products that are available and what you can achieve at what price. Ultimately, I think it depends on the end user, who has got to decide that actually, they do not need that degree of whiteness. The requirement for high whiteness is driven by the end user, the head of marketing, the person who decides what paper to use for bank statements.

Q77 Mr Challen: There is a vast growth in the demand for A4 copier paper for use with computers in the paperless office of today. Surely, that is a vast growth area, and surely that is an area where we can use something a lot cheaper. It is like a comparison with pouring drinking water down the toilet to flush the toilet. There are many places now where you have two buttons, I have noticed, where you can use ordinary rain water to flush the toilet rather than drinking water. Surely procurement and other people in your position should be raising awareness and demanding of manufacturers and telling end users that this is a joint responsibility and raise awareness?

Mr Moon: I do not think they look at it as a joint responsibility. I think the supply side will say they are responding to what the market demands. In the UK the demand is for high whiteness papers. If you go across to Germany, it is almost a point of good practice that they use a greyish paper with high recycled content, but it is a different market demand in the UK. One example of what does happen is, say, some organisations in the private sector are now using the facilities offered by IT so that they will have, for example, two trays of paper in a printer and you can decide. “I am producing a letter for an external customer. My determination is that it needs to be high whiteness. I will use that tray. This is just internal correspondence”, and they use the other paper.

Mr Challen: All letters sent to procurement officers should be sent on grey paper in future.

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Q78 Chairman: Can I just come back to the supply and demand equation? I appreciate that we are talking about thousands of different products, so presumably each different product has its own dynamic in terms of supply and demand, but are there any cases where demand is outstripping supply in terms of recycled goods?

Mr Georgeson: I really cannot think of one, but I think the way you are describing it, Mr Chairman, people out there and businesses out there buy items, they buy products. They are not buying something because it is recycled.

Q79 Chairman: This is extraordinary. It is the first time I have realised that there is in fact no market for recycled goods at all other than the one that is created by government.

Mr Georgeson: No, no. There is a market for recycled goods, but the market is for goods, and goods happen to have recycled content within them. Sometimes they do and sometimes they do not, and there is a lot that can be done to add more recycled content to certain products, and there is a lot that can be done even in a substitution way, where you might be using a virgin material product and you can substitute to use a recycled product, but what you are buying is the product. It just happens to be made of recycled material. Part of our job is to try to eliminate some of the old mythology that lives around recycled. A product is a good product and if it happens to have recycled material in it, it does not matter if it meets the specification.

Q80 Chairman: We have just heard from the Chartered Institute that they are devoting huge amounts of energy to encouraging all their procurement people to buy sustainable goods, presumably including recycled goods.

Mr Georgeson: One of the reasons that is being done is because government has legitimate objectives in sustainability, in waste management, and this is one means of helping to achieve those. If we do not find effective ways of reutilising material and products, we are not doing any recycling. The point of collection of waste material is not the point of recycling. That is the point at which the material is picked out of the waste bin. It is only recycled when it has been reprocessed into a new product. We have to align those two agendas.

The Committee suspended from 4.41 pm to 4.50 pm for a division in the House

Q81 Mr Savidge: You have done a great deal of work on how procurement money is being spent in different sectors. Why is that? Is that information that is not readily available elsewhere?

Mr Moon: That is right. There is relatively little data in the public domain about the extent to which recycled content is being purchased. MORI tried to obtain data for us on the local authority sector, and found that it was very difficult. Partly that is affected by the extent to which local authorities themselves have management information systems for procurement, but it is something where performance

measures are not in place and therefore the data is not being collected, so we needed to commission targeted market research to establish where we should best focus our efforts.

Q82 Mr Savidge: Should there be a better record of how government money is being spent on procurement and could you make any suggestions for improvement?

Mr Moon: There are some records for central government, because with the Quick Wins commitments in place, government departments are reporting against their performance, for example, on the recycled paper categories, and this Committee has looked at the evidence, for example, in your Greening Government report. On construction, which is the other major area where you can use recycled content, there is nothing at present. There is a requirement in the Secure and Sustainable Buildings Act that the Secretary of State has to report every two years on the use of recycled content in the construction sector as a whole, but that is not specific to government.

Q83 Mr Savidge: Do you focus your work particularly on the procurement professionals within government and local government, and what do you also do to try to engage those who may have significant procurement decisions to make who are not procurement professionals?

Mr Moon: If anything, we focus on the latter because, as Ken James was saying, you have got to get the user, the end client, to set the user requirements, to set environmental or sustainability specifications there, and then the procurement professional can help to deliver that. So the primary focus of our work has been on persuading those end clients that there is a good economic case for setting requirements; affordable products are available, it is no extra risk, and then, once they have bought into that case, the next stage is to assist the procurement professional, say with standard contract clauses as to how that requirement can be put into practice. So we focus on getting the end client to say, "Yes, this is a contribution to my sustainability objectives."

Q84 Mr Savidge: Do you think enough attention is focused on the significant impact that these sorts of purchases can have?

Mr Georgeson: I will say one thing first and then David come in. I think there probably is limited understanding of the additional potential to use recycled materials in products. I would focus again on the construction sector, which we have identified as a big win area rather than a Quick Win. Currently, around 14% of materials used in construction have recycled content. There is potential, if the best practice that we have established through case studies and use of contract clauses and specifications is taken up by the construction sector, to increase that to around 21%, which would represent something in the order of 30 million tonnes of additional material utilised in the construction sector which would be diverted from landfill. So there is an important general message to get across

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there, and the challenge for us, of course, is to drill that down with every potential end user and every client, the capacity that they may have to contribute towards that potential, certainly in the case of major construction companies, which very often have the sustainability agenda, the corporate social responsibility agenda, in their values.

Mr Moon: MORI did a survey for us of 300 procurement directors and procurement managers in the private sector, and they found that there was relatively high awareness of recycled paper but low awareness of the use of recycled content in construction, yet if anything, construction is the prime sector where you can specify recycled and save money at the same time.

Q85 Mr Savidge: What do you see as the role of procurement in market forcing and how could the potential for market forcing to improve sustainable procurement be maximised?

Mr Moon: I think there is a role, particularly where, say, government takes a leadership stance. One example of that is the framework contract for paper for printed publications, which was organised by Defra, Department of Transport and the Office of the Deputy Prime Minister on behalf of a number of government departments, so they have pooled purchasing power and common specifications, and this was done about four years ago. By making the extent of demand visible, not only were they able to negotiate very favourable prices, but they also greatly increased the stocking levels held by paper merchants, and that has benefited the whole paper market. The availability of recycled papers has gone up because there was a very visible demand there to be met, and in fact, also as a result of that contract, they have found that innovation has taken place in that there are now more papers being offered with recycled content.

Mr Georgeson: Certainly, we are by no means diminishing the importance of the private sector's contribution here, because the private sector has a very valuable contribution to make but, in terms of government and public sector, government has the capacity to send some very clear signals out to the market about its intent to achieve some of its sustainability objectives through procurement actions. I say that because I want to tie it to issues around investment, particularly in manufacturing using recycled material. The clearer the signal is from government that there is going to be a sustained and steady expansion of the potential to use recycled materials in products, the more likely it is that reprocessors and manufacturers will get more involved in using recycled materials because they can see it surviving over the longer term. It takes us back to where we were at the start, Chairman, of the Landfill Directive driver and the Packaging Directive driver. The need for investment in the recycling and reprocessing industries is very large, and sometimes those investments are held back because of uncertainty around public policy, and this is one good example.

Q86 Mr Savidge: Would you favour the setting of measurable targets for sustainable procurement for all local and central government?

Mr Moon: I favour the setting of benchmarks for what is good practice. So, for example, in the construction sector we have been trying to develop the case for setting a requirement for recycled content as a proportion of the materials value of a project. This was recommended by the Government's Sustainable Procurement Group, and your Committee, in its housing report in January, in one of the recommendations endorsed this approach. We see this as something that will send a signal to the supply chain that recycled content matters, and therefore they will come forward and say "These are our products, this is the recycled content" and they will look for opportunities to increase it. It then becomes part of their competitive positioning to say "One of our product attributes is recycled content." Contrast that with heavy regulation, where they get dragged kicking and screaming, and I think it is much better that they see it as a market positive, but that depends on end clients saying it matters to them. Two recent examples: one is that last October the Whipp's Cross University Hospital, which has a major £300 million rebuilding programme, set this 10% requirement in its invitation to negotiate, its tender specification, for its PFI work, and then in January, following the evidence that we were able to put together for Bristol City Council, who are one of the pathfinders in the Government's Building Schools for the Future programme, so they have a roughly £100 million secondary school rebuilding PFI project, and again, they set the 10% requirement in the tender specification. By having those exemplars, there is a supply chain response. Certainly we know that two of the big builders' merchants, Jewsons and Travis Perkins, see these sorts of activities, they see the Government's Sustainable Communities programme, and they think, "Hang on, we need to respond. We can add value in our service offering to the house builders, the major contractors, if we can put forward information on recycled content," and that sort of thing, so it becomes a positive in the market place.

Q87 Mr Savidge: How about going a stage further? How about setting regulations for all public bodies on sustainable procurement and actually setting minimum standards, or would you feel that was going a stage too far?

Mr Georgeson: I think that is a stage too far for us right now.

Mr Moon: Regulations can provide a good underpinning minimum but if you then want to push for good practice, something more like the Code for Sustainable Buildings, which is a voluntary thing but will nevertheless have a lot of profile, a lot of backing behind it, is a way of saying regulation is there and the code is pushing for good practice. On that point, one thing I would like to mention is the initial outline for the Code for Sustainable Buildings has come out and it does not include the 10% requirement for recycled content which this Committee favoured,

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and which we would favour. My understanding is that this is not deliberately excluded yet, but it is not yet in there.

Q88 Chairman: Where did you find this code? We have been looking for it and have not been successful.

Mr Moon: The Code for Sustainable Buildings, the initial outline, is published on the ODPM website.

Q89 Chairman: Do you know when it was published?

Mr Moon: 9 or 10 February I think.

Q90 Chairman: We will have another look.

Mr Georgeson: Going back to the matter of regulation, it is tempting to think one should regulate and prescribe. I personally feel nervous about the amount of resource that would be needed to effectively police a set of regulations that would inevitably prove more complex and quite difficult to manage. I think it is important to us that we see much more senior ministerial support for initiatives like the Code on Sustainable Buildings and the target-setting that surrounds that, and some accountability attached to those targets, because it is more than symbolic. It is an important signal to the marketplace and to the business community that the Government is serious and that it is perfectly achievable within the sensible boundaries of business. It is not outrageous nowadays to suggest that a sustainability requirement and a cost-effectiveness requirement can go hand in hand.

Q91 Chairman: Is not the problem that you have touched on the question of the end user attitude? When it comes to buying houses, it is a bit like buying tissue paper, is it not? People do not really care. They do not say, "I want to live in a house that is 20% recycled." It just does not happen. It is not on the public's agenda, is it? Of course, they get very worked up if somebody wants to put a landfill site in at the end of the road, but the connection is not being made.

Mr Moon: It is not on the consumer's agenda, but it is on the agenda of a lot of housing associations.

Q92 Chairman: Yes, but not of house builders, who tend to say that until their customers say that they want more recycled content or they want decent energy efficiency standards, they are not going to provide them.

Mr Moon: But if the housing associations say it, therefore in the public housing sector the house builders have to respond, and because house building is such a simple, standardised process, that will have a ripple effect into the private sector. If a supplier is going to gear up to increase the recycled content in bricks and blocks because part of their market is demanding it, and it does not cost any more—in fact, it can cost less—they will do it for everybody.

Mr Georgeson: The point you make, Mr Chairman, is fair. There is still a big job to do to improve consumer awareness and acknowledgement of the

value of some of these issues, and yes, people do not buy a house because it happens to have recycled content in it. They buy it because of where it is and how it looks and how many bedrooms it has, but increasingly, if you are aware that at the same time you are reducing your environmental impact because there are some sustainable materials in there or there is a lower energy cost in the building of the house, which you can start to relate to matters that are affecting us nowadays in relation to climate change, global warming and all those issues that people do care about but struggle to see the connection, I think we will make improvements. Maybe cars is not a good example, but increasingly people are much more comfortable nowadays buying fuel-efficient cars. We never gave it a second thought 10 years ago, or certainly 20 years ago, and that has changed. We see some of those changes taking place in the field in which we work but we readily acknowledge that there is a lot more to do.

Mr Moon: There are other end clients who do value it. For example, why are Bristol City Council interested in sustainability in their schools? Part of the pressure is coming from the school governors, who are saying "We are building sustainability into the curriculum. We want our new school to be a model for our pupils of what we are trying to teach them."

Q93 Mr Challen: We have heard a lot about the high-level guidance that is available on sustainable procurement but in the public sector there still seem to be quite a number of barriers, which leaves people unaware of what is good practice. What do you see those barriers as being and how might we go about removing them?

Mr Moon: I think the barrier is around getting some of the lower level practitioners to know what is good practice. Yes, I think at the EU level we can now see that there is good scope for, say, setting environmental requirements for procurement. The OGC/Defra joint note confirmed this in the UK context. From the informal discussions that we have had, there is limited awareness that yes, you can specify environmental factors in your tender specifications. So there are perceptions to be overcome.

Q94 Mr Challen: Where should people go for advice? Is it obvious to them where they should go? It seems to be quite a complex area. Should there be a simpler sort of portal for information?

Mr Moon: There are a lot of sources of advice, whether it is CIPS, Society of Purchasing Officers in Local Government, or the Improvement and Development Agency. What you need is for them all to be singing from the same hymn sheet. I do not know that you necessarily need to provide a single portal, provided wherever someone goes for advice, they are getting the correct advice on sustainable procurement.

Q95 Mr Challen: Would you see a great role for labelling? The Government has just got this voluntary agreement for the labelling of cars with

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the colour-coded A, B, C, D, E categories. Could we not have that on reams of paper to show what the recycled content was? At the moment, it seems to me, using that little triangular logo is rather confusing because some people use that cynically to say you can recycle this product rather than saying this product is recycled. Would you see a future role for labelling on products like that in the office and other things?

Mr Georgeson: I would say yes, I think that is potentially a very good idea. There is very little work being done in that area right now, and it would certainly merit more examination, because anything that makes it easier for the consumer, whether the consumer is a buyer in a company or you and I in a shop, it would help us to cut through the complexity that exists. There is a historical problem with there being somewhere between six and 10 different variations on the labelling scheme in relation to paper.

Q96 Mr Challen: Are you aware of the paper manufacturers themselves doing anything at all to address that complexity of logos?

Mr Georgeson: It is a challenge to unravel several almost competing schemes.

Mr Moon: The National Association of Paper Merchants does have a specific mark in relation to the fibre content of paper. What you still need is the top-down demand saying "We want more recycled content" rather than trying to drive something in through regulation saying you must label. If it is an asset in the marketplace to declare your recycled content, suppliers will do it. If they do not feel it is an asset, then they are not going to bother.

Q97 Mr Challen: At the moment they are not really trying very hard, by the sounds of it. In your memo you heighten the lack of awareness of the Defra/Office of Government Commerce guidance. Do you think that reflects a low priority on their part in actually promulgating this guidance? Do you think they are putting enough effort into doing that?

Mr Moon: It is clearly available; it is on the website. I am not sure. I do not know whether government should be broadcasting that. Somehow, it has got to be a partnership between government and the organisations that are supplying information, like the Chartered Institute of Purchasing and Supply. It has to come through. The best and most efficient way of doing it is to communicate it through the channels that people would normally work with, so CIPS professionals will look to CIPS, and someone who is in local government and usually uses the Improvement and Development Agency website would want to look for it there. It is about getting it out through the normal channels rather than trying to create a new, bespoke channel.

Q98 Chairman: I think the question was about whether or not there was sufficient priority being accorded to this by, say, OGC.

Mr Georgeson: It feels like there is significantly more potential to do more.

Q99 Chairman: I am taking that as a "no".

Mr Georgeson: Yes, because if there were not, we would not still be sitting here with a task to do, because the task would be more likely to have been completed. In the previous evidence session you asked for some examples of government departments that were doing well, and Defra and, alongside, the Environment Agency were both cited. It struck me as I was listening to that evidence that yet again we had another example where the people you would expect to be doing reasonably well on matters of sustainability are, but there is not a mention anywhere of the Ministry of Defence or the Home Office. I appreciate it is a recurring theme for your Committee . . .

Q100 Chairman: You might have been listening to the conversation we were having before the public session started!

Mr Georgeson: I was not, but I share your frustration with that, because yet again, sustainability is falling into the box of only being the responsibility of Defra and it is deeply frustrating for those of us who care very much about sustainability.

Q101 Sue Doughty: Just a brief comment on this. It looks to me, from what we are hearing here, as if things are on the website; in other words, I can pull that information if I want to know, but nobody is pushing it at me at all, and I am not going to react. I am a busy person, I am buying, I have everybody on my back, I have to meet deadlines, I have to get the price right, everything else. How much more should OGC be pushing that information down the line? Everything is on the Web if you know where to look and you have time to do nothing else but look.

Mr Moon: I would think there is potential for more pushing. I think you are right. If it is just on the Web, people do not have the time to find it.

Q102 Mr Challen: Finally, I would just like to get your take on this issue of whether or not you have to build in at the very beginning, at the early stage, the sustainable procurement principles, if you like, in terms of your contracts and so on, or whether you should have this kind of two-stage approach which we heard about, whether you should be able to compare prices afterwards rather than thinking, "We won't go down that road to start off with because it's going to be too expensive." What is your understanding of the regulations on that? I am a little confused as to what you are allowed to get away with.

Mr Moon: The OGC/Defra joint note on environmental issues in purchasing said that the best place to include environmental requirements is up front, in the tender specification. Putting that in relation to Gershon, what you want to do is say, "These are my requirements on sustainability, and then I am going to use procurement to be as efficient as possible, to gain my maximum value for money in meeting my sustainability requirements."

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Q103 Mr Challen: Do you think, before they even get to that stage, they assume it is going to be more expensive if they follow that particular path, so they just do not do it; they will just go on price alone? Have you any experience or anecdotal evidence that people tend to shy away from building in sustainability from the very beginning?

Mr Moon: Yes. There seems to be a general reaction that, if it is sustainable, it is going to cost more. I think you are right that people need the evidence up front that something is affordable. When we went first had the dialogue with Bristol City Council on their schools, they said, “We need to know that these products are affordable and available,” so we did a study looking at the major products you are going to use in a typical school building—the bricks, blocks, concrete roof tiles, floor beams, that sort of thing—and looking at brands of blocks. Can we find brands with high recycled content at equal price or cheaper? Can we do it for bricks? We went through a whole series of products to build the evidence base to say, “OK, we don’t know exactly what brands your contractor will use, but looking across the market for a typical school building, here is the evidence that they will be able to find the right product at the right price when they come to design your building.” That was, if you like, the affordability evidence, and then they set the requirement.

Q104 Mr Challen: What if that process did reduce the market to just one brand, which is not inconceivable?

Mr Moon: It is not inconceivable but the evidence we produced is that there are a range of brands. Also in that case we advocate setting specifications that are outcome requirements. Requiring that 10% of the materials value of the project should derive from recycled content means that it is up to the contractor to determine whether it is going to be in the bricks or the blocks or the plasterboard or the chipboard or whatever that they are going to find their extra recycled content to meet the client’s requirement. If the client sets that outcome requirement but then leaves it to the superior technical knowledge of the contractor to meet the requirement, you will get a more economically efficient outcome.

Mr Georgeson: If it is helpful to you, rather than quote you a lot of numbers, we do have some useful case studies and examples now where the cost parity between recycled products and others has been met that we do use, as do others, as case studies and examples of good practice to demonstrate that this is the case. We will provide those to you.

Chairman: That would be very helpful. Thank you very much.

Q105 Paul Flynn: The local authority in my constituency in Newport are building a new school at the moment, and they have said that they are building it to the highest possible standards of sustainability. Is this the fruit of your work? Is it a copy of what is happening in Bristol? Is the process spreading throughout the country?

Mr Moon: I am not aware of the Newport example. Possibly they have picked it up through the recommendations of the Sustainable Buildings Task Group, which is clearly in the public domain. We have seen other examples where people have picked up on that. Is this a major PFI project?

Q106 Paul Flynn: It is a major project, rebuilding a school. It is not a PFI.

Mr Georgeson: The Welsh Assembly does have its own distinct initiative on sustainable procurement.

Q107 Paul Flynn: You have mentioned several times the importance you stress on benchmarks and the outcomes, and you have expressed some concerns in your written evidence about the lack of clear benchmarks in the public sector on what should be bought and what should be specified, and you praised the Quick Wins list. You say this is an exceptional exemplar of excellence. Is it your view that it has had a positive impact?

Mr Moon: It is very visible what you have to achieve. For example, this Committee has criticised MoD and Department for Work and Pensions for not achieving it. It is very apparent when someone is not meeting their commitment.

Q108 Paul Flynn: Do you have proof that the Quick Wins list has had a beneficial outcome?

Mr Moon: We have had dialogue with MoD and we know that they are looking at how they can avoid criticism in the future.

Q109 Paul Flynn: How do they do it? Do they have recycled bombs?

Mr Moon: This is on paper. Quick Wins are only going to work for certain selected product categories, things like paper, refrigerators, air conditioning equipment, so it very much applies to procurement of goods. When you go on to procurement of works and services, like construction of buildings, specifying that your dense concrete blocks have got to achieve a certain recycled content, we think that is too prescriptive, and for construction we would advocate going to the project level requirement.

Q110 Paul Flynn: You praise the Quick Wins list. Do you think there are other things that should go on that list, and how do you think the approach of the Quick Wins list should be expanded?

Mr Moon: There are other things that can go on. We have put forward in particular using envelopes made of recycled paper on to the Quick Wins list. I am sure that there are other products, particularly in the energy efficiency area, likewise, and potentially also some water efficiency devices.

Q111 Paul Flynn: You have expressed the view in your document that to achieve quicker progress in the procurement of works and services it would be better to set outcome or performance-based requirements rather than try to persuade practitioners to integrate

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sustainability into the procurement process. Is this because there is little likelihood of significant improvements in the latter, in the short term at least?

Mr Moon: I think that setting clear requirements gives everyone something to work to. As an example, we work with the Defence Estates barracks modernisation programme, and the reaction of Bovis Lend Lease, who are the main contractor on that programme, was “Give us a simple target so that we know what we have got to meet. Do not give us lots of prescription. Give us some clear, simple targets and we will meet them.”

Q112 Paul Flynn: What kind of outcomes or performance-based requirements would you like to see set? Any other ideas on how it could be improved?

Mr Moon: The principal one we are plugging is this one in construction, because the construction sector is the biggest single sector in terms of the potential to divert tonnage from landfill.

Q113 Paul Flynn: This is the Code for Sustainable Buildings.

Mr Moon: This is trying to get things into the Code for Sustainable Buildings.

Q114 Paul Flynn: Would you like to see the Code for Sustainable Buildings used in practice to improve procurement generally?

Mr Moon: Yes. The Sustainable Buildings Task Group recommended that the code be adopted for all public procurement.

Q115 Sue Doughty: I would just like to quickly return to the Gershon review, because trying to find £3 billion worth of efficiency savings is quite a challenge. We touched on it with the earlier witnesses. What I am interested in is, is it going to make your work more difficult in getting sustainable procurement built in alongside these £3 billion efficiency savings, particularly since we have already established that sometimes people do not realise that you can have both?

Mr Moon: Yes. To some extent it makes it more difficult because there is this perception, as I said, that sustainability always costs more. With the particular case of recycled content, there are significant areas where you can generate cost savings. If you take something like highway maintenance, there are some good examples of significant cost savings. Essex County Council set a target for 20% recycled content for financial year 2002–03. Their contractor delivered

59% and they achieved cost savings of £150,000. That was ploughed back into additional maintenance work, so that was a non-cashable saving in Gershon terms, but there is significant scope. As far as recycled content is concerned, we can see some win-win with the efficiency review if people realise that cost savings can be achieved.

Q116 Sue Doughty: We are going to have a lot of focus on the cashable rather than non-cashable savings. Traditionally, of course, you look at lifetime cost of ownership and start saying this is where we get the benefits overall in terms of a product. The highways example is good, but where we have people under pressure, where somebody is breathing down their neck saying “We have got to have those savings,” is that cashable going to work against the opportunities within looking at lifetime cost of ownership, where sometimes sustainability will win in that case just because of the long-term aspect?

Mr Moon: I think potentially it can. I was talking to one of the partners at Davis Langdon, who are a big quantity surveyor, cost planning consultancy. They were saying there has been a lot of increase in demand for consultancy input to help find the cash savings for Gershon, and they perceive that the drive is simply to reduce capital cost, so if you take the example of trying to meet the Government’s Decent Homes standard, Gershon will drive you to say “I need to meet the minimum requirements of the Decent Homes standard. How can I drive down the cost of doing that?” So you would, for example, meet the minimum requirement for thermal insulation under Decent Homes, but you might actually want higher levels of thermal insulation because over time it would be financially beneficial. But the Gershon driver would be to say minimise the cost to deliver just the Decent Homes standard. Because of that pressure, that you have to get the cash saving, you are not going to spend to save.

Q117 Sue Doughty: So having worked towards best value over a number of years, and away from lowest price, we are at risk of going back to lowest price, and possibly not getting the benefits that we might get.

Mr Moon: There seems to be something of that risk. Again, with the issue of annual budgets within the public sector, people will say “Yes, I should be delivering on whole life,” but nevertheless, there are some pressures on them to minimise cost.

Chairman: Thank you very much indeed. It has been most helpful. We also thank you for your written evidence.

Supplementary memorandum submitted by the Waste and Resources Action Programme (WRAP) (SP03A)

INTRODUCTION

1. WRAP welcomes the opportunity to submit supplementary evidence to this inquiry looking into how environmental considerations are incorporated into public procurement policy.

2. WRAP gave evidence to the Committee on 2 March 2005. This document provides some additional evidence relating to the following lines of questioning:

- Why WRAP is involved in sustainable procurement and what its role is in improving this.

- Background on how the markets for products with recycled content are changing.
- Is there a vacuum in work/information to understand the market?
- What is the role of procurement professionals, and how is WRAP working with them?
- Whether there is a lack of guidance/sustainable procurement knowledge at a lower level and how this can be improved.
- Views on Quick Wins—how this is working, and whether this could be expanded or improved.
- Is there a need for Government regulation on sustainable procurement rather than simply guidance or voluntary action?
- Impact of the Gershon Review.

WHY WRAP IS INVOLVED IN SUSTAINABLE PROCUREMENT AND WHAT ITS ROLE IS IN IMPROVING THIS

3. WRAP's mission is to help the UK meet its targets on recycling and resource efficiency. This requires end-market demand for uses of recovered materials to be stimulated, in order to "close the loop". Therefore WRAP has a programme aimed at getting major end-clients in both the public and private sectors to specify recycled in their procurement of goods, works and services. This will help to overcome market weaknesses including:

- A lack of information on the recycled content of products.
- Misperceptions on cost and performance.
- A lack of leadership and top-down drivers for change.

4. As an example, substituting products (such as bricks and blocks) with "good practice" recycled content in place of "standard practice" could increase the use of recovered materials in a secondary school by a factor of 10 (based on analysis of DfES Exemplar Designs by Davis Langdon for WRAP). Across the Building Schools for the Future programme, this would potentially use an additional 0.5 million tonnes each year that might otherwise have gone to landfill or low-value uses.

BACKGROUND ON HOW THE MARKETS FOR PRODUCTS WITH RECYCLED CONTENT ARE CHANGING

5. Two sectors where the use of recycled content is well-established in "mainstream" products are paper and construction. Estimated market shares and trends are:

- Coated paper for printed publications (excluding magazines): 4–5% share in 2004 (of ~1Mt market), up from <1% in 2000, especially as a result of increasing demand from the clients specifying publications.
- Uncoated papers, eg copying paper: 8-10% share in 2004 (of ~2Mt market), with a relatively slow upward trend—again linked to increased consumer demand.
- Newsprint: 69% share in 2003 (of ~2.5Mt market), up from 60% in 2000, especially as a result of an industry voluntary agreement and technical advances.
- Tissue: 45% share in 2003 (of ~1Mt market), down from 55% in 2000, especially as a result of changes in the relative costs of virgin versus recovered fibre inputs. The price of virgin pulp has fallen, while the collection costs for waste paper have maintained recovered fibre prices. In addition, UK mills have avoided some of the direct energy costs associated with de-inking waste paper by importing virgin pulp produced using biomass energy.
- Construction: 14% share by value (18% by quantity, or ~70Mt) in 2002, predominantly as a result of supply-side decisions (eg aimed at reducing input costs) rather than client-side specification. We anticipate the development of client-side demand will be strongly dependent on implementation of the Sustainable Buildings Task Group's recommendation for a recycled content requirement within the Code for Sustainable Buildings.

6. Market research by MORI shows low awareness of the opportunities to specify recycled in construction, both among local authorities and procurement managers in the private sector. However, a few clients have set requirements for recycled content—including the Environment Agency (capital projects such as flood defences), Essex County Council (highways maintenance), Whipps Cross University Hospital (hospital PFI) and Bristol County Council (schools PFI). For example, in FY2002/3, Essex County Council set a target for 20% recycled content across its highways maintenance. The contractor achieved 59%, yielding cost savings of £150,000.

IS THERE A VACUUM IN WORK/INFORMATION TO UNDERSTAND THE MARKET?

7. In general, data tend to be lacking where performance measurement is not applied. For example, MORI found that most local authorities lacked the management information on procurement that would enable them to quantify the value of contracts where recycled content is specified. The National Procurement Strategy for Local Government in England (2003) set the target that, by end-2004, “every council should build sustainability into its procurement strategy, processes and contracts”. CIPS have quoted ODPM data to the Committee (on 2 March) that this has not been achieved.

WHAT IS THE ROLE OF PROCUREMENT PROFESSIONALS, AND HOW IS WRAP WORKING WITH THEM?

8. The key intervention point within the procurement process at which sustainability objectives should make an impact is upfront, when defining the business case and setting the user requirements or tender specification. (The OGC/Defra Joint Note on Environmental Issues in Purchasing highlights this point.) Therefore it is the end-user client who has a key role, advised by procurement professionals. By comparison, the latter take the lead role subsequently, securing value for money once the user requirements have been set. Consequently, WRAP has focused primarily on making the case for setting requirements for recycled content to the end-clients—and then following up by providing templates for procurement professionals (eg for local authority highways maintenance contracts and PFI construction projects).

WHETHER THERE IS A LACK OF GUIDANCE/SUSTAINABLE PROCUREMENT KNOWLEDGE AT A LOWER LEVEL AND HOW THIS CAN BE IMPROVED

9. We perceive that busy professionals may lack the time to find out how to specify recycled. For this reason, providing off-the-shelf templates (to build on the catalyst of a top-down mandate for change) is essential. This has been recognized in the procurement section of the Framework for Sustainable Development on the Government Estate, where Government Departments will be required to include environmental clauses in all relevant contracts, and provide training for the range of personnel involved in procurement.

VIEWS ON QUICK WINS—HOW THIS IS WORKING, AND WHETHER THIS COULD BE EXPANDED OR IMPROVED

10. The Quick Wins work well for certain products purchased as goods, such as copying paper—and we have recommended adding envelopes to Defra’s list.

11. For works and services contracts, such as construction, setting an outcome-based requirement is likely to be more efficient, leaving the contractor the flexibility to find the most economic solution in a specific situation. The Sustainable Buildings Task Group recommended setting requirements for recycled content, and the Environmental Audit Committee endorsed this proposal in its recent report on Housing (January 2005). However, the Initial Outline of the Code for Sustainable Buildings has omitted such a requirement. WRAP understands there is the opportunity for its inclusion in the next draft of the Code, given appropriate stakeholder support.

12. The following examples illustrate that setting a recycled content requirement in construction is affordable—and can even reduce costs. For school buildings, we have identified competitive brands of mainstream products that would offer higher recycled content in half of the materials used. In the second example, two leading construction companies have shown that a range of projects could have accommodated around 30% recycled content at no extra cost—and found they could save 6–8% on materials costs in house-building, albeit with a smaller increase in recycled content.

Example 1: Construction products used in school buildings

13. The following Table lists some brands of products/materials which are widely used in school building projects, and a comparison with equivalent brands with higher recycled content. The prices quoted are close to real-life discounted prices for a schools project, having been obtained by an experienced quantity surveyor in the geographic area.

14. The overall analysis—from which these examples are taken—identified that improvements in recycled content could be made in some 47% of all products/materials typically used in schools construction. In many of the products/materials analysed, it is viable to use equivalent products with higher recycled content, with no penalty in terms of cost, performance or availability (ie Quick Wins):

Table 1

Some mainstream products offering quick wins in construction

<i>Product type</i>	<i>Conventional comparator</i>		<i>Higher recycled content option</i>	
Dense block	RMC Readyblock Dense 0% recycled content £5.65/m ²		Tarmac Topblock Topcrete Standard 50–80% recycled content £5.30/m ²	
Floor insulation	Kingspan— Thermafloor TF 70 Recycled content not stated £6.54/m ²	Jabfloor—100 10–20% recycled content £3.97/m ²	Excel Warmcell 500 100% recycled content £5.25/m ²	Superglass Floorslab 80% recycled content £1.97/m ²
Wall insulation	Rockwool Cavity Batts 10% recycled content £.65/m ²		Superglass Superwall Cavity Slab 80% recycled content £2.82/m ²	
Concrete roof tile	Sandtoft—Calderdale 0% recycled content £570/1,000		Marley—Mendip 25% recycled content £560/1,000	
Plasterboard— standard areas	Lafarge Standard Wallboard 15% recycled content £1.51/m ²		British Gypsum Gyproc Wallboard 84% recycled content £1.25/m ²	
Bulk filling products type 6F1	Morton Cullimore 6F1 0% recycled content £8.25/tonne		Hills Mineal and Waste 6F1 100% recycled content £8.00/tonne	
Bulk filling products type 6F2	Morton Cullimore 6F2 0% recycled content £8.25/tonne		Hanson Recycling and Demolition 100% recycled content £8.00/tonne	

Example 2: Case study analysis by Costain and Taylor Woodrow

15. The following Table lists the provisional results of detailed product-level analysis, led by major contractors Costain and house-builders Taylor Woodrow, on eight actual construction projects, based on real-life costs and quantities. The data demonstrate that there is substantial potential to increase the use of recycled content, and even to reduce materials costs in the process.

Table 2

Potential to use recycled content in construction (as a % of project materials value)

<i>Case study</i>	<i>Actual practice</i>	<i>Potential recycled content with a cost saving</i>	<i>Potential recycled content at no extra cost</i>
Terraced house	16%	19.5% (6% cost saving)	27.5%
Detached house	16.5%	20% (8% cost saving)	30%
Flat	16.5%	20% (6% cost saving)	30%
Primary care centre	17.5%	21.5% (1% cost saving)	27%
Commercial office building	22%	30% (1% cost saving)	30%
Bridge	22.5%	32% (3% cost saving)	48.5% if materials had been available locally
Motorway junction	15.5%	18% (1% cost saving)	29% if materials had been available locally

IS THERE A NEED FOR GOVERNMENT REGULATION ON SUSTAINABLE PROCUREMENT RATHER THAN SIMPLY GUIDANCE OR VOLUNTARY ACTION?

16. The Government's Sustainable Procurement Group (2003) concluded that a change in procurement practice requires a top-down driver and commitment—guidance itself is not enough. Our own market research agrees with this key finding.

17. Regulation may not be essential. For example, if the Code for Sustainable Buildings sets a requirement for recycled content, and Government adopts the Code for its own construction procurement, the supply chain will see recycled content as a positive attribute. Agile suppliers will make this part of their competitive positioning/differentiation. The consequent developments in the product mix will then impact on the whole of the construction sector.

IMPACT OF THE GERSHON REVIEW

18. The key issue is to build in sustainability requirements upfront in the procurement process, and then apply the Efficiency programme to achieving cost savings in meeting those requirements. As an example, DfT, Defra and ODPM have joined together to set up a framework contract for sourcing recycled content paper for printed publications. By aggregating their demand (instead of paper being bought for individual print jobs), they have achieved savings of 15% on recycled paper costs, and 2.8% relative to equivalent virgin papers. They have also catalysed an expansion of the market, with paper merchants holding larger stocks and introducing new product lines.

CONCLUSION

19. The sector where sustainable procurement could have the biggest impact on materials resource efficiency is construction. We have evidence that specifying recycled should be at least cost-neutral and potentially cost-saving. The Government has the opportunity to take a lead in this area, by setting requirements for recycled content in the Code for Sustainable Buildings and in its own procurement practice.

21 March 2005

Wednesday 9 March 2005

Members present:

Mr Peter Ainsworth, in the Chair

Mr Colin Challen
Mr David Chaytor

Paul Flynn
Joan Walley

Memorandum submitted by the Environment Agency (SP 05)

1. INTRODUCTION

1.1 The Environment Agency and its predecessors have been increasingly practising environmental and sustainable procurement principles over the last 11 years. This is driven primarily from two perspectives, firstly its direct relevance to our environmental role and secondly as an exemplar to others.

1.2 The formal basis for our approach is the guidance provided to us by Defra,⁷ which, amongst other things, requires us to “meet high standards of . . . environmental performance,” and “support and promote good practice that benefits the environment by improving resource use and minimising waste and pollution . . .”

1.3 We also support and advise the Office of Government Commerce (OGC) groups on Sustainable Procurement and Social Procurement. At present we are providing input to the development of the OGC joint note “Social Issues in Purchasing”. The current draft is somewhat limited in its scope with little emphasis on using procurement as a real driver for socio-economic development. However, with current EU Regulation constraints it is difficult to deliver a particularly proactive approach.

1.4 The Government has made progress in its approach to environmental procurement policy and guidance. The key issues now are around actual delivery, measurement and enhancement of the strategy. It is not clear what has been delivered at a departmental level and what environmental benefit has actually accrued.

2. ANSWERS TO SPECIFIC INQUIRY QUESTIONS

2.1 Is there a clear overall strategy within Government for implementing a sustainable procurement policy?

2.1.1 The overall strategy is set within the Procurement Section of the “Framework for Sustainable Development on the Government Estate”. To augment this OGC has produced a joint note “Environmental Issues in Purchasing” (October 2003). This places specific environmental procurement requirements on departments, with certain minimum product standards (quick wins) and tools for support. However, sustainable procurement should look beyond environmental issues and include all aspects of sustainable development. Work is currently on-going on the social factors and we have provided comments on the second draft report. A key concern is the lack of a strategy regarding developing-world supply chain management.

2.2 How coherent and effective is the guidance made available to departments, non-departmental bodies and local authorities on this issue?

2.2.1 The guidance on environmental procurement will enable departments and others to make a start. We would like to see a greater focus on risk management, with departments formally required to focus on improving the sustainability profile of their highest environmental impact purchases and suppliers. Public targets also need to be more explicit and transparent so that challenging environmental objectives are both set and seen to be delivered.

2.2.2 Finalisation of the OGC joint note “Social Issues in Purchasing”, which is currently under consultation, will improve the overall coherence of the guidance from a sustainability perspective. However, we believe there should be more guidance on the socio-economic aspects and on developing-world supply chain management.

⁷ The Environment Agency’s Objectives and contribution to Sustainable Development: Statutory guidance. DEFRA 2002.

2.2.3 Greater use needs to be made of the OGC internet site, with detailed sustainability guidance for purchasers on a range of commodities. In time we believe that the separate notes on environmental and social issues in purchasing should be amalgamated to become “Sustainability Issues in Purchasing”. This will aid their effectiveness and give greater overall coherence.

2.3 *Are the roles and responsibilities for dealing with sustainable procurement clear?*

2.3.1 This is covered within the Procurement Section of the “Framework for Sustainable Development on the Government Estate” and roles at a Departmental level are clear.

2.3.2 From a wider Government perspective it is clear that OGC have the lead role and overall responsibility for setting Public Sector Sustainable Procurement Policy and Guidance. Defra play a key role in driving the agenda forward with OGC and this is evident from joint notes issued to date.

2.4 *What scope do EU Regulations allow for environmental considerations to be included in public purchasing policy?*

2.4.1 There is a great deal of scope to cover environmental considerations in public procurement in specifications for goods or services. This allows many of the environmental impacts to be addressed by specifying more environmentally friendly products eg an energy efficient pump, thus taking into account whole life costs etc.

2.4.2 However, it is not possible to take into account the overall “environmental footprint” of a product. Two aspects cannot be considered when selecting suppliers or awarding public contracts. These are:

- The production process of the supplier who provides the product.
- The distance required to get the product from the supplier to the consumer

2.4.3 Ideally, a purchaser should select suppliers that have an effective Environmental Management System that focuses on energy management, emissions control, waste minimisation etc. At present it is not possible to do this under EU Procurement Regulations, Purchasers are only allowed to consider the final product, not the processes used to make it. However, it is possible to exclude suppliers if they have been prosecuted for a pollution incident.

2.4.4 The inability to examine production processes is a particular challenge when purchasing high environmental impact products, such as highly processed goods, chemicals etc. It is also a key constraint for purchasers who are trying to manage sustainable timber and the issues of developing world supply chains.

2.4.5 The transport involved in product distribution can also have significant environmental impacts. Whilst a major environmental issue, the mileage goods travel is an inevitable consequence of an open and free market across Europe. Imposing limits on miles travelled would threaten the basis of free trade and the single European market. However, this means that environmental and sometimes social benefits of purchasing from local suppliers cannot be addressed in public sector purchasing decisions.

2.4.6 Within the constraints of the EU Regulations it is not possible to take particularly proactive actions on local supply, diversity or directly favouring suppliers from disadvantaged economic/social groupings as part of a broader sustainability agenda. There is some scope to require suppliers to employ local labour for the delivery of particular services. This approach could be used more often.

2.4.7 It is also difficult to take account of child labour, pay, working hours etc in the award of public contracts. It must be recognised that many public sector contracts extend to the developing-world. At present working conditions within the supply chain cannot be examined beyond local legal compliance.

2.5 *To what extent does the UK Government’s public procurement policy fully exploit this scope?*

2.5.1 It is our view that within the constraints of the current EU Procurement Regulations, Public Procurement Policy fully exploits this scope. However, it would be a significant step forward if EU Procurement Regulations allowed the examination of production processes. This is technically in breach of regulations, although it is patently common sense from an environmental management perspective. This continues to be a challenge for all working in public procurement.

2.6 How are the public sector efficiency proposals in the Gershon Review likely to impact on the implementation of a sustainable procurement policy within both central and local Government?

2.6.1 They should not impact on this. Delivery of efficiency and sustainability are not mutually exclusive. It is, however, possible that purchasers may become too focussed on short term price advantage rather than whole life cost. OGC policies are clear on this matter and whole life cost principles are clearly evident in them.

2.6.2 What may be a challenge is when the more sustainable product is a higher direct cost. Within the Environment Agency a risk based approach is applied. A cost premium may be acceptable if the sustainability risk is high enough, for example with sustainable timber. It must be recognised that other public purchasers may not take such a holistic approach and there is a danger that short term gains may overtake the sustainability agenda.

2.7 How might the inclusion of environmental specification in the procurement process be affected?

2.7.1 It should not be affected. However, as discussed above purchasers may be more focussed on short term price advantage, rather than whole life costs and sustainability.

2.8 Is the Office of Government Commerce's £3 billion cost-saving target likely to have a detrimental impact on environmental considerations?

2.8.1 Again, it should not, but purchasers may not consider environmental issues in favour of delivering short term price advantage. The challenge here will be when a cost premium would be incurred for the lower environmental impact product. There is a danger that purchasers may become too focussed on short term price advantage rather than whole life cost. OGC policy on this matter is clear, but will require continuous reinforcement to ensure consistent application.

3. CONCLUSION

3.1 The Government and the Office of Government Commerce are progressing the delivery of a Sustainable Procurement agenda. In particular the environmental focus of guidance is evident. The challenge now is to broaden the approach to encompass both the social and economic factors of sustainability. Work is progressing on social elements, but we would like to see more from a socio-economic perspective and the management of global supply chains. It must however be recognised that with the current constraints of the EU Public Procurement Regulations it is going to be extremely difficult to be proactive on the socio-economic agenda.

3.2 To really deliver on Sustainable Procurement would require a change in EU Public Procurement Regulations, this is highly unlikely as many of the elements of sustainability could be argued to conflict with Single Market principles.

4. POTENTIAL FUTURE DEVELOPMENTS

4.1 We believe that the OGC should complete the work on "Social Issues in Purchasing", giving clear guidance on minimum standards for doing business with UK Government. This should include social policy on wider supply chain management with the developing-world eg child labour, slavery, working conditions, safety etc.

4.2 Changes are required to EU Public Procurement Regulations before "cradle to grave" sustainability impacts, especially those in production and manufacture, can be taken into account.

4.3 The OGC joint note "Environmental Issues in Purchasing" could be developed to adopt a more risk based approach, requiring all public bodies to identify, for their particular activities, the goods, services and suppliers with the highest environmental impact and put plans in place to reduce the impacts. This could also include a proactive approach to whole life costing with a policy on the management of any short term cost premiums.

4.4 The OGC could integrate the "Environmental Issues in Purchasing" and the "Social Issues in Purchasing" Joint Notes into one coherent document, "Sustainability Issues in Purchasing".

4.5 The OGC website could be enhanced to consolidate existing guidance, give links to good practice and provide straight forward commodity guidance for purchasers on a range of commonly bought goods and services.

4.6 We believe Government Departments, Executive Agencies, NDPBs and Local Government should report their actual delivery against the requirements of both the "Framework for Sustainable Development on the Government Estate" and the OGC joint note "Environmental Issues in Purchasing".

Witnesses: Dr Paul Leinster, Director of Operations, *Mr Mark Yeomans*, Head of Procurement, and *Mr Chris Browne*, Procurement Strategy Manager, Environment Agency, examined.

Q118 Chairman: Good afternoon and welcome. You have done a lot of work on sustainable procurement and I wondered if you could begin by telling us why you believe it to be an important issue for you.

Mr Yeomans: Obviously, it is very difficult for the Environment Agency to divorce its core role from the way in which it purchases. The basis of our approach reflects the guidance given to us by Defra which, amongst other things, as presented in our evidence requires us to meet high standards of environmental performance.

Q119 Chairman: Is that guidance from Defra sent out to all sorts of people? It is not exclusive to you, is it?

Dr Leinster: This is our section 4 guidance which comes out from government and explains what the Environment Agency should do.

Q120 Chairman: So it is specific to the Environment Agency?

Dr Leinster: Yes, this particular bit of guidance.

Q121 Chairman: It is not as though the government sends out guidance to all sorts of agencies and the Environment Agency is the one that takes this particular bit of guidance more seriously than others?

Dr Leinster: No. This is specific to us.

Mr Yeomans: In respect of our own environmental performance we wish to support and promote good practice. We realise that the most significant environmental impact surrounding our own activities is incurred through our consumption of materials and services, specifically the procurement activity of the business where our spend approaches £500 million per annum. That has been the driver behind us seeking to set best practice. It is worth noting that the Agency and its predecessor organisations commenced work on environmental and sustainable procurement around 11 years ago when there was very little published process in this area. There was a lot of promotion from an academic perspective of the need to address the issue but there was very little in the way of management tools to invoke action within an organisation to show people how to do this work.

Q122 Chairman: What are the benefits as you see them of this type of procurement approach? Is it financial or environmental or both, and, if so, in what measure of each?

Mr Yeomans: The way in which we would express our view as to why you would do sustainable procurement is probably a wider question. Our benefits have been around the achievement of 100% renewable energy to our business. We buy biodegradable oils and 100% of the computers that we use are recycled or reused. On the wider question as to why do sustainable procurement, there is a direct link between consumption and climate change. Obviously we have Kyoto commitments. If you look at the procurement risks to the wider public sector, and public sector organisations in particular,

you can look at the risks to the supply chain, the need to ensure continuity of supply, where you may be able to reduce your supplier dependency on products that have a high environmental impact and may not be sustainable in the longer term. There is a reputational issue for a lot of private sector organisations, with some high profile cases, and of course the Environment Agency seeks to protect its reputation as well. It increases the buyer's understanding of the supply chain because it forces the buyer to look at the impacts associated with the particular products or services being purchased and, of course, it means that we look at cost and risk. There is a very strong link between how we invest our money and whole life cost.

Q123 Chairman: Do you think as a result of this policy, that you more than almost anyone else in the public sector have pursued virtuously and rigorously, you are paying more than you would otherwise be paying?

Mr Yeomans: Some years ago there was a very strong issue around the cost premium associated with buying green goods but the term "green goods" is not as widely used nowadays as it was. The Agency has found that that has been less the case as we have moved more into lifecycle costing, that is, whole life costing, in particular when we are buying goods or services that consume energy. We have been able to move the emphasis away from a unit price requirement and more onto the overall costs of the product in use. That is not to say that there are not on occasions cost premiums that we incur by taking the most sustainable route.

Q124 Chairman: And you have managed to persuade your paymasters at Defra and, via them, the Treasury, that this is good practice?

Mr Yeomans: We look at the efficiency programme of the Agency in respect of its procurement activity and we seek to offset those areas where we incur a price premium against the overall efficiencies of procurement within the business and we are in positive balance, I would say.

Q125 Chairman: You touched just now on the early absence of a methodology to evaluate all this work. Did you develop your own methodology or did you look at examples from elsewhere, whether they are in the public or private sector or maybe overseas?

Mr Yeomans: When we first started to look at this area there was nothing in relation to process within a purchasing department that people could take and utilise in their day-to-day work. We found some work in Sweden which we felt was very useful and one of the key messages that we received, over six years ago now, was just to start, to find the means by which you can start to take into account environmental and sustainable impacts in particular contracts, but we soon realised through the wider view of where we should place our priorities that the resource in this area was an issue, that we needed to find a means by which we could identify the areas of activity that we should look at. In that context we

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came up with the risk assessment methodology so we looked at the expenditure portfolio of the organisation and placed our efforts where our environmental impact was greatest.

Q126 Chairman: What in particular did you find in Sweden?

Mr Yeomans: I will hand you over to Chris who did actually visit Sweden.

Mr Browne: When we first started doing this work we could find very little in the UK that had been done. The work in Sweden had been done by Gothenburg Energy which is a power producer in Gothenburg. The key findings there were around doing some very simplistic risk assessment on contracts, much like the six questions we presented to you when we came a week or so ago, very simple, very high level questions that can be answered in a common-sense way and applied to contracts, but then building up over time as you learn from that experience to more complex questions and starting to be broader about the sustainability agenda. It was: start simple, but the key message was, stop talking about it and start doing it, and that was what we took to heart.

Q127 Chairman: What would you anticipate being the major internal stumbling blocks that other organisations following in your footsteps would have to cope with?

Mr Yeomans: The perception that most purchasing professionals would have is that it is an onerous process to undertake a sustainability risk assessment for each individual purchase. That probably is an issue within the wider public sector as well because resources are obviously at a premium and the purchasing portfolio of an organisation is being viewed. The way in which we have looked at it is to champion the approach and to focus on the areas where we have the greatest impact, and you really do have to make resources available. That is what we did. We identified two competent procurement managers who were well respected and would catch people's ear to go out around businesses to enable them to be heard. So we put in place a process of promotion within the business.

Q128 Chairman: Is it onerous?

Mr Yeomans: We do not think so. The way in which the Environment Agency has approached this is to integrate the sustainable risk assessment into the purchasing process so that it becomes, as has been said, a fairly simplistic first level risk assessment. We believe that if perhaps annually a sustainable risk assessment were undertaken across the expenditure portfolio of an organisation then during that year the areas that came out as being high impact should be addressed. You do not have to do it every time on everything. You need to do it where it matters and where you can make the greatest difference.

Dr Leinster: It is important, as Mark said earlier, that you just make a start. You do a small thing which is achievable and then once you have started

and have got the confidence and you realise this is something that you can do using a basic risk assessment you can expand the process.

Q129 Chairman: Did it place many demands on your existing suppliers?

Mr Yeomans: The way in which the Agency has approached the supply community is again by identifying those areas where our suppliers along with ourselves can help us manage these impacts. We have a development programme for our top 20 suppliers and they are the suppliers who hold significant proportions of our current expenditure, for example, in construction. The interesting thing is that once those organisations knew that they were having to go through an environmental audit of their management of their own activities, they very quickly were interested in learning from us. This goes back several years. In recent years we have found that all of our construction contractors in flood defence have achieved ISO140001 along with many of our suppliers.

Q130 Chairman: Did it involve ditching some suppliers if they were not able to meet the new standards you required?

Mr Yeomans: We do not recall a situation where we have ditched an existing supplier.

Q131 Chairman: On those grounds?

Mr Yeomans: On those grounds. We have influenced existing suppliers to address those issues.

Chairman: That is very interesting.

Q132 Joan Walley: I am finding it a bit difficult to follow what you say means in practice. In response to the replies you have just given to the Chairman's questions can you give me a little bit of the detail of the issues where you have been getting suppliers to change in respect of procurement policy? Can you give me a tangible example?

Mr Browne: The main focus of the supplier development programme has been around trying to get suppliers to improve the whole environmental management in their organisation. Typically what will happen is that we will go in and do an environmental audit of the suppliers' purchases.

Q133 Joan Walley: Which suppliers are you talking about?

Mr Browne: It changes year on year. This year it is W S Atkins, Mowlem Construction, McAlpine Construction, Jacksons Construction, Computacentre, who provide IT, Hitachi Capital, who provide lease vehicles, etc.

Q134 Chairman: The construction companies are mainly doing flood defence work, are they?

Mr Browne: Yes, but obviously companies like McAlpine also do housebuilding and a whole raft of other things. We start off with an environmental audit of their management system. With the construction companies we augment that by doing

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an environmental audit on the site so that they can see how the policy at the centre translates to action on site, and sometimes there is a mismatch.

Q135 Joan Walley: Can I just interrupt? You are not talking necessarily about companies that you are employing to do work for you? You are talking about employers who are being contracted to do work for other contractors almost?

Mr Browne: The companies are doing work for the Environment Agency.

Q136 Joan Walley: On construction?

Mr Browne: Yes. Just to give you an idea, the Agency spends about £500 million a year and those top 20 companies account for about £300 million of that spend. For example, with all the construction companies we agreed with them three years ago that they would get ISO140001 within two years and we provided them with support mechanisms to enable them to get that.

Q137 Joan Walley: You said housebuilders.

Mr Browne: A company like McAlpine, as well as building flood defences, also do housebuilding and a whole range of other construction projects. Another example is our office furniture contractor. When we did the audit we identified that they had a lot of waste; they were generating more waste than was typical for the industry, so again we examined the production process with them and we identified that they were not making best use of their cutting processes with the timber. We put them in contact with WRAP and between the two of them they managed to improve the whole process, reduce their waste and they saved about £100,000 a year. There is a whole mixture of processes that we do. The other thing we do, because we do not have resources to do that with all companies, is that we flag companies to Envirowise. Envirowise offer free consultancy to companies to improve their environmental performance.

Mr Yeomans: From the point of view of consumption we have also promoted the purchase of 100% renewable energy for the Agency which has been interesting because we have ended up having to change the way we buy in order to achieve that, in other words, chasing the capacity for renewable energy within the market place.

Q138 Joan Walley: Again, in response to the previous questions to the Chairman, you talked about risk assessment. Could you say why it is so important to include that because you talked quite a lot about it in the evidence you gave us?

Mr Yeomans: Any organisation that has a fairly broad portfolio of expenditure needs to have a mechanism by which it can assess where it should place its resources. In the way in which we operate, and I would imagine it is the same with most private sector businesses, is that we undertake a review of the different expenditure areas, identify where they are making the greatest impact and we put our procurement expertise into those areas, working with our suppliers and doing our analysis of the

market place and alternatives that we buy to reduce our impacts. That is certainly the way that we have adopted risk assessment principles within the way we purchase.

Q139 Joan Walley: Other than yourselves who else is using this? Would local authorities be using this?

Mr Browne: Do you mean precisely using our approach or just the basic risk assessment methodology?

Q140 Joan Walley: The risk assessment linked to procurement.

Mr Browne: It is not totally transparent to us who is doing everything. My colleagues behind me from IDeA I am sure will talk to you later about the risk assessment approach they have developed that is targeted at local authorities, so there is something there. The Welsh Procurement Initiative is developing a risk assessment approach as well within the government of Wales. I also believe that NHS PASA have adopted a risk assessment approach for NHS purchases.

Mr Yeomans: What is of interest is that we do get a lot of approaches for advice and support from external organisations. We have placed all of these models on our website. Quite interestingly, a number of utilities have embraced the way in which we operate, particularly in the water sector.

Q141 Joan Walley: How much do you think there are other organisations out there who have got the expertise to do this, or is that something which needs to be trained?

Mr Yeomans: The basic risk methodology any purchasing professional should be able to apply. If you take the application of more advanced risk principles then you are going to want someone who is trained up in the area. We train all of our buyers in sustainable procurement principles and how to operate the risk models that we use.

Q142 Joan Walley: In so far as guidance is concerned, there is guidance from Defra, is there not?

Mr Yeomans: Yes.

Q143 Joan Walley: Do you know if that is being reviewed at the moment?

Mr Browne: There are two pieces of work. Defra have produced in the last year a joint note, *Environmental Issues in Purchasing*, with the OGC. There is also a draft joint note at the moment which is on Social Issues in Purchasing, which we provided comments on. There are those two documents that we have worked on.

Mr Yeomans: In our evidence we propose that those two documents should be integrated into one consolidated document.

Q144 Joan Walley: Looking at government departments it seems to us from the reports that we have had that there are something like 18 government departments. Eight said that they had carried out an environmental risk assessment, seven

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said that they had partly and five did nothing at all. Is that because there is not the expertise in government departments or is it just that it is not a priority or there is no leadership to make sure that it does get carried out?

Dr Leinster: It is very difficult for us to answer that question. We do not know.

Q145 Joan Walley: Surely you should know, should you not?

Dr Leinster: I am not sure why.

Q146 Joan Walley: Because you lead by example.

Dr Leinster: We certainly lead by example, or we hope we lead by example, in this area. What is needed is clear objectives and targets set for government departments and for other organisations. Once you have got those clear objectives and targets and government departments are required to monitor and report against those then you would have the level of transparency that we are looking for. In terms of skills, as has been said, this is not difficult to do. The skills are readily available. The training is readily available. It is a matter of getting over the inertia and starting. Sometimes, when people look at this as a subject area, it is large and it is forbidding and what we would encourage people to do is try something, see how it works and then try some more.

Q147 Joan Walley: If you were giving advice, say, to the House of Commons Commission in respect of procurement policy in the Palace of Westminster, what would be the first bit of advice that you would give to get over this inertia or lack of priority?

Dr Leinster: What I think I would do is seek to work with them to identify what the key environmental impacts are that occur because of the purchasing system: what are the major spends, what are the major environmental impacts, and between those to work out one or two areas of purchasing that you are going to tackle, and then put in place a plan to address that.

Q148 Joan Walley: Would you expect them to have that information as a starting point and would you expect that plan to be drawn up?

Dr Leinster: They should have the information on what their major spend areas are. What they will not have just now is what the environmental impacts are associated with those different spend areas. That can be done in a simple six-stage process. The guidance is available on our website, as Mark has said, so the tools are there that they could use. If they did that they would be able to progress.

Q149 Mr Challen: There seems to be an abundance of guidance on sustainable procurement but perhaps a deficit in leadership terms. Would you agree with that in terms of the government driving this process? Is there a problem in that the OGC and Defra both seem to have responsibilities here?

Mr Yeomans: OGC lead the overall policy on public procurement, so from that perspective it is fairly evident who leads. As the Agency sees it Defra are the expert advisers to OGC.

Q150 Mr Challen: Do you think that is the right way round? Is Defra not likely to be more tuned into this whole area of policy than the OGC?

Mr Yeomans: We sit on the Sustainable Procurement Advisory Group that OGC lead with Defra. We put all of our models before them and we have been quite influential in a lot of the documentation and guidance that has been put out. The documentation that is put in place is kept under constant review. It is part of our role to encourage them. Whether there are tricks to be played in how it is promoted I cannot comment on. What I would say is that the profile is going to rise significantly following this week's publication of the UK *Sustainable Development Strategy* in which procurement is highlighted in the Prime Minister's forward and is identified as leading by example.

Q151 Mr Challen: That is the case. This is Defra document, of course, not an OGC document. Do you think there are changes that could be made which would improve the leadership? Do you think that document you have just mentioned will suffice?

Mr Yeomans: I am aware from my own membership of the OGC Chief Executives' Advisory Group that within the last six weeks there has been a presentation on sustainable procurement strategy to all the heads of procurement in Governance. My view is that it is rising up the agenda.

Q152 Mr Challen: Rising up on the agenda of the OGC?

Mr Yeomans: Rising up the agenda for procurement and my guess is that therefore the OGC will be responding to that.

Q153 Mr Challen: You do not think they have hindered the process at all?

Mr Yeomans: From our involvement with OGC I think they have done a reasonably good job so far. What our evidence is saying is that they can improve on what they have done by focusing resources through a risk-based approach.

Q154 Mr Challen: What we have found in the past is that Defra might provide the guidance and the advice, if you like, to the departments, but sometimes it seems that other departments have a take-it or leave-it approach. Does OGC itself have dedicated professionals in this area and do they have the expertise themselves to understand the significance of the advice they are getting?

Mr Yeomans: Our view on this would probably be around the recommendation we have made in relation to targets in this area. It is difficult for us to see what level of performance is achieved and for the public to see what level of performance is achieved if there is no reporting of any substance in this area. We report on our approach to sustainable procurement in our own environmental report. If

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there was some target setting in this area then you would be able to see the areas where the activity was not at the level it perhaps should be.

Dr Leinster: We think that sustainable procurement should be just one part of an overall environmental management system within a department or within an organisation, so you would get commitment to managing the overall environmental impacts of that department and part of that is then sustainable procurement. The OGC leading on it means that they are able to talk to the procurement professionals and I think that is important because they will then be talking professional to professional. What we then need to do is make sure that the guidance that the procurement professionals are given incorporates as a natural part of the process sustainable procurement activities. To drive this I think you then need clear objectives being given with targets and then with a monitoring process. Who sets those objectives, targets and process I think is what you meant.

Mr Challen: Yes.

Q155 Chairman: Would you as an Agency like to have a more formal role in procurement in government?

Dr Leinster: I do not think so.

Q156 Chairman: Are you seeking that as a territorial ambition?

Dr Leinster: No. We are here as advisers to government and this is probably one of the most difficult areas sometimes for us where not only are we advisers for government but we also set ourselves up as leaders by example. That is sometimes an uncomfortable place but I do not think we will be seeking any more formal role than that.

Q157 Mr Challen: You said in your memorandum that public targets need to be more explicit and transparent so that challenging environmental objectives are both set and seen to be delivered. How could this be achieved?

Mr Browne: As Paul mentioned before, the key thing is having a departmental environmental management system because the issue you can find is that procurement are maybe having targets placed on them when the rest of the department are not, so you can find that your specifier is doing procurement work for a specifier who is the project manager running the contract. If they have not got the same pressures in terms of delivering to a target you can sometimes find procurement are mismatched with the rest of the organisation. If you have a wider organisational EMS (environmental management system) then basically the organisation will have identified all its key impacts of which procurement should always be one. It will have set targets across the organisation which the chief executive will have committed to, and then procurement will be working within a framework that fits in with the rest of the organisation rather being on their own. If there is a wider organisational EMS ideally it should be publicly reported in terms of progress and achievements, like the Environment Agency does

every year. That way it is transparent and that will also motivate people to make sure they deliver because they know their target is going to be placed in the public domain, but that EMS is quite key because it is about procurement fitting in with the rest of the organisation, not just doing something on its own that does not fit in with everything else.

Q158 Mr Challen: I said before that there seems to be an abundance of guidance but perhaps insufficient technical guidance on how to buy sustainably. How could we improve on that? Where could be the sources of more technical advice and assistance?

Mr Yeomans: Exploiting the guidance that is available internationally is one of the areas that we have been looking at. There is some excellent work that has been done by different international governments. The most recent one that we have been involved in discussing and commenting on is work that is being done in Japan. The use of the internet and websites that lead purchasers through to particular guidance is important. We have developed a suite of 35 product guidance notes for areas of environmental impact within our business. We have done this using external support. It is available again on our website for other organisations, so really the way in which I would see the issue being addressed is to move in the direction of a website that acts as a hub to others. I know this is what is being looked at at the moment. It is one of the things that is being promoted by the OGC during 2005 and they have started in that context through OGC Buying Solutions and putting a particular website together with product guidance on it. There has been a start made in this respect. It is not just in this respect and it is not just for purchasers. It is also for suppliers because the important aspect is that we offer this information to suppliers so that when they approach government to sell to government they can reflect the requirements of government policy.

Q159 Mr Challen: Turning to European legislation, do you think that our guidance from OGC and Defra fully exploits that legislation? Do we give it the right interpretation? Do people feel that it limits their choices?

Mr Browne: My experience in presenting at a number of conference and government working groups is that there is a misconception out there that the EU procedures stop you from doing things. There are a lot of things that can be done within EU procedures, particularly at specification stage. Where the EU legislation causes some problems is around looking at the whole production process of a supplier. At present that is difficult to do within the EU legislation. There are things that can be done there but it is a barrier in certain aspects.

Q160 Mr Challen: Transport is certainly one of the areas which we have become aware of where there does seem to be a barrier to getting better sustainable procurement. Are there any moves that you are aware of to address that issue?

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Mr Browne: The issue with transport is that it is readily possible to specify the mode. For example, we had to buy some aggregates a few years ago. We specified that those must be transported by barge and rail to minimise environmental impact. That is perfectly acceptable under EU legislation. What we cannot do is limit the number of miles that it travels. Within the EU we cannot say we will only buy within 50 miles or 100 miles because that goes against the principle of an open market and at the moment I am not aware of any moves that are being made to change that because I think that would undermine the principles of the open market within the EU. I cannot see that changing. There is some flexibility around catering and food. Where you let a catering contract there is some flexibility once that contract has been let to agree with the supplier to limit the number of miles the food travels, but it can only be done after the contract has been awarded. It cannot be part of the award decision. For example, we have just let our own catering contract. After the award we mutually agreed with the contractor that as an initial target 25% of all food coming into Environment Agency premises will be from within 50 miles and we will build that up year on year. We are using that as an experiment to see how far we can go with local food procurement but it can only be done after the contract is awarded. It must be divorced from the award decision.

Q161 Mr Challen: Quite a number of schemes now have been created which as far as transport is concerned seek to make transport carbon neutral, particularly in relation to air transport. Would there be any barriers to insisting in your specification that if you wanted to ship your aggregate from Poland to Wales rather than from Wales to Wales whoever did it would have to put into their price a cost for carbon neutrality?

Mr Browne: We would have to come back on that.

Mr Yeomans: The area of expertise on that would be the OGC and Treasury experts on European procurement regulations. I expect that that would be classified as part of the specification. One of the questions would be how relevant the measure is to the contract that is being considered and whether the nature of the requirement is in any way discriminatory. Without looking at it in some depth I cannot comment.

Mr Challen: Now that ministers are going to be carbon neutral when they fly abroad, except the Department for Transport, perhaps there is a little problem there.

Q162 Joan Walley: In terms of short, medium and long term costs of getting sustainable procurement right how much do you take into account the fact that to change from perhaps where you are at the moment to suppliers that you want in the future there are often additional transitional costs which are more expensive in the short term but which will give payback in the long term over time? Is that something which is accommodated within the guidance that there is or under the review that is currently taking place?

Mr Yeomans: There are two elements of costs in terms of implementing change. There are the internal costs within the business and developing new methods and training people and moving on through that process so that people do take this activity as a matter of course. Probably you are looking at the potential increased costs on purchase price?

Q163 Joan Walley: I am looking, for example, at the school dinners argument that we have just had with Jamie Oliver in respect of the fact that you need more than 47p to get local fresh food and all those other things.

Mr Yeomans: I will give you an example which does not have the same human impact as the example you have given. The Environment Agency purchases pumps. We have to clean mine water in a Cornish tin mine which pollutes the River Fal and at its peak it is about six million gallons of water a day. The pumps are an integral part of that process. We buy them on whole life cost, so we do not buy the cheapest pump; we actually buy the most expensive pump. We have been doing this for about 12 years now and we have proved that it is the most cost effective thing to do because the pumps have been outliving the life of the lowest price pumps by some considerable margin. The issues around increased subsidy for meals would be perhaps a far wider debate about human health.

Q164 Joan Walley: But that comes back to the whole cost-cutting objective of government policy where perhaps savings in one budget might result in greater costs for the NHS. My question in terms of sustainable procurement is how you can write this into the formula or the criteria when you are looking at targets when the payback might be at another time or in another department or elsewhere but nonetheless picked up by the public system. How do you get that joined-up approach right the way through?

Dr Leinster: The important thing is scoping when you are doing your initial risk assessment and your initial scope as to how many externalities you are going to take into account within this overall assessment. If you take our example of the pump, we have a capital budget which gets a particular hit and we have to play that against a revenue budget on an ongoing basis. You have to make that balance. It is a matter of thinking very widely about all the possible benefits and disbenefits and then doing a structured analysis and deciding on the balance of all the benefits and disbenefits whether this is something which is worth doing. I do not think there is a magic formula in this. I think it is just applying a structured approach and hoping that that structured approach will take you to a sensible conclusion.

Q165 Joan Walley: But in so far as, for example, right now applications will be going through to ODPM possibly in respect of land remediation which might well need pumping into other parts of

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the country, how much do other government departments take on board those criteria that you have just outlined?

Dr Leinster: Most probably in some areas of land remediation you have to balance that. We are doing it ourselves because when we construct flood defences some of the material that we excavate in those flood defences is contaminated land. We then need to decide between the cheap option (although it is getting more expensive), which is most probably dig and dump if you can find somewhere to deposit it, or you can think about remediation on the site or you can think about barriers on the site. You just have to do a structured analysis of all of those impacts. As you say, most probably in some of these decisions there will be a planning decision and there will be a developer who you have to get on board because, if we are talking about remediation of contaminated land, it is about how soon can the developer, if they have got a bank loan for that piece of development, start constructing houses that they can then start selling. It is a complicated area and I think that for a number of those joined-up discussions that we need we are still at the beginning.

Mr Yeomans: In respect of the procurement elements of major public investments some element of an answer to the question you raise arises from the Office of Government Commerce and the implementation of Gateway processes for all major procurements which should consider cross-cutting impacts, as Paul has indicated, that we have to consider as an organisation, so I would have some hope of that covering some of the issues you have raised.

Q166 Chairman: Can I go back to the EU situation? One of the things that the committee will be keen to do is explore your evidence that the EU is often used as an excuse not to do the right thing. To what extent is there a debate between EU directorates, in particular the environment and competition directorates, about what is or is not appropriate in relation to procurement?

Mr Yeomans: We are not aware of a debate taking place in that context but the issue we perceive is that the promotion of an approach to best practice environmental management does on occasion seem to be at odds with European procurement policy and one of the issues there around the single market principles and we have spoken about transport and other elements. There is an interesting view that we receive when we attend European conferences on this and that is that the northern European Member States seem to be quite advanced in their approach to sustainable procurement and I think that is something over which they do not spend much time considering the potential conflicts between different outputs from the Commission.

Q167 Chairman: Can you be a little bit more specific about that?

Mr Yeomans: Some of this is anecdotal but when you press a fellow procurement professional in a Scandinavian country and you say, "We take these

issues into account", you can be met with a shrug of the shoulders and a smile, in other words, "We do not take that into account necessarily".

Q168 Chairman: Any Scandinavian country?

Mr Browne: Denmark.

Q169 Chairman: By way of example?

Mr Yeomans: By way of example.

Q170 Chairman: What motivates Denmark in this? Is it concerned with the environment or is it the protection of local suppliers?

Mr Yeomans: No, it is quite explicitly the environmental goal that they have set themselves.

Q171 Chairman: But it does incidentally benefit local suppliers, does it not?

Mr Yeomans: If you are looking for markets for recycled product then those markets will tend to rest in northern Europe because of the development in this area over several decades. There can be an argument that if you specify or promote that particular product you could be favouring northern European Member States as a supply market. That was the issue I recall at the time.

Q172 Paul Flynn: You said you were encouraged by the sustainable development strategy to some extent but you made the point that there is an absence of any targets in there. I think perhaps the feeling is that the government has been so bruised by the targets that they set for everything these days that targets are often measures of failure rather than measures of success, but it does have a national action plan and key performance indicators. Are these adequate alternatives to setting firm targets?

Mr Yeomans: I will pass that to my colleague but one of the great difficulties you have in this area is that you tend automatically to end up with input measures rather than outputs.

Mr Browne: I am struggling at the moment to see any targets that are going to drive sustainable procurement across government. The difficulty, of course, is going to be that often targets are difficult to measure. Ideally they should be output orientated in terms of CO₂ reduction and that is something which we find very difficult ourselves to measure because when you go to procurement it is very difficult to measure what has been the CO₂ reduction in moving from one type of steel to another type of steel. Perhaps there should be targets that are more input orientated around risk assessments of statutory contracts or having a supplier development programme with key suppliers and having environment improvement plans for key suppliers. At the moment I am struggling to see targets that relate to sustainable procurement in what has been published so far.

Mr Yeomans: Some measures that my colleague mentioned are covered in chapter three of the Sustainable Development Strategy document. The issues that we have are around how do we measure, as you point out, but we would like to see targets that are more specific perhaps to the activity of

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procurement, to do with sustainable procurement, as opposed to targets that move above the process. We are talking about ensuring that the process of sustainable procurement is embedded within public procurement.

Q173 Chairman: Does the idea of a national action plan make your pulses race? Is it really something that you think is going to be achieved?

Mr Yeomans: I was very pleased to see the profile that sustainable procurement has received. I have looked at it from the perspective of having been a purchasing professional for many years and see it as a means by which procurement can contribute to issues such as corporate social responsibility for both public and private sectors.

Q174 Paul Flynn: There is also a commitment in the document to embed sustainable development within the OGC. Do you think the fact that it has not been there before is the reason why it has not increased in its importance and developed as an issue in recent years? Surely this should have been done years ago.

Mr Yeomans: Yes, at the end of the day the portfolio that OGC has is very broad and I think that if you look at the work they have done in areas such as

electronic procurement and the like, which has a sustainability linkage in its output, they would say that their resources have been taken in those directions. My belief from recent briefings that I have received at OGC is that they are moving in this direction.

Q175 Paul Flynn: But the primary focus of the OGC is an equal army(?) one. Do you think it can be changed and concentrated on environmental ones, on sustainability?

Mr Yeomans: I feel that one of the great successes of OGC in its very early days was to emphasise the principle of whole life cost as being the way in which public contracts should be let and therefore I feel that it would be difficult for anyone to argue that whole life cost does not have a strong link to sustainable outcomes. My view is that they are aligned, not mutually exclusive.

Q176 Paul Flynn: Should it not perhaps be whole lives cost if you are looking for the reuse of some of the materials?

Mr Yeomans: It may be.

Chairman: That concludes our questions. We are grateful to you. Thank you very much indeed.

Supplementary memorandum submitted by the Environment Agency

CLARIFICATION OF DEFRA EVIDENCE GIVEN TO ENVIRONMENTAL AUDIT COMMITTEE ON 16 MARCH 2005

In the evidence given by Defra on 16 March 2005 to the Environmental Audit Committee, specific reference was made to the Environment Agency. Mr Andrew stated:

If the Environment Agency want to buy "Greenheart" to do coastal protection or river protection or something like that because that is the only species that they have identified where there will be sufficient, it is quite difficult to get that timber certified as sustainable. It may even be difficult to get it with evidence of legality but that is a minimum requirement so we have to assume that our suppliers are able to comply with that.

We would like to assure the Committee that the Environment Agency recognises the challenges associated with purchasing tropical hardwoods. We have put controls in place to ensure that the wood we buy is legal and from a sustainably managed source. Hardwood timber is only used by the Environment Agency in marine and fluvial construction where there is currently no proven alternative. All softwood timber we procure is certified to Forestry Stewardship Council (FSC) or equivalent standard and is relatively easy to manage.

The purchase of Greenheart referred to by Mr Andrew relates to the Pett Project, a large sea defence scheme that is currently being constructed on the south coast of England. The Environment Agency's Flood Defence construction team and its consultant (Halcrow) determined hardwood timber as the most appropriate material for the new beach groynes. We established a team to audit the supply chain of the preferred source of timber (Greenheart from Guyana). Two Environment Agency staff with specialist expertise in this area were sent to Guyana to undertake a supply chain audit.

The aim of the supply chain audit was to verify that the timber supplied was legally exported and from a sustainably managed source. Additionally the Environment Agency had to be sure that the whole supply chain could withstand scrutiny.

The main administrative bodies that are involved in the legal management of forestry concessions and the development of the policies for forestry in Guyana are the Guyana Forestry Commission and the Guyana Environmental Protection Agency, both of whom were visited and consulted as part of this audit, as well as the WWF, the Minister of Forestry and the Prime Minister of Guyana.

The Guyana Forestry Commission have a number of processes that monitor the legality of the timber and the forest management practices. This includes a Code of Practice for Timber harvesting which applies to all logging operations. The Forestry Commission run a tagging system and the timber company must keep a record of which tag numbers were extracted from where on a given date. To remove logs/timber from the

sawmill, a Permit to Remove Forest Produce must be issued by the Forestry Officers. This lists the species, the volume and the tag numbers and a copy of the permit must be carried with each load. There are two 24 hour security stations which monitor the transport of timber along the roads and this checks for the Permit to Remove Forest Produce, as detailed above.

For any new concession to be granted a full Environmental Impact Assessment (EIA) and a Social Impact Assessment (SIA) has to be carried out. This is undertaken by the Guyanan Environmental Protection Agency either by their own staff or by approved consultants, both national and international. For those concessions that are currently in existence and were allocated before the inception of the Environmental Protection Agency, there is currently a programme in place to carry out the EIAs and SIAs retrospectively.

Guyana are currently developing a national standard that is based on the on the Forest Stewardship Council Principles and Criteria. The Guyana National Initiative for Forestry Certification, an NGO was formed and are looking towards becoming a Forestry Stewardship Council accredited body in their own right.

From the audit we undertook, the Environment Agency is satisfied that the Greenheart timber sourced from Guyana fulfils UK Government policy and has been legally logged and traded. With regards to the sustainability of the timber, this is an area of concern for all tropical hardwoods. The supplier has a detailed Five Year Management Plan and Annual Plan in place that is monitored by the Guyanan Forestry Commission.

Our audit was carried out against the standards for sustainable forestry management and although there are recommendations and improvements to be made in some areas, in particular relationships with the local community we believe the timber is legal and are from a source where sustainable forestry management is practiced.

We believe that the approach we have taken to this procurement exercise demonstrates our commitment to sustainable procurement.

Dr Paul Leinster
Director of Operations

24 March 2005

**Memorandum submitted by the Improvement and Development Agency for Local Government (IDeA)
(SP13)**

1. BACKGROUND TO THE SUBMISSION

1.1 The Local Government Association (LGA) was formed on 1 April 1997 and represents the local authorities of England and Wales—a total of just under 500 authorities. These local authorities represent over 50 million people and spend around £78 billion pounds per annum.

1.2 The LGA exists to promote better local government. The LGA is the national voice for local authorities and works alongside a range of partner organisations to promote better local government—these organisations are known as the “local government family” or “central bodies” who provide services for the benefit of local authorities generally. The Improvement and Development Agency for local government (IDeA) is one of these organisations.

1.3 IDeA’s approach is to stimulate and support continual improvement and development within local government through connecting ideas and expertise; focusing on best practice and forward thinking, enabling individual councils and local government to learn systematically and respond to the needs of changing environments; delivering a flexible range of tools and services; carrying risk on behalf of local government by innovating and incubating new joined-up but locally-delivered initiatives.

1.4 IDeA provide a capacity building procurement service which, acting as a “critical friend”, challenges existing practices, inspires, communicates, facilitates and embeds procurement change at the highest levels within councils.

1.5 IDeA is recognised throughout both central and local government as a source of advice on procurement and is recognised within the Efficiency Programme as a “national change agent”.

1.6 IDeA have been asked by the LGA to present this evidence on behalf of English councils.

2. RESPONSES TO THE SPECIFIC QUESTIONS POSED

3. STRATEGY FOR IMPLEMENTING SUSTAINABLE PROCUREMENT POLICY

3.1 *Is there a clear overall strategy within Government for implementing a sustainable procurement policy?*

3.1.1 Sustainable procurement is considered to have a broader scope than environmental (green) purchasing, and should include, in our opinion, prudent use of natural resources, social progress which recognises the needs of everyone, maintenance of high and stable levels of economic growth and employment.

3.1.2 There is therefore a clear linkage between the need for councils, under the Local Government Act (2000), to develop a community plan, using the “Well Being Powers” to promote economic, social and environmental well-being of their communities, and sustainable procurement.

3.1.3 Within local government, there is a clear strategy for implementing sustainable procurement policy, namely, the National Procurement Strategy for local government (NPS). The NPS, jointly published by the Office of the Deputy Prime Minister (ODPM) and LGA in October 2003, and covering the period 2003–06, recognises the contribution that procurement can make to sustainability and includes a Chapter on “Stimulating markets and achieving community benefits”.

3.1.4 The NPS sets out milestones which councils should aim to achieve in implementing the Strategy. The milestones of specific relevance to the implementation of sustainable procurement policy are:

3.1.4.1 By the end of 2004–05 every council should adopt a corporate procurement strategy, based on a Best Value or other review. The strategy should be owned by members and senior managers and its implementation monitored regularly;

3.1.4.2 By 2004 every council should publish a “selling to the council” guide on its corporate website together with details of bidding opportunities and contact details for each contract;

3.1.4.3 By 2004 all corporate procurement strategies should address:

3.1.4.3.1 The relationship of procurement to the community plan, workforce issues, diversity and equality and sustainability;

3.1.4.3.2 How the council will encourage a diverse and competitive supply market, including small firms, social enterprises, ethnic minority businesses and voluntary and community sector suppliers;

3.1.4.4 By 2004 every council should build sustainability into its procurement strategy, processes and contracts;

3.1.4.5 By 2005 every council should include in invitations to tender/negotiate for partnerships a requirement on bidders to submit optional, priced proposals for the delivery of specified community benefits which are relevant to the contract and add value to the community plan.

3.1.5 The Annex to the NPS states that Department for Environment, Food and Rural Affairs (Defra) have the lead role on sustainable procurement and IDEa have a role in supporting Defra.

3.1.6 The strategy described above relates to local government. IDEa is not best placed to comment on a strategy for central government although this is, no doubt, something which the Inquiry will wish to explore with other witnesses.

3.2 *How coherent and effective is the guidance made available to departments, non-departmental bodies and local authorities on this issue?*

3.2.1 It would be the opinion of IDEa that sufficient guidance on the sustainable procurement process is now available for local authorities and that it is coherent. However, we have identified a shortfall in the provision of technical advice on environmental specifications.

3.2.2 Space does not permit an extensive review of the guidance available from public sector organisations alone, however the main sources are detailed in Annex A.

3.2.3 In addition to the guidance documentation, IDEa provide a helpline service for local authorities to address procurement queries and, where appropriate, a “sign-posting” service to other providers of advice such as 4Ps and OGC.

3.3 *Are the roles and responsibilities for dealing with sustainable procurement clear?*

3.3.1 Implementation of the NPS, including the section relating to “. . . achieving community benefits”, is the responsibility of local councils.

3.3.2 The Annex to the NPS (which was published in 2003) states that Department for Environment, Food and Rural Affairs (Defra) have the lead role on sustainable procurement and IDEa have a role in supporting Defra.

3.3.3 In 2004 nine Regional Centres of Excellence (RCEs) were set up—they now have primary responsibility for supporting councils in the achievement of the NPS milestones and the Implementation of the Efficiency Programme. (It is our intention that a RCE Director accompanies us when we meet the EAC).

3.3.4 Both local councils and RCEs can draw upon the resources of the LGA Performance Partnership of IDeA, 4Ps (Public Private Partnerships Programme) and Employers Organisation (EO) for further support.

4. SCOPE WITHIN EU REGULATIONS FOR ADDRESSING ENVIRONMENTAL PROCUREMENT

4.1 *What scope do EU Regulations allow for environmental considerations to be included in public purchasing policy?*

4.1.1 The procurement cycle comprises eight stages, namely, “Identify need”, “Develop business case”, “Define procurement approach”, “Supplier selection”, “Tender evaluation”, “Award and implement contract”, “manage contract”, and “Closure/lessons learned”. It is IDeA’s opinion that the existing EU Regulations provide sufficient scope to address environmental considerations at each of the stages of the procurement cycle.

4.1.2 Most scope for addressing environmental issues lies in the earlier stages of the cycle. The detail of how environmental considerations can be addressed at each stage of the procurement cycle is set out in both the *OGC/Defra Joint Note on Environmental Issues in Purchasing* and *IDeA’s Sustainability and local government procurement*.

4.1.3 IDeA are also of the opinion that there is further scope for sustainable procurement to be successfully embedded within the procurement cycle through the use of “green gateway reviews” carried out by the council’s leadership or scrutiny and overview.

4.2 *To what extent does the UK Government’s public procurement policy fully exploit this scope?*

4.2.1 It is the opinion of IDeA that the guidance currently produced fully exploits the potential scope within the EU Regulations, however we accept that there is some way to go before individual local authorities have fully exploited that potential.

4.2.2 IDeA has evidence that councils are applying good practice in sustainable procurement. Space constraints prohibit what can be detailed but we would highlight the following:

- London Borough of Camden’s integrated approach to environmentally and socially responsible procurement;
- Forest of Dean District Council’s sustainable purchasing guide;
- Dorset County Council’s greening of its fleet;
- London Borough of Haringey’s work with SMEs;
- Wakefield Metropolitan District Council’s approach to easing access to its procurement;

4.2.2.1 Annex B provides more detail on London Borough of Camden’s approach. (It is our intention that London Borough of Camden’s Sustainable Procurement Officer accompanies us when we meet the EAC.)

4.2.2.2 We are also conscious of the good work relating to sustainable procurement being carried out by Belfast City Council, Aberdeenshire Council and the Welsh Local Government Association.

4.2.3 A survey of local authorities carried out by IDeA during the latter half of 2004, with a 65% response rate (255 out of 388 councils responding), suggests that:

- 4.2.3.1 34% of those councils which responded have published a “selling to the council” guide;
- 4.2.3.2 87% of those councils which responded have a corporate procurement strategy;
- 4.2.3.3 68% of respondents have addressed, within their corporate procurement strategy, the relationship of procurement to the community plan;
- 4.2.3.4 77% of respondents have addressed workforce issues within their corporate procurement strategy;
- 4.2.3.5 80% of respondents have addressed diversity and equality within their corporate procurement strategy;
- 4.2.3.6 87% of respondents have addressed sustainability within their corporate procurement strategy;
- 4.2.3.7 66% of respondents have addressed how the council will encourage a diverse and competitive market, including small firms, social enterprises, ethnic minority businesses, and voluntary and community sectors within their corporate procurement strategy.

5. POTENTIAL IMPACT OF EFFICIENCY PROGRAMME OF SUSTAINABLE PROCUREMENT

5.1 *How are the public sector efficiency proposals in the Gershon Review likely to impact on the implementation of a sustainable procurement policy within both central and local Government?*

5.1.1 Releasing resources to the front line—The Gershon Review, did not address the issue of sustainable procurement.

5.1.2 The Gershon Review did have a resonance with the previous report of the Performance and Innovation Unit, Resource Productivity—Doing more with less. That report was concerned with how the UK economy could be shifted onto a more sustainable footing; Like Gershon it identified a need for more innovative approaches, recognised the potential to save money, and viewed public sector procurement as a major opportunity for achieving its objectives.

5.1.3 However, the “Resource Productivity . . .” report was concerned with a much longer-term perspective, namely 50 years, than Gershon’s 2005–08.

5.1.4 Gershon recognised the benefit of considering whole life costs and does not argue for a return to a culture of “lowest price wins”. It is generally accepted that a focus on whole life costs supports sustainable procurement.

5.1.5 There are, however, apparent tensions between sustainable procurement and short-term cost reductions. The potential negative impact on sustainable procurement, in so far as the efficiency programme is concerned, is considered by IDeA to be largely perceived as opposed to real, namely, in the absence of an explicit statement within Gershon that sustainable procurement is a desired objective, it may be that others perceive the pursuit of short-term cost reduction as now taking precedence. However IDeA would argue that the professionalisation of procurement, greater aggregation of demand, greater emphasis on whole life costs, etc, advocated by Gershon, can all be consistent with the pursuit of sustainable procurement, and indeed are consistent with the NPS, which has “Achieving community benefits” as one of its priorities.

5.1.6 Our recommendation would therefore be that clear signals reinforcing the compatibility of the Efficiency Programme with sustainable procurement would help and that an explicit statement to the effect that sustainable procurement should not be compromised for short-term cost reductions would help.

5.2 *How might the inclusion of environmental specification in the procurement process be affected?*

5.2.1 IDeA do not see any reason why the inclusion of environmental specifications in the procurement process should adversely affect or be affected by the Efficiency Programme. Indeed the consistent use of standardised environmental specifications across the public sector could lead to more innovative solutions being offered by the market and cost reductions as demand is aggregated.

5.2.2 To increase the use of environmental specifications within the procurement process, IDeA feel that a clear policy commitment is required, within local government that would have to be a voluntary decision made by the leadership of the council.

5.2.3 The effective use of overview and scrutiny within councils could further embed that policy, through the use of “gateways”.

5.2.4 At present there are an absence of technical environmental specifications to cover the most local government procurement. The development of a central resource of minimal technical environmental specifications may therefore help.

5.2.5 In order to achieving the optimum mix of cost reductions, quality improvement, and sustainability, IDeA advocates the use of performance and functional specifications; the consistent use of such specifications, we believe, is likely to incentivise the market to offer more innovative sustainable, works, supplies and services.

5.3 *Is the Office of Government Commerce’s £3 billion cost-saving target likely to have a detrimental impact on environmental considerations?*

5.3.1 IDeA are of the opinion that the OGC’s £3 billion cost-saving target need not have a detrimental impact on environmental considerations, indeed a clear policy of achieving sustainable procurement objectives could well contribute to that cost saving target.

Annex A

MAIN SOURCES OF GUIDANCE ON SUSTAINABLE PROCUREMENT

A. The core documents relating to sustainable procurement implementation are identified by IDeA as the *EC Interpretative Communication on public procurement and the environment*; and *EC Interpretative Communication on Integrating social considerations into public procurement*, both of which were published in 2001. Neither of these documents are generally recognised as “user friendly”, as a result additional UK specific guidance has been published.

B. Guidance on environment purchasing was set out in October 2003 in the *Office of Government Commerce (OGC)/Defra "Joint Note on Environmental Issues in Purchasing"*. The Joint Note is primarily aimed at Government Departments but is recommended by IDeA.

C. OGC also published *Guidance on Fair Trade and Ethical Trading* during March 2004. IDeA recommends that guidance.

D. Defra have published guidance and an action sheet *Integrating sustainable development into public procurement of food and catering*. IDeA recommends that guidance.

E. A "*Joint Note on Social Issues in Purchasing*" has been drafted by the OGC/Sustainable Procurement Group. Although the guidance has not yet been published, IDeA have had sight of a draft and intend to recommend the final publication to local authorities.

F. The Commission for Racial Equality (CRE), in collaboration with LGA, WLGA and COSLA published *Race and Procurement in local government* during 2003.

G. In November 2003 IDeA published *Sustainability and local government procurement*. That guidance is targeted specifically at procurement practitioners and is generally accepted as "detailed".

H. Recognising the need to target council leadership, during 2003, IDeA, WRAP (Waste and resources Action Programme) and SOLACE (Society of local authority Chief Executives and Senior Managers) published *Sustainable procurement—making it happen*.

Annex B

AN INTEGRATED APPROACH TO ENVIRONMENTALLY AND SOCIALLY RESPONSIBLE PROCUREMENT IN LONDON BOROUGH OF CAMDEN

MEETING NATIONAL AND LOCAL TARGETS

Local authorities in the UK collectively spend £40 billion per year on procurement. Influencing the way in which these goods, works and services are procured can have a huge impact on the environmental, social and economic wellbeing of the local community and beyond.

The role that local authority procurement can play in implementing sustainable development is reflected in a number of recent government strategies and initiatives including the National Procurement Strategy for Local Authorities (October 2003). The strategy states that all local authorities should use procurement to help deliver corporate objectives including the economic, social and environmental objectives set out in the community plan, and that every council should build sustainability into its procurement strategy, processes and contracts.

The government also launched (November 2003) its sustainable food procurement initiative which was introduced to help deliver the principle aims of the Government's Strategy for Sustainable Farming and Food in England. The London Borough of Camden is involved in this initiative and is working towards introducing local, healthy, organic and fairtrade food and drink into all its food and catering contracts.

Camden signed up to the Mayors Green procurement code in 2001 and has progressed to level B1, which commits Camden to include specifications on recycled products and monitor the amount of recycled products being bought.

MEETING COUNCIL OBJECTIVES

The overarching strategy on sustainable development for Camden is the Community Strategy. The way in which Camden procures and delivers its services will have an impact on achieving the aims of the strategy.

Camden's Corporate Environmental Policy was agreed in 1996 and updated in 2002. It has a commitment to "*use the most environmentally and socially responsible goods and services consistent with good performance and encourage all our contractors and suppliers to do the same*".

Camden has also been working towards corporate EMAS registration. Procurement was identified as one of the core, cross cutting, corporate environmental aspects which needed to be co-ordinated centrally.

Specific targets on environmentally and socially responsible procurement (ESRP) have been included into Camden's Corporate Procurement Policy and Strategy and Environment Report.

BACKGROUND

Work on ESRP had historically been managed by the Camden's Environmental Policy and Project Team. However, to ensure sustainability was embedded into all procurement practices, it was decided that co-ordination of this work needed to come from within the Corporate Strategic Procurement Unit (SPU). A Best Value review of corporate procurement also identified this need and a designated Sustainable Procurement Officer was appointed into the SPU in February 2003.

The cost of the ESRP project work was allocated to the appointment of the Sustainable Procurement Officer and was funded through the existing payroll, but there has also been individual costs to Council Departments which has been absorbed into existing budgets.

Addressing environmental, social and economic sustainability impacts of procurement across the council with central co-ordination from a designated Sustainable Procurement Officer was identified as a first in the UK. Integrating sustainability throughout the procurement process instead of just on a contract by contract basis is considered to be a more effective approach to implementing sustainable procurement.

ACHIEVEMENTS

After initial research into the key issues an ESRP Policy was drafted and agreed by Camden Management Team Environmental Stewardship sub group in July 2003. The policy is outlined below.

ENVIRONMENTALLY AND SOCIALLY RESPONSIBLE PROCUREMENT POLICY

Camden Council is committed to achieving environmental, social and economic objectives set out in Camden's Community Strategy, so as to ensure a better quality of life for everyone, now and for generations to come. Camden Council recognises the impacts associated with its own procurement activities as well as those of its vendors. Camden Council is committed to addressing these impacts and integrating environmental, social and economic considerations into every stage of its procurement processes.

The aim of this policy is to provide a strategic framework for setting targets and actions to achieve the following goals:

- Meet Camden's corporate objectives.
- Minimise environmental risk.
- Maximise social benefits.
- Consider whole life costing.
- Consult and engage stakeholders.

To achieve these goals the Council commits to the following objectives:

1. To as a minimum, comply with all relevant environmental and social legislation, UK and EC procurement regulations, industry guidance, codes of practice and voluntary agreements.
2. To research and promote best practice in environmental and social procurement.
3. To consider environmental and social issues during vendor qualification and appraisal.
4. To specify environmentally and socially acceptable products, services and ways of working in contract conditions and specifications.
5. To include environmental and social appraisal criteria during tender evaluation.
6. To green the supply chain and address social procurement issues through working with key vendors.
7. To minimise the environmental impacts of our contracts including the production of waste, use of resources, emissions to air, releases to water, contamination of land and destruction of biodiversity.
8. To promote awareness of environmental and social procurement issues among vendors, members, council staff, the public and other stakeholders.
9. To adopt mechanisms and indicators for improving, monitoring and reviewing the environmental and social performance of vendors.
10. To work with Small and Medium sized Enterprises (SME), Black and Minority Ethnic (BME) businesses, social enterprises, voluntary sector and local businesses so they are fit to compete for Council and other contracts so as to strengthen the local economy.

PUTTING POLICY OBJECTIVES INTO ACTION

1. *Compliance with Legislation*

To ensure that all relevant legislation was complied with a risk based approach was taken to identify whether environmental and social issues were a core requirement of the contract in question. This was done by including an environmental risk and equalities assessment into Camden's Contracting Strategy. The strategy is used by all contract officers at the start of the procurement process to help then identify key issues relating to the contract. For example, to comply with the duty on race equality under the Race Relations Amendments Act 2000, Camden has developed standard procedures and clauses in line with the Commission for Race Equality's guidance on Race Equality and Procurement in Local Government.

2. *Research and Promote Best Practice*

Partnership working was considered the best way to identify and promote best practice and to benchmark against different organisations and other local authorities. Existing partners include:

- London Remade who facilitates the Mayors Green Procurement Code, have been working with Camden to provide advice and training to staff and local businesses on recycled products as well as helping to set targets and monitor the use of recycled materials and products in certain sectors, including stationery and highways maintenance. This has resulted in a new stationery contract being tendered with environmental products being the main focus and Camden's highway maintenance contractors using four different types of recycled products. In 2003–04 there was 100% use of recycled aggregates, which equates to 4,900 tonnes diverted from landfill disposal, saving 183,500kwh of energy and 44,200kg of CO₂.
- London Environmental Co-ordinators Forum (LECF)—Camden is part of this pan London group and its Sustainable Procurement sub group. A sustainable procurement guidance document for local authorities was produced which won the group an LSCG award in 2004.
- London Contractors and Supplier Group (LCSG)—The LECF have worked very closely with the LCSG to ensure sustainability issues are included in London wide local authority consortium contracts. Further development work is currently being planned.
- London Food Link—To help progress the work on sustainable food procurement, Camden is working with London Food Link and other bodies to help make a link between local producers/suppliers and Camden's food buyers and catering contractors. Camden has specifically targeted the schools catering contractor to help introduce local, healthy, organic school meals.
- Sustainable Business Steering Group—Camden is in the process of setting up this group to help businesses become more sustainable. The group will be made up of council officers from procurement, Local Business Partnership, Regeneration Unit, Camden's strategic partners and other large organisations based in Camden.

3. *Vendor Qualification and Appraisal*

Contractors are assessed for inclusion on Camden's Approved List. The assessment involves submitting an environmental and equal opportunities policy. This is also the requirement for select list contracts where environmental and social issues are identified as a core requirement. Further work is underway to expand on the requirements for inclusion on the approved list, including undertaking a formal assessment of the implementation of the contractor's policy and against specific sustainability criteria eg registration to ISO14001 or EMAS. Criteria are dependent on the size of the organisation so as not to penalise SME's.

4. *Specifications and Conditions of Contract*

If sustainability issues are identified as a core requirement of a contract then environmental and social specification and conditions of contract are included into contract documents. This has happened in a number of contracts including:

- Mechanical and Electrical Maintenance—Environmental specifications on waste and recycling, energy consumption, use of sustainable materials and non polluting chemicals and vehicles emissions.
- Photocopiers—Environmental specifications to comply with the Blue Angel eco-label and vehicle emissions.
- Agency Staff—Social specifications on equal opportunities and use of local employees.
- Dried Goods and Frozen Food/School Catering Contract—Environmental specifications on fair-trade, organic and GM free food and drink and vehicle emissions.
- Stationery—Environmental specification on recycled products, packaging, waste and recycling and vehicle emissions.
- Leisure Centre Management—Social specification on equal opportunities and environmental specification on vehicle emissions.
- Electrical Goods—Environmental specification on energy efficiency, waste and recycling and vehicle emissions.
- Parking Control—Social specification on equal opportunities and environmental specification on vehicle emissions.

All contracts include a condition of contract on compliance with the Race Relations Amendment Act 2000.

In addition, standard specification have been developed for:

- Vehicle Emissions Standard—Camden Management Team’s Environment Stewardship Group agreed (July 2003) a minimum standard of Euro II for all contractors’ vehicles, with a higher standard being adopted where vehicles are found to be an integral part of the service delivery. A standard contract clause was developed for both levels as well as a briefing note for contract officers explaining what needed to be included at every stage of the procurement process including tender evaluation and contract monitoring. All new contracts now include this clause and a number of alternative fuelled vehicles have been acquired by Camden contractors to meet the higher standard.
- Fairtrade and Organic Food and Drink—A briefing note on integrating Fairtrade into food and catering contracts has been developed, which includes a standard specification.
- Waste Management and Recycling—Has been identified as a key environmental issues where and standard specification is needed. This is under development.

5. *Tender Evaluation*

The key to integrating sustainability into a contract is to ensure that the relevant issues are included in the specification. Sustainability issues are then considered at tender evaluation as part of compliance with the specification. In addition, environmental issues have been included into the quality aspect of the assessment and as part of whole life costing during the financial evaluation, eg energy usage as part of running costs and landfill tax as part of disposal costs.

6. *Supply Chain Assessment and Working with Key Vendors*

Fairtrade Procurement

Camden achieved Fairtrade borough status in September 2004. As part of Camden’s work on achieving Fairtrade borough status Camden worked with its corporate food and catering contractors to introduce Fairtrade products into the contracts. This has resulted in Fairtrade tea and coffee being served as standard at all internal meetings, a Fairtrade drinks vending machine being introduced into members services and Fairtrade tea and coffee being available for users of the corporate food contract including community and day centres, nursing and residential homes, hostels etc. Camden is hoping to build on the success of its existing Fairtrade procurement by introducing other products such as fruits, juices, biscuits, chocolate etc into canteens.

Training and Employment Code of Practice for Construction Contracts

To meet the aims of Camden’s Neighbourhood Renewal Scheme and to achieve social and economic development through local procurement, Camden has included community benefits clauses into a Housing Department construction contract. This has involved asking the contractor to provide training schemes for local people through the life of the contract.

7. *Reducing Impacts of Own Contracts*

To reduce the impacts of the internal supply contracts Camden has been working with its existing suppliers to introduce a number of environmental friendly options including; Forest Stewardship Council registered timber in the furniture contract, green products in the stationery contract, mains water supply instead of water bottles in the water coolers contract, recycled black plastic bags in the plastic bag contract etc. The availability of the green options will be promoted through an internal green workplace guide, which also provides guidance on issues including office recycling. This has been set up to help close the loop on environmental procurement.

Camden’s Strategic Procurement Unit who manages the corporate internal supply contracts is working towards ISO14001 registration which will ensure that other significant environmental impacts on the supply contracts will be managed. The unit hopes to gain registration by September 2005.

8. *Promote Awareness*

Camden has introduced an extensive number of initiatives to help promote awareness of ESRP to all stakeholders, including:

- Regular articles in a bi-monthly internal procurement newsletter.
- Information on ESRP on Camden’s Intranet and Internet site.
- Race equality in procurement training and environmental procurement for over 60 procurement officers across the council. Held February and March 2004.

- Focused legal briefing on environmental procurement and power of wellbeing for 20 procurement officers. Held July 2004.
- Guidance on ESRP in Camden's internal Procurement Manual.

Camden has also used existing officer and member groups to communicate information including:

- Members Procurement Advisory Group.
- Camden Management Team Environmental Stewardship and Strategic Procurement Group.
- Procurement Advisory Group and Procurement Forum. Local Agenda 21 Group and Sustainable Buildings Steering Group.
- Corporate Equalities Group.

9. *Monitoring and Reviewing Performance*

Camden has conducted a review of its procurement spend and has identified its top 25 existing vendors by spend and environmental/social risk. An environmental/social/ethical audit of these vendors was conducted to help determine their existing performance in these areas. The findings of the audit will be used to set improvement targets and implement a minimum sustainability standard for all high spend vendors.

10. *Vendor Development*

To help local businesses become "Fit to Compete" for Camden and other contracts and to help green local businesses, Camden has put together a vendor development programme which has included:

- "How to do business with Camden" booklet—Provides information on tendering and Camden's sustainability requirements.
- Green Trade Fair, September 2003—Over 25 environmental stalls providing information on everything from commercial recycling to free energy audits. Attended by 200 local businesses.
- Vendor Development Day, October 2003 and April 2004—Workshops and presentations covering how to complete a pre-qualification questionnaire, developing an environmental policy, green procurement and may more. Attended by 40 local SME's.

1 March 2005

Witnesses: **Dr Gordon Murray**, Improvement and Development Agency (IDeA), **Mr Colin Cram**, Director of the North West Regional Centre of Excellence, and **Ms Katherine Cope**, Sustainable Procurement Officer for London Borough of Camden, examined.

Q177 Chairman: Welcome, good afternoon. Thank you very much for coming along. Thank you for your written evidence as well. First of all, I wonder if you can tell us how you pronounce yourselves, I am a bit uncertain about the name of your organisation?

Dr Murray: IDA.

Q178 Chairman: You call yourselves IDeA?

Dr Murray: No, that is sort of a brand image, it is IDA; we dropped the "e".

Q179 Chairman: The "e" is elided?

Dr Murray: Yes.

Q180 Chairman: I am sorry to ask that, it is just that I had not heard of your organisation before you submitted evidence. I suppose I should have done, it is my fault. What kind of public profile do you think you have?

Dr Murray: We are a local government organisation, so we have a high profile within local government. It would be almost impossible to come across someone in local government, particularly an elected member, who had not had some contact with the IDA. Within central government, we would be involved in most procurement initiatives. For

central government procurement issues, we would normally be the consultation mechanism for getting a local government perspective. In terms of local government conferences and so forth, it would be common for us to be a speaker on procurement.

Q181 Chairman: When were you set up?

Dr Murray: We have been in existence five years. Our predecessor was the Local Government Management Board and some people are familiar with it. We have a sister organisation called the Employers Organisation. The Local Government Management Board was split in two, the staff side became the Employers Organisation and the rest of the capacity building organisation became the IDA.

Q182 Chairman: What role do you have in local government procurement?

Dr Murray: We are a capacity building organisation; that is a sort of vague description. Our focus is on trying to improve the corporate leadership, the corporate strategy, to bring the democratic voice into local government, improving the effectiveness of that, and procurement is one strand. We have a team of people and we work through councils who ask us for support. We do not go into councils uninvited, they contact us and ask us for support.

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We are owned by local government, so most of our services are provided free of charge. We are not a consultancy as such.

Q183 Chairman: How many councils, typically, would contact you in a year?

Dr Murray: I looked at the website—one of our tools is to communicate through the website—and just on procurement, the website had 4,244 hits last month. It carries out fitness checks where we go into a council and spend a period of time there. We carried out 60 fitness checks on local government last year.

Q184 Chairman: Those are conducted free of charge?

Dr Murray: Absolutely.

Q185 Chairman: That involves going into local authorities and finding out how they order goods and services?

Dr Murray: No, we would almost describe that as too tactical. Maybe in future years we will spend more time involved with that. What do we do whenever we do one of these things called fitness checks, we find out how the overview and scrutiny role of elected members is involved. We want to find out about the corporate leadership in terms of the executive, the chief officers, the chief executive. We want to find out how procurement is contributing to the strategic objectives of the organisation. We probably spend, for each one of those councils, 13 person days, of which only three are on site, the rest of it is desk research. From the perspective of sustainable procurement, we have become a mystery shopper, where we try to find out how easy it is to deal with the council. We use desk research, telephone interviews and diagnostic workshops. There are a collection of suggestions which say, “You are particularly good at this, we are impressed with your progress here in terms of capacity, here are the issues we think you need to address to embed best practice in this organisation”. Then we give them a list of priorities and we provide them with free ongoing support to address these priorities.

Q186 Chairman: How many staff do you have? What is your annual budget?

Dr Murray: The procurement team has only 10 people.

Q187 Chairman: Ten people covering every local authority in England?

Dr Murray: In England. We also work in partnership with the Welsh Local Government Association. With the luxury of the Regional Centres of Excellence, which have been put in place, now we are working in partnership with them. Some people would use the description of a dating agency to describe IDA. What we try to do is find what is good procurement practice or good procurement people in one council and then marry them up with somebody from another council. Our view would be that we have 388 councils where we can draw on best

practice and by introducing people to each other that works remarkably well. I am afraid, in terms of what our budget is, I cannot say.

Q188 Chairman: How do you measure your success?

Dr Murray: We measure our success in a number of ways. In terms of the procurement performance, we measure success in the feedback which chief executives give us after we have done some procurement work. Our major role of measuring success is the improvement of local government’s procurement, generally against the National Procurement Strategy for local government.

Q189 Chairman: If there are only ten of you, how can you possibly know what town halls are ordering, how environmentally friendly that is and how it complies with the principles of sustainable development? How do you measure it?

Dr Murray: We cannot measure that. At the present time, we can see that a collection of councils are making progress in terms of sustainable procurement where they were not making progress in the past. That will come from a vast array of drivers. We would like to think the main driver in this is the political leadership of the organisation saying, “This is something we should be doing”.

Q190 Chairman: You said you would describe yourselves as a national change agent. What is that?

Dr Murray: Within the context of the evidence, we were discussing the efficiency programme. The efficiency programme has outlined various roles for people in the local government world, so to speak, one of which is the IDA. The IDA has a particular role which is to improve the leadership, the performance management, the effectiveness of procurement in councils and embed within that good examples. For instance, the Beacon Council Scheme is something we are familiar with. We would administer procurement as one of the leading councils for a Beacon Council Scheme for next year. We would be involved in the evaluation, judging and promoting of that. Regarding Beacon councils: we would be taking other councils to see how good councils are performing and sharing that best practice. That is part of how we do it. It is largely working with people in the local government family.

Q191 Chairman: In your written evidence you set out your definition of sustainable procurement, which has a familiar ring since it echoes the Government’s definition of sustainable development. Given that they have now redefined that to include recognition of environmental limits in the new strategy announced the day before yesterday, would you amend your definition to accord with that of the Government’s?

Dr Murray: The only reason I presented that definition was because I feel that far too often there is a narrowness of definition. Our concern would be that what we are trying to do is achieve community benefits through procurement as opposed to just buying things which might well be greener. I wanted to suggest, through the definition, that we were

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talking about social impacts, employment impacts, as well as greening impacts. We are not locked into a definition and we would generally take our lead, in that particular situation, from the OGC—Defra joint note. I think from memory that was a straight quote.

Chairman: It was a straightforward quote, but the definition has now been changed to include a recognition of environmental limits. One of the things this Committee has been worried about, in many inquiries in recent years, has not been that the definition of sustainable development is too narrow, but that, indeed, it is so broad that it means nothing at all.

Q192 Joan Walley: Can I go a little bit further in respect of the work you do with local authorities—I am looking at the way in which, for example, PFIs and Public Private Partnerships is part of the work which gets done—to ask you to what extent your advice or your driving agency is able to influence that area of operation?

Dr Murray: The IDA is not involved in Public Private Partnerships or PFIs, that is another sister organisation called the 4Ps, and the 4Ps work hand in hand with the IDA. If you visualise it: there is this local government family and there are a batch of specialists; one is this organisation called the 4Ps. Within their work, which is primarily about supporting big procurement projects, they have a parallel part of that work which refers to Gateway Reviews, where they are licensed by the OGC and within that work they embed sustainable procurement. The IDA is not involved in PFIs or PPPs, we immediately pass people to the 4Ps who will work with them.

Q193 Joan Walley: Can I ask you about your work with local authorities. You said just now, in relation to the question from the Chairman, that part of how you monitored it was to get feedback from chief executives. Do you work mainly with officers at officer level or do you work mainly with members of local authorities? How much are you involved in wider education about the issues which are involved?

Dr Murray: We work with both the elected members and the chief executive and his top team, so to speak. We spend comparatively little time working with officers. The procurement officer will be involved and, certainly, whenever we get to taking forward the recommendations, helping them embed best practice, we will coach, mentor and work beside them, but we are largely about driving forward from the top. Our view would be that what is needed in most councils is clear leadership and clear direction, then a performance management system which supports that, and then some sort of accountability where the officers bring into practice what the leadership wants to do.

Q194 Joan Walley: Can I turn to the National Procurement Strategy for local governments and, basically, ask you whether or not you feel that gives

full weight to environmental and other sustainability considerations in respect of local government procurements?

Dr Murray: I am giving evidence today on behalf of the Local Government Association; I am their representative, so to speak. The National Procurement Strategy is the Local Government Association's Strategy along with the ODPM. We feel whenever we developed that strategy it was probably quite adventurous by comparison with anything which had gone before. As far as we are concerned, it is fairly comprehensive in the context of achieving community benefits, which encompasses sustainable procurement. One of the recommendations we have made over the last few weeks is maybe there needs to be more attention to the voluntary and community sector procurement which is relevant. The discussion is underway, at the present time, about whether the life of the National Procurement Strategy should be extended to bring it into line with the Efficiency Programme. We feel it is quite comprehensive.

Q195 Joan Walley: You published your own guide, did you not?

Dr Murray: The Strategy is about getting people to a different place from where they have been and the guidance is to help people in terms of how they would do it.

Q196 Joan Walley: What I cannot quite understand is if you published your own guide as well as what was there in the NPS, did that not mean automatically that there was not sufficient in the NPS and there is more which should be done? Should the NPS not have made it clearer about what needed to be done?

Dr Murray: No. To put the two side by side, the National Procurement Strategy would say, "You should do something about embedding sustainable procurement within your corporate procurement strategy", it talks about things you should do, whereas the guidance sits side by side and says, "This is how you would do it". The guidance is probably 100 pages. Our view would not be that a strategy for a local government organisation would be appropriate if it had 100 pages specifically about sustainable procurement within the wider context of what local authorities are trying to do. It is there to help practitioners put meat on some of the existing guidance, which is already available in a local government friendly fashion.

Q197 Joan Walley: Looking at that Strategy—leaving that aside for a moment—are there other things which the Office of the Deputy Prime Minister is doing, at the moment, to encourage sustainable procurement, which you are aware of?

Dr Murray: The Office of the Deputy Prime Minister certainly would have asked us, within recent weeks, "What is the status of sustainable procurement in local government?" and feeding that back into the sustainable food initiative and so forth. I do not know what the ODPM is doing. The general work of embedding that practice within local government

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comes through the Regional Centres of Excellence, the 4Ps and the IDA, who are all trying to help the individual councils. It is the individual councils who have to take the steps and the action, the rest of us are there to try and help them because they are trying to do so many things.

Q198 Joan Walley: In respect of what individual councils are doing, do you feel the first Sustainable Development Strategy had an effect on individual councils and enabled them to take a leadership role in respect of sustainable procurement?

Dr Murray: In the context of local government, our view would be local government probably was ahead of that. Local government really bought into the Earth Summit in 1992 and started development with Agenda 21 action plans way back then. From that time most councils have been trying to do something about LA 21. Probably for most councils it has not been embedded in their practice, they are working more towards their own community objectives, their corporate strategy and they are aware of this. I do not think the average council person would have read either of those two strategies, I am afraid. I do not think the Sustainable Development Strategy would be uppermost in most councils' minds.

Q199 Joan Walley: There has been a failure then, has there not, if it is not uppermost in councils' minds to put that into action?

Dr Murray: It is probably being reflected in their strategies, it is probably being percolated into, "What does this council stand for?" "What are we trying to achieve?" and it is probably being reflected in that way. I do not think most people would reach for the shelf and say, "What does the National Strategy say?", they would look more towards the National Procurement Strategy.

Q200 Joan Walley: As it is applied by the local authority?

Dr Murray: Yes.

Q201 Joan Walley: Can I ask Ms Cope from Camden: obviously you would be putting forward Camden as a local authority with best practice, would you feel that what is being achieved in Camden is significantly greater than, perhaps, in other local authority areas?

Ms Cope: I think so. I think the success in Camden is that we had the commitment, which Gordon has been talking about, in terms of taking sustainable procurement forward as an initiative. Before the National Strategy came out, we had a number of targets in our Procurement Strategy about sustainability. I was able to be put in post specifically to deal with sustainable procurement, and I think having that designated resource has helped.

Q202 Joan Walley: You see that as something which other local authorities are doing to the same extent as you in terms of having people in place?

Ms Cope: I think other local authorities are moving towards having designated people in place and, also, they are moving away from the traditional position

of including sustainable procurement under LA 21 and embedding it more into procurement as opposed to having it as a sustainability issue, so it is more of a procurement issue now.

Q203 Joan Walley: Is that at variance with what Dr Murray said just now in respect of slicing local Agenda 21 with work which is being done by local authorities? Is it that local authorities should be concentrating on whatever succeeds the LA 21 Agenda or is it about, like you say, embedding it into the heart of the chief executive's office or something?

Ms Cope: I think it is a combination of both. It began within the LA 21 Sustainability Agenda, but it is moving more into procurement. Within local authorities there needs to be a link between environmental and procurement professionals, so they can work together to learn from each other. There are going to be areas within procurement where procurement professionals are not going to understand sustainability and visa versa, so it is a combination of both.

Q204 Joan Walley: Does that not rather assume that local authorities have an abundance of environmental professionals, when, in fact, it is not always necessarily the case?

Ms Cope: From my experience, from working with other local authorities, there would be at least one person who was responsible for sustainability or environmental issues, so I think there are enough professionals in place at the moment.

Dr Murray: What we have got to bear in mind is there are many different councils of many different sizes. The reality of it is there is more likely to be a sustainability person than a procurement person. In a very small district council we would not necessarily expect to find a procurement person, but you are more likely to be able to identify somebody who has sustainability and wants to drive forward that initiative from that perspective. Bigger councils will be putting in place big procurement teams and possibly have somebody who is dedicated to sustainable procurement like, for example, Camden. You cannot generalise that would be the case right throughout local government, that would be an unfair assumption.

Q205 Joan Walley: Is there a difference between the way Camden does it and the way many local authorities do it?

Dr Murray: We would say Camden is an exemplar authority. There are many other councils pursuing sustainable procurement who want to do more about sustainable procurement. One of the pieces of evidence we presented to you was that 87% of councils have said, within their procurement strategies, they are addressing sustainable procurement, which would suggest they have got a commitment.

Q206 Chairman: Can I ask you, Ms Cope, what have been the biggest obstacles you have had to face in taking this Agenda forward within your local authority?

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Ms Cope: Initially, it was probably around some of the perceived barriers in terms of what can or cannot be done and, also, around whether enough products, for example, were out there and the quality of the products, that really was only perceived barriers. Also, there was an issue about change management and getting procurement professionals to work in a different way, which, I think, for any new initiative is always a challenge.

Q207 Chairman: A lot of people are very set in their ways and have got their network of contacts, have they not, and shifting that is really quite a demanding task?

Ms Cope: As I said, that was a problem in the beginning, so I put in place a number of training courses, raised awareness, tried to improve communication between the environmental and procurement professionals and now I do not get those sorts of barriers. The sorts of information I am getting back from departments is that they want information on specifications, so they now know they have got to do it and can do it, they just want the tools now to be able to do it.

Q208 Chairman: Did you hear the evidence the Environmental Agency was giving?

Ms Cope: Yes.

Q209 Chairman: This is a question of reducing costs as well as saving the planet, is quite an interesting one, is it not? Do you think you have been good for the budget of local council tax payers as well as being environmentally and socially friendly?

Ms Cope: Using the stationery contract, for example, I think where there has been some increase in cost by using greener products we have been able to offset that by the way in which we deliver that procurement process. For example, for that particular contract we used an e-reverse auction and by changing the way we delivered that process so we got huge savings. I think that needs to be done also in conjunction, again, with change management. For example, if you are buying recycled paper which might be slightly more and you put in place a programme of raising awareness so people use less paper and double-sided print, again, you are reducing the costs. Sustainable procurement should not be done on its own, it needs to be done in conjunction with other initiatives.

Q210 Joan Walley: Given what you have just said and the role of the IDA, can I ask how this kind of best practice is shared amongst local authorities, how your organisation promotes that so everybody knows, for example, how Camden has made those changes? How do you disseminate that information?

Dr Murray: The easiest way we try to do this is to use a proliferation of case studies. Part of our website is dedicated to case studies, which councils can put on themselves about particular issues. This is not the first time we have done a presentation with Camden. Whenever we have been asked to speak at a conference, on a previous occasion, we had the IDA telling one story and almost double-billing with

Camden. We would generally try to work like that, we would generally try to work alongside a council, so you have a sort of theoretical type world and then, "here is the real life, this is what somebody has actually been trying to do and what they have achieved". All of our guidance uses case studies.

Q211 Joan Walley: Do you find it is the same councils coming forward or are interested? What about the councils who are still back in the early beginnings of LA 21 and have not understood that this needs to be embedded at a much more strategic central corporate managerial finance level of the authority?

Dr Murray: That is an excellent question. The IDA focuses on poor and weak authorities. Councils are graded through a CPA, (a Comprehensive Performance Assessment system). We devote, as much as possible, our resources to the people who are poor and weak. If you were looking for procurement support, we will go and veer to the people who we believe most need attention.

Q212 Joan Walley: Can I ask how much of that grading of authorities takes into account their performance on sustainable development issues?

Dr Murray: The Audit Commission would be the people who would be appropriate to discuss that with. From our perspective, our understanding of the new comprehensive performance assessment is it would specifically ask that question and specifically look at the use of resources in that context.

Q213 Joan Walley: Can I ask you about the technical advice councils have got available to them, where do they get that technical advice from? Is it just from yourselves and websites or how else are they going to be equipped to be able to have a Sustainable Procurement Policy?

Dr Murray: There was a similar question asked a few minutes ago to the Environment Agency. I struggled with what you meant by technical advice. If it was, "Is this product greener than that other specification?" we believe, at the present time, there is a gap in terms of where you would get that information and we think the Environment Direct Service may help fill that gap. In terms of where they would go for advice about how to embed sustainable procurement within their practice and what can they do at each of the stages of the procurement cycle, their natural port of call would be either to the local Regional Centre of Excellence or the IDA and the guidance is there. There is plenty of availability of where to go to for support.

Q214 Joan Walley: If any of our local authorities want advice and guidance as to how to go about getting the Sustainable Procurement Policy, you would have that and it would be out there for them to take?

Dr Murray: Our guidance specifically talks about how to develop a Sustainable Procurement Policy, but if anyone emails Ihelp@IDeA, they get a

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response within two days telling them how to do it and possibly a house call, as in, we would go to the council and have an appointment set up.

Q215 Joan Walley: Do you think the quick wins list has been useful to local authorities?

Dr Murray: The “quick wins” list is not binding on local authorities. We would direct people to that and suggest they use it. Local authorities use organisations called “purchasing consortia” quite a bit. We can see that there has been a trend towards greening the catalogues of the purchasing consortia and we can see that there has been a greater increase in the use of the OGC buying solutions catalogues and so forth, that is definitely taking place. We can see that there is a movement towards greener products, but can we say if the quick wins have been embedded in practice, we would not be in a position to judge it.

Q216 Joan Walley: Finally, in respect of the criteria you use in terms of procurement, can I ask if there are particular practices, for example, whereby anybody can only be considered if they have been on the list or have been trading for five-year periods? Are there any specific constraints on environmentally friendly contracts and them being able to put themselves forward which you think need to be looked at in any way?

Dr Murray: Certainly, we would not encourage a council to have somebody who only deals with it who if they’ve been trading for five years; two years might be a bit more practical. We would look for other areas where you can justify that they have clearly demonstrated their capability to deliver that contract without worry. Looking for years of performance, possibly a restriction to voluntary enterprises and SMEs, we would not see that as a good thing; in fact, we would encourage people to move away from that. Generally we would encourage people to move away from those sorts of approved lists and standing lists which have been on the go for quite some time, maybe they are not as productive or effective as they could be in terms of sustainability. For example, unless you can identify the connection between the subject matter of the contract and the generation of that list, it might not be appropriate to use the list.

Q217 Mr Chaytor: Before we leave the National Procurement Strategy completely—I have just read through it very quickly during your earlier comments—as far as I can see the word sustainable only appears once and in the Strategy there is absolutely no reference whatsoever to the sort of things which our Committee is particularly interested in, the way in which procurement can reduce the environmental impact of the Government’s activities. The use of sustainable is, in this context, that one of the eight objectives of this Strategy is to be sustainable for the communities and areas served, which is as vague as you can possibly get. Is this not a chronic limitation of this document if this is known as the driving force behind what local governments are supposed to be doing?

Dr Murray: The National Procurement Strategy?

Q218 Mr Chaytor: Yes.

Dr Murray: We would argue that chapter six is all about sustainable procurement.

Q219 Mr Chaytor: Stimulating markets and achieving community benefits?

Dr Murray: Yes. For example, the employment issue we dealt with, easing access through a selling to guide, the relationship with the community plan, diversity, equality, sustainability, access to community suppliers, sustainability embedded in contract processes and the strategy involving community sector procurement are all addressed. The partnerships have to look at what you are doing with the SMEs and what the impact is. Most people would hold up that chapter and say it was exemplary.

Q220 Mr Chaytor: What about reducing carbon emissions, reducing waste, reducing the impact of landfill, issues of food supply and diet, health, all this sort of stuff, there is no reference to these things there, is there? This is all at a fairly abstract level and this is my concern.

Dr Murray: This goes back to the earlier question, you look to the sustainable procurement guidance which supports this, which has a significant amount of detail. I have a copy with me which I am happy to leave. It has a significant amount of detail on the sustainable food initiative, on the development of SMEs, on carbon emissions and on the impact of particular processes.

Q221 Mr Chaytor: The document you are referring to you are going to leave with us? This is the thing we should be looking at to get more detailed information.

Dr Murray: That document has a significant amount of detail on how to do it and how to embed it within the process. This [NPS] says this is where you should be going and this sustainability in local government procurement creates the strategic framework for using that.

Q222 Mr Chaytor: This is far more specific than the document?

Dr Murray: Yes.

Q223 Mr Chaytor: Looking at the outcomes: you said earlier you can detect in suppliers’ brochures a sort of change in the nature of products which are available. How is this measured and where do we go to find some measurement of the changing nature of the outputs? Is your website the sole source of that or do you publish an annual report which tries to document these changes in the nature of products which suppliers make available to local government? How can we assess what is happening in the field if there is no single document which tries to measure the changes you say you can detect?

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Dr Murray: I am happy to leave another document with you which is the *Year On Report* on the progress of the National Strategy, which compares progress since the year 2000 with where we were a few months ago.

Q224 Mr Chaytor: That is a one-off document, it is not a regular publication. There is not an annual monitoring system which tries to pull this together and so on?

Dr Murray: With regard to the National Procurement Strategy there is a part of the local government world which is called the Implementation of Milestones Group who are specifically responsible for measuring the implementation of the National Procurement Strategy and addressing how to move forward that amount of initial support we need.

Q225 Mr Chaytor: The IMG is also under the umbrella of LGA?

Dr Murray: The Implementation of Milestones Group is under the ODPM/ the LGA National Procurement Strategy Steering Group. I am happy to leave a copy of that *Year on Report* as well.

Mr Chaytor: I am just trying to piece the bits of the jigsaw together.

Q226 Chairman: Is anyone measuring it? You can have any numbers, you have a plethora of different organisations and people sitting around earning good Civil Service salaries and pensions doing the stuff, but is anybody measuring it?

Dr Murray: The IDA measure it, but there has only been a year of the National Procurement Strategy. It was measured after a year and it was published on 1 March. It is measured on an annual basis. There is a four year strategy of measuring the impact every year, so yes is the answer. I think you said about the type of difference in suppliers?

Q227 Mr Chaytor: Yes, because you said earlier that you can detect a difference in the products.

Dr Murray: No, I was not referring to suppliers, I was referring to consortia, which are used sometimes as suppliers for local government, but are generally owned by local government organisations. Certainly there has been an increase in the greening of their catalogues. That could be measured, but we have not spent a great deal of time measuring it and have not been asked to. Certainly we can see an increase in the use of those consortia contracts.

Q228 Mr Chaytor: Moving on to the Centres of Excellence themselves: Camden is the centre for the London region, but all the English government regions now have a Centre of Excellence, do they or not?

Ms Cope: Camden is not the Centre of Excellence for London, it is the ALG in conjunction with Hammersmith and Fulham and Westminster. Camden is leading on sustainable procurement for London through the Centre of Excellence.

Q229 Mr Chaytor: Do all the other English regions now have one Centre of Excellence?

Dr Murray: Colin is the Director of the North West Regional Centre of Excellence.

Mr Cram: The short answer to that is yes. There are nine regions in England and nine Centres of Excellence covering every council.

Q230 Mr Chaytor: Are they all functioning at the same level? Are they likely to have a similar impact or are they taking on their tasks in different ways? How do you judge the performance to date? When will they be reviewed? Is this going to go on forever or is there some point at which this concept of the Centres of Excellence will be assessed and monitored?

Mr Cram: The Centres of Excellence: probably the best definition is the lead efficiency change agents for local government. Effectively, the North West Centre of Excellence started up in January of this year and most of the others started at a similar time, either January or just before, or in the case of one or two just after. It is probably fair to say that we are finding our feet. I guess you want to know how we will be judged and I have been asked that question several times. Effectively, we are working on behalf of the local authorities. To some extent, in our region we are acting as a catalyst to enable them to deliver various local government agendas, particularly the Efficiency Agenda and the National Procurement Strategy for local government. I guess the best judges of us will be our constituents, our local authorities. We will be measuring the impact of some of our initiatives.

Q231 Mr Chaytor: It is a bit difficult because if your argument is that the Regional Centres of Excellence are there to drive recalcitrant local authorities forward, is it not a flaw in the system if it is those very recalcitrant local authorities who are going to assess the impact of the Regional Centres of Excellence? Surely somebody else should be going out and assessing them?

Mr Cram: I do not think it is the recalcitrant local authorities and I do not think one should look at it that way. We are the catalyst for the Efficiency Agenda, we are the catalyst for the National Procurement Strategy for local government and, also, we are the efficiency focal points for government organisations and government departments with local authorities in the region. The Efficiency Agenda identified, very clearly, that efficiencies can be made through much greater collaboration between local authorities, that was one of the means. One of the things we are doing is encouraging that collaboration. The collaboration may be, in particular, what we term work streams, commodity areas, or it can be, for example, encouraging collaboration in corporate services. Also, we shall be encouraging the transfer of best practice, identifying best practice in some councils and identifying, if you like, opportunities for other councils to seize upon that best practice. Those are

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some of the things we are doing. It is not recalcitrant councils, we are looking for opportunities as much as anything through collaboration.

Q232 Mr Chaytor: If the changes following the Gershon Report are going to have this absolute focus on finding cash savings because Gershon has established a very ambitious figure for savings to come out of local government, what is going to happen to the concept of sustainable procurement? Is that going to be sidelined in the mad rush to get cashable, bankable savings by greater economies of scale?

Mr Cram: Certainly in the North West, and I guess nationally, the answer is no, it is not being sidelined. We have got three main themes in the North West: one is strategic procurement; another is collaborative or corporate services; and the third theme is, what I call, sustainable communities, but essentially that is sustainable procurement and it is other things which relate to sustainable communities as well. That is very important to the councils of the North West. I think it is also fair to comment that Gershon's 50% of the efficiencies—and I think the word efficiency rather than savings tends to be used in the Gershon Report—are cashable. Gershon defines efficiencies in a number of ways which probably you would expect from someone coming from perhaps more an engineering background. It is not necessarily cost savings, it may be buying something rather better for the same price. I guess you can buy something which is much better for a higher price. Also, it is about moving resources to the frontline. If you are suggesting there is a clash between sustainability and Gershon, I do not believe there is. Maybe I can give what I think is a very concrete example?

Q233 Joan Walley: How are you defining sustainability in that?

Mr Cram: I was afraid you might ask that. There is a whole range of ways that I am probably defining sustainability. One is certainly creating more sustainable local communities.

Q234 Joan Walley: What do you mean by that?

Mr Cram: We have a work stream that, for example, we believe will encourage small businesses and remove some of the obstacles to small businesses. Under that heading we include also social and healthcare, waste management, transport—we have a national lead on transport in the North West—and there is food as well, we are creating a work stream on food. There is a whole variety of areas where we are looking at sustainability.

Q235 Joan Walley: What about emissions or pollution or recycling objectives?

Mr Cram: We have not started to tackle that yet. As far as emissions are concerned, I would expect that to come within the transport initiative, certainly as far as transport emissions are concerned.

Q236 Joan Walley: House building?

Mr Cram: We have a construction work stream and we intend that should be included.

Q237 Chairman: Is not, perhaps, demolition more of an issue for Mr Prescott?

Mr Cram: Judging by the house prices in our part of the world, there would still seem to be more demand than there is supply. I am astonished at the price of houses, certainly in the Manchester area. I do not know if that answers your question? We have a number of work streams tackling various elements of sustainability. I guess the definition of sustainability will vary according to those work streams. I think in some instances we can do an awful lot—and I passionately believe this—which delivers sustainability, efficiencies and sometimes economies. Would you like some examples?

Q238 Mr Chaytor: That is fine. Can we move on to two other areas very briefly. The question of Gateway Reviews: can you say something about the impact of Gateway Reviews? Is there some possibility of introducing a “green” environmentally friendly Gateway Review? Tell us a little about your views on that.

Mr Cram: Gateway Reviews were introduced to improve the outcomes of projects because, as you know, a number of central government projects did not deliver the outcomes people expected and often a lot of money was wasted. Gateway Review is something I want to introduce widely in the North West. I believe it can benefit not only on what we might term ordinary projects, but also it can be used for determining whether particular policies should be pursued. The first stage is a Gateway Zero where you identify, “Is this whole thing feasible?” and then “Is there a business case there?”. Certainly, one could apply that for environment, if there is a particular environmental objective. I would prefer to see things in terms of projects, so one has an objective which is an outcome. First of all then, “Is the objective a reasonable one? Is it a sensible one? Is there a business case there? Are the resources being put in place to deliver that outcome?” in other words, “Is it a genuine project or an act of wishful thinking?” Therefore, I think the Gateway Review can be of great benefit, but I would not tend to see these as projects. Therefore what I want to see is the environmental outcome expressed in a way which is a measurable outcome and clearly identifiable. That is a personal view, but that is what I would like to do. I would like to see the Gateway Review introduced widely within the North West for a whole variety of purposes.

Dr Murray: First of all, nobody in local government would accept for one minute that the drive is just for cost reductions; this was the previous question. The Audit Commission's approach, in terms of how we can demonstrate that a council is performing well includes, for example, that procurement decisions are not based solely on lowest cost options, but achieving greatest benefits to the public purse, for example, securing health or environmental benefits

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and opportunities for joint procurement. That is how they are going to be judged in the next round of the CPA. With regard to the Gateway Review process: if an organisation has agreed to put their projects through a Gateway Review process, sustainability is looked at. That is addressed in terms of compatibility with the project with the overall policy objectives of the organisation and fits with other government issues; it is addressed within the process as it is. In my evidence, I suggested also that

there was a potential for the organisation to use its overview, its scrutiny function and to question, "Are we doing as much as we can at individual stages?" We see that as a productive way in which you can use overview and scrutiny to embed further before it is too late; are we doing as much as we can do with regards to sustainability procurement.

Chairman: Thank you very much indeed. We have gone 15 minutes beyond what I intended. We are grateful to you.

Wednesday 16 March 2005

Members present:

Mr Peter Ainsworth, in the Chair

Mr Gregory Barker
Mr Colin Challen
Mr David Chaytor
Sue Doughty

Mr John McWilliam
Mr Malcolm Savidge
Mr Simon Thomas
Joan Walley

Memorandum submitted by the Department for Environment, Food and Rural Affairs (SP 10)

DEFRA'S ROLE AS SUSTAINABLE DEVELOPMENT CHAMPION

1. Defra champions sustainable development nationally and internationally. It works with other government departments to seek to embed sustainable development into all areas of business, including the way in which departments manage their land and buildings and purchase the goods and services they need. It has secured the commitment of all government departments and their executive agencies to publish their own sustainable procurement strategies this year.

2. Defra has taken the lead for government in co-ordinating preparations for the new UK Sustainable Development Strategy to be published in March. In consultation, stakeholders have said that the Government should do better to exemplify sustainable procurement in practice. We accept this challenge and the new Strategy will chart the way forward.

DEFRA'S ROLE ON SUSTAINABLE PROCUREMENT

3. The October 2003 joint statement on sustainable procurement by the Secretary of State for Environment, Food and Rural Affairs and the Chief Secretary committed the Government to sustainable procurement. It followed on from the report of the cross-government Sustainable Procurement Group established by the Secretary of State and the Chief Secretary. The report set out how central government procurement can and should support sustainable development and how whole-life costing and the principles of sustainable development are consistent with value-for-money and EC procurement rules. Both Defra and OGC officials were involved in the work of the Group, which was chaired by Dr Clare Poulter, Deputy Chief Executive of OGC buying solutions (OGC.bs).

4. At the same time, OGC and Defra jointly published revised guidance on Environmental Issues in Purchasing and Ministers committed government departments to apply minimum environmental standards in new contracts when purchasing certain types of product, the so-called "Quick Wins" list.

5. Since October 2003, Defra's contribution to sustainable procurement has focussed on:

- setting targets within the Framework for Sustainable Development on the Government Estate ("the Framework");
- exploring the scope to expand and keep updated the current list of products meeting minimum environmental standards;
- promoting the Public Sector Food Procurement initiative;
- supporting the Government's commitment to purchase timber from legal and sustainable sources;
- exploring, through the joint Defra/DTI Environmental Industries Unit, the potential for public procurement to bring innovative environmental goods and services to market;
- developing the evidence base to identify future sustainable procurement priorities; and
- working with the EU on plans to encourage environmentally sensitive procurement, in particular in relation to environmental technologies, through an EU-wide benchmark target.

FRAMEWORK FOR SUSTAINABLE DEVELOPMENT ON THE GOVERNMENT ESTATE

6. Defra has been the lead department in drawing up the Framework. The Framework was completed in October 2004 with the publication of sections on estates management, procurement and social impacts.

7. The procurement section of the Framework takes forward the recommendations from the Sustainable Procurement Group report. The key commitment on procurement requires all government departments and their executive agencies to draw up a Sustainable Procurement Strategy, or review that already in place, by 1 December 2005. The departmental strategies must put in place (alongside other requirements) systems to take account of government-wide initiatives, which include the commitments on the minimum

environmental standards (“Quick Wins”) products, on food and on timber. Other sections of the Framework address other aspects of sustainable procurement, for example the purchasing of renewal energy, and the replacement of ozone-depleting fixed refrigeration, air-conditioning and fire protection equipment.

8. Defra has monitored performance against Framework targets in the annual Sustainable Development in Government reports. In 2004, for the first time, the report was based on an independent analysis by external consultants. The report and departmental returns to the questionnaire are available online. The returns relate to the financial year April 2003 to March 2004 so that only limited information is available in relation to the October 2003 and more recent procurement commitments. The returns show that most departments have begun to implement the “Quick Wins” list.

9. In consultation with government departments and other interested bodies, Defra is undertaking a review of the Framework during 2005 to seek ways to strengthen performance in all operational areas, including procurement.

MINIMUM ENVIRONMENTAL PRODUCTS LIST

10. The October 2003 products list is published online on the OGC.bs website. The Government is committed to keeping the list under review and to widen its coverage over time. Defra is undertaking this work which will be managed as part of a wider Sustainable Consumption and Production agenda to raise eco-design standards.

11. Work is already underway to extend the list in 2005 to 50 products. Candidates for the list include a variety of products such as office computers, photocopiers and other office equipment, paper, refrigerators, lighting, air conditioners, paints, detergents, hydraulic fluids and lubricants.

12. This activity is supported by the Market Transformation Programme (MTP) and links with wider product policy measures such as European mandatory labelling, standards and industry voluntary agreements, and with the innovation initiatives below. The overall aim is to establish an integrated approach for setting and raising product eco-design standards in line with the Government’s policy objectives for climate change, waste, water and hazardous substances. MTP will help to establish areas where procurement could make an effective contribution to delivering those standards.

PUBLIC SECTOR FOOD PROCUREMENT

13. The Public Sector Food Procurement Initiative (PSFPI), launched in August 2003, is co-ordinated by Defra and a cross-government implementation group. It is designed to encourage public sector bodies to procure their food in a manner that promotes sustainable development and encourages more small and local farmers, producers and suppliers to compete to supply them with food.

14. Key government departments have produced action plans for implementing the initiative and local authorities are being encouraged to follow suit. A national conference was held in November 2003 to raise awareness. This was followed in 2004 by regional workshops, guidance on best practice and the establishment of mechanisms for monitoring and reviewing performance across government. Defra has contributed funds towards regional pilot projects. These will encourage more small and local suppliers to compete to supply the public sector with food and catering services.

15. Defra has worked with DfES and the Department of Health on the Healthy Living Blueprint for Schools and Food and Health Action Plan. The Department has helped farmers and growers meet PSFPI requirements by, for example, publicising the grants and support available to producers) and it has liaised with various trade and NGO stakeholders.

16. Defra has also developed a communications action plan to help forge a closer relationship between key departments on promotional activities. It has collaborated with the major food service companies to establish their role in implementing this policy and has liaised with the Devolved Administrations.

PURCHASE OF SUSTAINABLE TIMBER

17. Defra has been responsible for taking forward the Government’s commitment of 2000, to seek actively to procure products made from timber that has been legally harvested and grown in a sustainably managed forest or plantation.

18. In January 2004 Defra published revised timber procurement guidance for central departments. This includes an explanation of the constraints that EU public procurement directives have had on implementing this policy. Defra has also commenced development of the planned Central Point of Expertise on Timber (CPET) which should accelerate progress and encourage the wider public sector to follow central government’s lead. Phase 1 assessed five major forest certification schemes and was completed in November 2004. Defra is now working to set up the second phase of the CPET which will provide a helpline service for public sector buyers and their suppliers. A pilot scheme is currently in operation.

INNOVATION

19. The Government is also looking at how public procurement can be used to drive markets for innovative environmental goods and services. Through the Environmental Industries Unit, Defra and DTI are working on a “Forward Commitment” project with the Environmental Innovations Advisory Group that aims to demonstrate how public sector purchasers can draw environmental innovations into the market through the procurement process. In order to encourage action in the UK public sector, we are looking to:

- work with a government agency or department to produce a model for replication in other parts of the public sector; and to
- develop a training programme covering the key issues purchasers need to consider when making purchasing decisions on environmental technologies, products and services.

EVIDENCE BASE

20. Research for Defra, looking at the ways of and factors influencing consumer behaviour in support of our environmental goals, has shown that achieving change requires a sophisticated approach, and that policy plays a vital role in shaping the social context in which consumers act. One of the key components is Government setting a good example. The research has found that public sector consumption constitutes a significant proportion of total consumption; that it can play a significant role in stimulating markets for sustainable products and services; that it can provide valuable lessons to policy-makers; and that government policies and practices send important signals to people about priorities.

21. Defra has also commissioned a study to look at the evidence base for sustainable procurement to inform the department’s future priorities for public procurement. The research is seeking to determine when and in what areas public procurement is an effective and efficient tool for delivering sustainability outcomes. In particular the research aims to:

- identify and provide an overview of the evidence of what approaches to sustainable procurement have worked and why, and the barriers that may exist, or have been overcome, in implementation;
- examine the experience of UK Government sustainable procurement by reviewing the environmental and other outcomes that are likely to be delivered, and the net costs and benefits of these policies;
- identify in what product/service categories public sector procurement is most likely to be able to influence directly the market-place through the scale of its purchasing power, and where that power is concentrated;
- identify in what product/service categories public sector procurement is most likely to influence corporate and household consumer behaviour through leading by example; and to
- identify what outcomes the UK Government should be aiming to achieve and the costs and benefits of different options.

The research is being carried out by Green Alliance and should report by April 2005.

SUSTAINABLE PROCUREMENT WEBSITE

22. The Sustainable Procurement Group recommended that OGC, OGC.bs and Defra should collaborate on drawing together advice and best practice into a single web-based tool to support sustainable procurement. Defra has worked with OGC on the “sustainable solutions” pilot website, which combines detailed sustainable procurement advice for buyers. OGC.bs is responsible for overseeing this service, and Defra will continue to work with OGC.bs on it.

23. Defra also has plans for a new service—Environment Direct—which will give all consumers information about the effects which different consumption choices have. The department has done some initial feasibility work and will be consulting on how to take it forward. If there is broad agreement, it is hoped to have a service up and running in 2006. Defra will be working with OGC on Environment Direct and will make appropriate links between the new service and the “sustainable solutions” website.

EU INITIATIVES ON PUBLIC PROCUREMENT

24. In partnership with the European Commission, the UK is leading work under the Environmental Technologies Action Plan (ETAP) to encourage public procurement practices that support environmental goals, especially the development and deployment of environmental technologies.

25. The UK would like to see the average level of “green” public procurement achieved in the European Union in 2010 equal to that currently achieved by the best performing Member States. Defra is supporting the Commission in an EU-wide study to define and measure EU environmental public procurement, and to identify and assess current EU-wide best practice. Initial results are expected in October 2005. The evidence will provide a basis for discussion with Member States of any possible future EU target, and inform development of national action plans where they are not already in place.

Witnesses: **Ms Jill Rutter**, Director, Strategy and Sustainable Development, **Mr Bob Andrew**, Principal Procurement Adviser, Procurement and Contracts Division, and **Dr Andy Davey**, Environment, Business and Consumers Division Department for Environment, Food and Rural Affairs examined.

Q239 Chairman: Welcome. Thank you very much for coming and may I apologise to you all for the delay in the beginning of the session. We had extra business to conduct. I understand you may have an opening remark or two you would like to make to us?

Ms Rutter: If it would be helpful to the Committee, I will introduce my colleagues and update because the Defra memo that you had predated the sustainable development strategy which the Prime Minister and our Secretary of State launched last week. It might be helpful to tell you where things have moved to. I am Jill Rutter, director of strategy and sustainable development at Defra. On my left is Andy Davey who is the programme manager for the sustainable consumption and production programme, a strategic priority within Defra. He sits in the environment, business and consumer division. On my right is Bob Andrew, who is the principal procurement adviser in Defra's procurement and contracts division. You picked a very timely theme, as you will have seen from our sustainable development strategy. One of the things that emerged very clearly from our consultation was that, particularly for the business community, sustainable procurement, the ability to embed sustainability into government procurement, was a litmus test of the government's seriousness on sustainable development. In the memorandum we submitted, we said that the new strategy would chart the way forward. Over the past months we have been working with colleagues in the Office of Government Commerce, colleagues in the Treasury, colleagues in the Sustainable Development Commission and with other government departments through the Interdepartmental Programme Board for the development strategy to do that. There are some very specific commitments in the strategy. The first is a clear commitment to leadership. The strategy sets out our commitment to be a leader in the EU on sustainable procurement by 2009. There is a process of benchmarking going on at the moment within the EU. What does that mean? The UK is taking a lead on that. That is going to crystallise at a conference in October under the UK presidency. At the moment, a lot of work is going on in assembling the evidence base. When we assemble that evidence base, we will look to convert it into more targets. We are working with suppliers on embedding sustainability with the Office of Government Commerce and the NHS Purchasing and Supply Agency. We are working with the Chartered Institute of Purchasing and Supply on the skills agenda. There is a lot of good work going on under business as usual. What our Secretary of State was very keen to deliver through the new strategy was a step change in performance. That is why she has asked Sir Neville Simms, the retiring chairman of Carillion plc and the chairman of International Power, to head up a task force on sustainable procurement with a view to drawing up what we are calling a draft national action plan to be available by April next year. We are in the process of landing the terms of reference and the membership

of that task force with Sir Neville. Obviously, as you come to conclusions from your study, it would be very useful to us to be able to feed those findings into Sir Neville's task force. That is a very important way of taking this agenda forward and accelerating delivery. One other theme that is very clear through our new sustainable development strategy is that of better departmental accountability. There is already a commitment in the framework for sustainable development on the government estate on procurement that every department will have its own sustainable procurement strategy by the end of the year. There is also a commitment in the new sustainable development strategy that every department will produce its own departmental action plan at the end of the year. In addition to the work done in this committee, we are also proposing to expand the remit of the Sustainable Development Commission to report to the Prime Minister on progress on delivery. One of the things that is very important to us is that this becomes something the departments feel genuine ownership for in how they are taking it forward.

Q240 Chairman: Could you elaborate a little more on your relationship with the Office of Government Commerce? They said to us that they see you as the lead policy department in sustainable procurement and they are only there in an advisory capacity. Is that still the position?

Ms Rutter: Defra leads for the government on sustainable development but Defra does not deliver sustainable development on its own. Part of what we are doing is putting in place new delivery arrangements to make clear that where we lead others are embedding and delivering. We see ourselves, along with other interested government departments, as helping to define the policy. For example, on the new task force, Defra will be funding the secretariat for the new task force but we look to OGC to provide expert advice on procurement—vitality important is how our policy ambitions are reconcilable with constraints that may come out of the EU procurement framework etc—and also in their role as giving guidance to all departments on procurement they have a very important part in the delivery role. We have been working very closely with OGC and we seem to have spent many of the last few months in meetings with the OGC. We have presented on this to their managers at senior and middle manager level. My permanent secretary presented to the OGC supervisory board last week to get buy-in at all levels on this agenda from OGC. I think that relationship is working very well.

Q241 Chairman: Did you have any sense at any time that they thought this was all rather a bore?

Ms Rutter: No. You have Peter Fanning giving evidence later so ask him.

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Q242 Chairman: I am interested in whether they have said, “Wow, yes. We are really up for this and keen on it” or whether it was regarded as a bit of a chore, something that they had to be coerced into doing, or coaxed rather than coerced perhaps.

Ms Rutter: I do not think so. What was very noticeable last week when my permanent secretary presented to his permanent secretary colleagues at the OGC supervisory board was the degree of instant buy-in. This was something that they wanted to do, were very up for doing, and saw it as a very helpful way of delivering their own objectives rather than as an add-on. I have some sympathy for OGC because there is a great temptation to regard procurement as a magic bullet that can solve lots of departmental policy problems. If only you can get it through procurement, that is going to be the answer and it is great because it is not a tax or a charge or more government money, in a sense. I can see that OGC are concerned that they have to turn the policy advice coming from a number of government departments into guidance that is usable by procurement officials at the front line for delivery. One of the conclusions we have come up with is there is no shortage of guidance on how to do things. There is a danger of overload. If you try to deliver too many policy objectives through procurement, you end up delivering none because there is too much noise around.

Mr Andrew: We have had a very close relationship with OGC on the timber procurement policy and on the food procurement initiative. They have always helped and given advice, attended conferences and meetings. It has been very useful and a good working relationship.

Ms Rutter: Clare Poulter chaired the sustainable procurement group and that drove the input into the framework and developed the quick wins and the joint note on environmental issues in purchasing. The collaboration has been very good. If anything, Defra is slightly under-resourced rather than OGC.

Q243 Joan Walley: Can I press you further about timber procurement in respect of the way that you are working with OGC and ask what links there were with the Foreign and Commonwealth Office in respect of the concerns that were displayed on *News Night* last night about the way in which there has not been full US support for the stance that the government is taking, which is largely being able to take a leading role in the G8 precisely because of making progress on the timber procurement issue.

Mr Andrew: OGC was not directly involved in that particular issue. I was, along with the Department for International Development and the FCO. I am a member of an international forestry group in Whitehall and we meet regularly and exchange information and collaborate or cooperate on all those sorts of issues. I have been quite involved in the G8 process and the lead up to the briefing on the policy being developed for that. I was aware of that *News Night* programme.

Q244 Joan Walley: Were you aware of the US position on it?

Mr Andrew: We were advised by the journalist involved of the US position and we expressed surprise.

Q245 Joan Walley: You were advised of the US position through the *News Night* reporter?

Mr Andrew: Yes. I had been to a previous briefing session of officials where the US had made their position clear: they did not think that the timber procurement policy would be appropriate for the US because they were a net producer and they did not see that there was any need to interfere with the market mechanisms in that respect. There was no indication from that meeting that they were planning to scupper the initiative.

Q246 Chairman: The Sustainable Development Commission told us in evidence, which you probably have seen, that there was a lack of leadership throughout government in the area of procurement. Do you think that was true, is true, is being addressed now?

Ms Rutter: I think it is a lack of initiative on procurement. Procurement remains a Department's responsibility. This is one reason why permanent secretaries sit on the OGC advisory board. Leadership and procurement are part of every accounting officer's responsibility so in a sense should there be some central government leadership as opposed to the advice and support people get from the Office of Government Commerce—I am not sure that is really what you are looking for. Jonathan Porritt in his comments on the new strategy said that there is a new seriousness about delivery. That is one reason why we are very concerned to reinforce departmental accountability through the new frameworks we have. It is why we are also very concerned to try and galvanise action and why we are setting up the new task force which the SDC will be represented on, to define where the priority areas are, to make a real difference. We are very keen to draw on work that Andy Davey's team have commissioned on the evidence base to look at areas where government procurement makes a significant impact on the environment in the first instance and also bringing in potential social issues. Also, where government purchasing has significant capacity to drive market transformation, where we can use our purchasing clout to change a whole market. Those are some of the things that the Simms task force will be doing in setting out a plan which we will then hope to translate through this theme of government leading by example, which was one of the key themes our Secretary of State highlighted last week and one of the reasons we have singled out sustainable procurement as an area where we want to show what we are doing. We hope to show more leadership in the future.

Q247 Chairman: That is interesting because the report of the sustainable procurement group in January 2003 indicated that the SDU would be waving goodbye to the issue of procurement at a fairly early opportunity on the basis that it was all

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going to be mainstreamed and there would be no longer any need for Defra to play such a hands on role. Has that situation now changed?

Ms Rutter: It has because we have now decided that we want this task force to try and deliver a step change in delivery. That came through very strongly in our consultation.

Q248 Chairman: Is that because it has not been mainstreamed?

Ms Rutter: The jury is out. We do not have the evidence of what has happened so far. Every department has until the end of the year to draw up a sustainable procurement strategy. Having talked at the OGC directors' meeting, every department can point to examples of good practice but whether it is systematically applied across the piece is the area where as yet, because the framework has only been in place since last October, we do not have the evidence. Looking within departments, I do not think yet we have managed to unleash the potential for procurement and that is what I hope the Simms task force will be looking at, to assist in this process of market transformation and make a big leap forward. The other point about the Simms task force and why we think this is very important is that it is going beyond the £13 billion central, civil government expenditure into the wider public sector. We are looking there to influence best practice in local authorities and the NHS and set an example to business there as well, which is why we attach such importance to clear business and contractor supplier buy-in to it. We have concluded that the easiest thing to do for this is to establish a secretariat which will nominally for the time being be shared between SDU and Defra's procurement contract division, drawing on PCD's expertise, drawing on the work that is going on in EBC on market transformation and the evidence base.

Q249 Chairman: Far from looking to reduce your role, which is what the situation was in January 2003, you are very hands on and involved and very much driving the whole agenda.

Ms Rutter: We are going to provide the support for the task force, yes.

Q250 Joan Walley: I am slightly confused as to where the task force and the action plan sit together. You mentioned earlier the issue about overload. It would help me enormously if you could set out for the Committee why we need the action plan and how the action plan is different from the task force that you talk about.

Ms Rutter: The task force is asked within a year to draw up the action plan. Once the action plan has been drawn up, recommended to ministers and adopted by ministers, the task force ceases to exist. It is a one year task force to say what does the public sector need to do to deliver this step change which is going to put us on a trajectory to deliver the goal of being a leader within the EU by 2009. It is time limited. We would ask them to look at some of the barriers to delivery on sustainable procurement. It may be that overload is one of those barriers in

which case one of the things we would be seeking to do is to say, "Where are the priorities? How do we do that and where is it really important to do that?" I will give you a very quick example on overload. We have had lots of guidance in Defra about using recycled paper. When we did the analysis of where we were in performing, we discovered Defra had a pretty feeble track record on using recycled paper and only 43% of our paper was recycled. We said, "Okay. We are going to take away the choice." Defra does not buy anything other than recycled paper now. That is an area where we decided that more guidance was not the answer but saying this is a policy decision and this is the way we will go. It may be that is the sort of thing that comes out of the task force. I am having my first meeting with Sir Neville on Monday so I do not want to prejudge how he wants to operate the task force and what he sees as the priorities. One of the reasons we have gone to Sir Neville is that Carillion is an established leader in embedding sustainability into its operations.

Q251 Joan Walley: Was it your choice to go to the private sector for that leadership role?

Ms Rutter: Yes.

Q252 Sue Doughty: On the subject of paper, being one of these people who has regularly over the years put in PQs to ask about use of recycled paper, every department has been claiming that they are using recycled paper and it was more or less the norm. Are you claiming a quick win here over paper when you have already had that win some years back? I appreciate you are trying to bench mark and get your house in order and I applaud that but could I have a little more background as to why we were told in the past that you were using recycled paper?

Ms Rutter: I am afraid I cannot answer as to why you had the data in the past. We now have an SDU government website where the departments load their own data against the targets in the framework and the government estates report their progress so that they are open access for people to monitor progress. Defra was using recycled paper but was not using 100% recycled paper which was the issue specifically.

Mr Andrew: It may be due to the fragmented nature of the government estate, NDPBs and agencies. There are hundreds of different procurement organisations and it may be that in the past, despite central initiatives, the messages have not percolated down to the grass roots level. There have been in the past paper buying commodity groups that have been set up to collaborate across government and Whitehall departments. They have been successful in that a central contract could be negotiated by two or three departments working together. Why some smaller procurement organisations within the government estate have not used those I cannot offer an explanation for.

Q253 Sue Doughty: 43% seems rather less than half.

Ms Rutter: That was Defra's own figure.

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Q254 Joan Walley: I wanted to pursue the action plan because we heard last week at our inquiry in the evidence we received, including evidence about the national procurement strategy for local government, that all the things you are saying now are going to be done in this action plan under the auspices of the task force should already have been done in any case. I do not see why we have not been getting on and doing all of this, rather than being about to start now for something that will not be delivered until at least April 2006.

Ms Rutter: We benchmark against the EU. We have set an ambition of being a leader on sustainable development in the EU. There is work going on to look behind the EU figures but the figures suggest that the best performance is that 40% of procurement is sustainable and is green procurement. Those two things are not exactly the same, but it is the easiest component to measure. The UK is at 22%, so there is a gap. If the Simms task force looks at evidence and says there is no issue here; everything set in train is going very well, it can efficiently self-liquidate or whatever. We do not think that is going to happen because we think there are still some quite significant barriers to sustainable procurement. I can give you one example on measures to promote energy efficiency. The government has targets for energy efficiency in the government estate. We have been working with our own estates operations people and with the Carbon Trust on embracing the Carbon Trust's carbon management scheme. Quite a lot of private companies are signed up to it. Local authorities are signing up to it but Defra has now said that it wants to embrace carbon management. One of the barriers to carbon management though has been lack of ring fenced funding. We are going to work with the Carbon Trust on ring fencing some money that will go into delivering energy efficiency on the Defra estate. We will recycle those savings back into further energy efficiency measures. That has not happened to date so we think there is scope for some quite significant improvements but I would be delighted to be proved wrong. If I am told that this is not needed because everything we have, the sustainable procurement strategies have come through in December and they are all absolute paragons of best practice, I would be delighted to be told that we have been gold plating by having the task force. I do not think that is going to be the case though. There are still some big wins we can bring in through the task force.

Dr Davey: The European Commission in its communication on integrated product policy 2003 encouraged Member States to develop a national action plan for greener public procurement by the end of 2006. A similar recommendation came out of the OECD, recommending national action plans for greener public procurement. The European Commission's Environment Technology Action Plan, it also singles out progress on greener public procurement to drive the market for environmental technologies. In terms of taking forward our policy commitment on environment technologies, we have

to be proved wrong if the task force says that there is not a need for a national action plan to deliver these agendas.

Q255 Joan Walley: Does that mean all the recommendations of the sustainable procurement group's report have been implemented?

Ms Rutter: They are being implemented. If you look at the Defra memorandum, that listed how that was being taken forward. OGC has developed the quick wins website and is work in train to say that there were initially 27 products. The government buys a huge number more than 27 products. Work is now underway in Andy's division looking at agreeing the next 50. That is work in progress. Those recommendations have been taken up and are being implemented. When you get proper monitoring against delivery on the framework, we will know how much impact those have had. Andy Davey has been commissioning a report from the Green Alliance which we will get at the end of April on barriers to sustainable procurement in the public sector.

Q256 Joan Walley: Looking again at this action plan, you mentioned the task force. Who is going to be putting the action plan together? Who is going to be responsible for that?

Ms Rutter: Sir Neville Simms is going to report to our Secretary of State and the Chief Secretary to the Treasury. The Treasury, as you know, sponsors the Office of Government Commerce, so the Chief Secretary is the minister responsible for the Office of Government Commerce. It will be a report to both of them and will contain recommendations on what the government should do to achieve its aspirations. It will then be for ministers to adopt the action plan and implement it. We are very keen that it goes wider and gets buy-in through the process of developing the action plan and that it goes wider than the narrow central and civil procurement that is immediately under the government purview.

Dr Davey: The sustainable procurement group report focused on central civil government and the national procurement strategy focused on local government and we envisage the national action plan trying to draw all that together.

Q257 Joan Walley: How will public private partnerships be included in all this?

Ms Rutter: They will be caught up as they are a major way of procuring particularly buildings and deliveries in key services. Those will be addressed through that.

Q258 Joan Walley: That is part of the remit, is it?

Ms Rutter: Yes. One of the reasons the Treasury is very supportive of Neville Simms is that he has been involved directly in a public private partnerships group, so he is well versed in the minutiae of PFI, which is one reason why he is a good candidate to do that and has credibility with the Treasury and why we thought that was very important to have someone who could bring that in.

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Q259 Chairman: You mentioned a survey that suggested that 22% of the UK's buying is green compared to 40% across the EU. Can you source that for us?

Dr Davey: It was a survey conducted across the EU and my understanding is it was based on a sample of local government responses.

Ms Rutter: There is work going on now on benchmarking in Europe so we will get more robust figures and those are the figures that will be produced in October 2005. The UK is very heavily involved in that work programme.

Q260 Chairman: When was the survey you referred to undertaken?

Dr Davey: 2003. We can provide the reference source¹.

Q261 Mr Chaytor: On the question of EU leadership, you say by 2009 you want to be a leader but not necessarily the leader. Do we know who the leader is at the moment and how do you define being a leader? There are only 25 countries in the EU so anybody presumably in the top eight can have a reason to claim to be a leader. It seems to be a fairly vague objective, wanting to be a leader.

Ms Rutter: At the moment, the perceived leaders are the Scandinavian countries and we will be clearer about that when we see the results of this detailed benchmarking exercise. I would have thought a reasonable estimate would be at least top quartile in the EU. You would have to look at the distribution as well. It is a bit difficult to say we want to be the leader because that gets you into some competitive thing and this is very much giving a sense of direction of where we want to go. There is a similar aspiration in the EU that all countries are up at what is now average, so we need to move beyond that. We do not want the UK to just be average so that is how our Secretary of State has chosen to specify this objective.

Q262 Chairman: From where we are at the moment, it sounds as though average would be quite good.

Dr Davey: The EU study inspired the principle of benchmarking, setting targets and trying to drive forward performance across the EU, but I do not think the approach was sufficiently robust in order to set meaningful targets which is why we started a programme of work with the European Commission to set more robust, reliable benchmarking and targets within that.

Ms Rutter: The leaders at the moment, according to this study to be sourced, are Denmark and Sweden at around 40% and 50% respectively. The UK is at 22% and the EU average is 19% so we are slightly above the average. The idea is that the average goes up and the UK should go into the top division. We may not yet be Chelsea but we will certainly be Premiership rather than whatever they call the first division now.

Q263 Mr Chaytor: Are there any obvious reasons why Denmark and Sweden are up there? It does not come as a surprise to many of us but are there any obvious lessons that we should be drawing as of now? Are there particular models of good practice that could be easily transported to the United Kingdom?

Ms Rutter: I would say where they lead is on buildings. Their buildings standards are significantly higher than ours.

Q264 Mr Chaytor: You mean in terms of energy efficiency or sustainable materials or both?

Ms Rutter: Recycling.

Q265 Mr Chaytor: This is the surprising thing to most of us. This is not rocket science. For donkeys' years everybody has known that Denmark, Sweden, sometimes Norway and Germany have done far more than we have in terms of recycling, energy efficiency, use of sustainable materials. Why does it take so long? When the light finally dawns, why do we have to construct a framework and then why does the framework suggest a strategy and then why does the strategy not suggest the action plan? It seems an incredible bureaucratic prolongation of the agony to get it to the point that everybody knew we should have been at 20 years ago.

Ms Rutter: There is no barrier. Nobody is having to wait. Every permanent secretary who went to that meeting and said, "Yes, this is very helpful and very good", is now going to have to publish their own sustainable procurement strategy. There is no barrier. We are not telling people they have to wait for these. We hope this will add value and give further impetus. I would say very much that we should be putting in the recommendations so that the laggards are pulled up but there seem to be some barriers to doing this so it is quite important to have a systematic look across the piece. As we said, redundancy is perfect. If we are doing so well that we do not need this that is great. It would be very reassuring that it was just that we did not have the information collected in one place well enough.

Q266 Mr Chaytor: In terms of your relationship with the OGC how do you characterise this because both the department and the OGC have a responsibility for leadership here? What is the nature of the relationship? Are you the providers of the expertise? Are you there to prod them along? Do you feel they are recalcitrant? If not, why have they not been doing it already? Can you say a word about how the relationship works and what mechanism there is between Defra and the OGC to drive this forward?

Dr Davey: A simple split in the responsibility if you like is that the OGC shows how it can be done and Defra identifies what standards there should be.

Q267 Mr Chaytor: Who is responsible for the quick win list?

Dr Davey: Defra identified the quick win product standards.

¹ Survey on the state of play of green public procurement in the EU—Final Report The International Council for Local Environmental Initiatives, July 2003.

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Ms Rutter: It is on an OGC website because that is where people will go to get that information. Procurement professionals do not come to Defra. There has been a slightly different division of responsibility in the areas of food and timber in the work that Bob has been doing.

Mr Andrew: In my experience with timber, as this committee will remember from a few years ago, we probably took longer than we should have done to implement and achieve what we have done now because we did not project manage it properly, so the plans that we have now for sustainable procurement generally have taken a lesson from that particular experience, on food in particular, in that where we have had a better project managed initiative progress has been more rapid.

Q268 Joan Walley: In terms of the changes you have made to project management are you sure that we would not end up with non-sustainable timber being procured for the doors of the Cabinet Office any more?

Mr Andrew: We are confident that with the system in place now government buyers should have enough information and direction and guidance to be able to source legal timber as a minimum. We have a system where there is an option for suppliers to provide sustainable timber if they can in recognition that it is sometimes not that easy to acquire. We are addressing the same issue with food assurance. We are trying to raise the standards of food production and specify that in contracts. The latest information we have from the *Sustainable Development in Government* report indicates that there has been quite a significant increase in the volume of certified products being purchased by central departments and there is some anecdotal evidence from the timber trade, from local authorities and from various actors and players in the market that the government initiative has had quite a significant effect and the Timber Trade Federation are now developing their own responsible purchasing policy in response to that, so it has had a positive effect over time but we think we possibly could have done it more quickly if we had project managed it better in the first place.

Q269 Sue Doughty: First a quick query about timber. At the moment we seem to have moved into the legal, which is progress, but we cannot guarantee that we are into the sustainable yet. We will get sustainable timber when we can. What are the barriers to getting sustainable timber? Is it that somebody is specifying non-sustainable timber and, if so, why?

Mr Andrew: There are not that many barriers for the majority of timber that central government purchases. Most of the timber that we purchase will be from northern boreal forests where certification, governance and so forth is quite good. The barriers will be where we need to buy hardwood from the tropics where there is very little certified timber and it is quite difficult to get that. If the Environment Agency want to buy greenheart to do coastal protection or river protection or something like that

because that is the only species that they have identified would be sufficient, it is quite difficult to get that timber certified as sustainable. It may even be difficult to get it with evidence of legality but that is a minimum requirement so we have to assume that our suppliers are able to comply with that.

Q270 Mr Chaytor: I am still slightly unclear about the distinction between your role and the OGC's because you clearly have the expertise in timber and in food, but if I am a procurement officer in another government department presumably I come to you in the first instance. There is no point going to the OGC website if I want to know about timber and I want to avoid Greenpeace camping outside my department when I am replacing all the internal doors.

Mr Andrew: Yes. It is a sustainable development government website which we hope to change into a central point of expertise website in the not too distant future.

Q271 Mr Chaytor: I have had a good look at two websites. I have got the quick wins website which is the OGC website and I have got the SDIG website which is the Defra website.

Mr Andrew: That is true at the moment, yes.

Q272 Chairman: Is that not confusing?

Mr Andrew: We have the quick wins on the Defra website too.

Chairman: Can you not rationalise it?

Q273 Mr Chaytor: Are there any more websites? We are talking about these two websites. Part of the evidence we have had from previous witnesses is that the cultural change needs to reach deep down into organisations to the procurement officers who are doing the day-to-day work. It is fine to have the overarching strategy but unless the people doing the job and filling out the order forms are fully *au fait* it will not work, and surely it needs to be made as clear and simple as possible and there needs to be one source of advice they can go to for almost everything.

Ms Rutter: We would absolutely agree with that. One of the issues on sustainable development is that there is some wider social dimension and quite a lot of government departments currently are working with the OGC on guidance on some of those social dimensions as well which the Environment Agency gave evidence would be useful to have brigaded together. One of the key things we want to be looking at and one of the barriers in the work that the Green Alliance is doing is about why it does not happen is that people do not know where to go for the information and it would be easier if they had one place that was very obvious. That would be a quick win we could make, rationalising where the advice is. What the incentives are is another important issue, whether procurement officials on the front line feel empowered to make decisions about choosing more sustainable options and whether they are skilled to do it. Some of those barriers are the ones that we need to address and, as

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you rightly say, there are quite important cultural issues about environmental procurement and officials saying, "What do I think my job is?". I may have perceived that my job is to get what is in a sense the least cost deal for the department and I can always justify that. Anything more sophisticated than that makes me more vulnerable. I had a very interesting conversation on Monday with somebody who is trying to persuade the Fire Brigade in Nottingham to change to more of a prevention approach. He said that people who join the Fire Brigade join because they want to put out fires, so saying to them, "We will have fewer fires if we invest more in prevention strategies" is not why they joined the Fire Brigade and it is that sort of mindset shift that you need to get, that the safe option is the cheap option. The sustainable option is the best value for money option in the long run but it takes a degree of courage and empowerment to feel comfortable in going for that. How do we get that information to people? How do we make them feel they can make those choices and how do we incentivise them to say, "We will rate you better if you do it like that" is an important set of issues that we need to be addressing now.

Q274 Mr Chaytor: As things stand now how do you inform or influence other departments or have we just got to wait for the action plan, the Green Alliance report, before we can move forward? Is there a regular bulletin or newsletter or circular or is it informal, word of mouth, somebody rings up as and when? Is there any regular structure of communication between Defra and other departments to inform them about the benefits and mechanisms of improving the sustainability framework?

Ms Rutter: When we produce things like publishing the new procurement section to the government that goes round both the sustainable development officials group and the estates managers group, so we have various ways to access people so that we keep them informed. People throughout Whitehall know very well Defra's activities on timber and food so would know to come to Bob and colleagues on that. One of the issues we have had about the creation of a website is, "We will build a website but will they come?". It is necessary but is it sufficient to get them to go? That is one of the issues we have to look at, how do we best communicate? At a time when people are being bombarded with quite a lot of guidance why should they look at your guidance?

Q275 Mr Chaytor: People will look at the most authoritative guidance.

Ms Rutter: Yes, and that is why we need Defra and OGC on this set of issues to work very closely together. There must be a sense of competition between the two of us.

Q276 Mr Chaytor: Do you have responsibility for tracking how departments are performing? Do you know how departments are performing, particularly on the question of risk assessment, because I understand one of the issues in the SDIG

questionnaire was this question of carrying out risk assessment and it seems to be a very variable practice between departments.

Ms Rutter: All departments will have to cover risk assessment in their sustainable procurement strategy and how they go about it. What we did for the first time this year was ask independent consultants to audit how they thought the government was doing, to look at the information that departments are supplying, and that is something that we think added quite a lot of value so, rather than us sitting and assessing it, we will do that and play those results back to departments. When they have explicit policy statements we will be looking at benchmarking from that what is best practice. What we want to do in the first place is to get advice on how to do that to make sure that they are embedding best practice. The Environment Agency can help on environmental risk assessment.

Mr Andrew: We also would look to use the regional centres of excellence that are being created for local authorities and I believe there are similar collaborative arrangements for central government to pursue these policies and strategies.

Q277 Chairman: Can I just come back to where people go to look for information? It seems to an outsider such a straightforward quick win to obtain because, as you say, a single source of information would be a real help for people and much less confusing. The problem is that this is not new. I am going back to the Sustainable Procurement Group January 2003 report which recommended that there should be a single website of sustainable procurement by the autumn of 2003 so, far from being a quick win, you are already 18 months behind and you have not one. What is the reason for the delay? Why is that so hard?

Dr Davey: OGC Buying Solutions, in response to that recommendation, developed a pilot website called 'sustainable solutions'. I understand that that website began with listing the 27 quick win product categories by describing what the specification was so that any procurer could essentially 'cut and paste' the specification into any contracts they were letting over the forthcoming period, but also added links to where they could buy those products immediately off OGC Buying Solutions' catalogues or elsewhere from other government catalogues. I am not sure when that website was first developed but that has been in place for some time. I understand that now it is part of their commitment in the Sustainable Development Strategy that they are looking to roll that out beyond the 27 quick wins to provide a central source or information portal.

Ms Rutter: The advice is all drawn together in the joint note on environmental in purchasing which was published in October 2003 and which gives you a series of other places to look, but that is a comprehensive note on what you can and in a sense cannot do as well on embedding environmental considerations. A lot of the comments we have had from people at various workshops such as those organised by the Sustainable Development Commission or at conferences on procurement have

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said that people know there is a lot of advice there. How to make sense of the advice and rationalising, how to make this more usable to people is a key issue going forward. Whether people find it too difficult to find I do not know because I personally have not had to do that. There is also quite a separate issue which was certainly a big issue when I worked at BP where people were very concerned to put everybody through the key suppliers. There is also quite a lot of concern that in a lot of government departments, for quite sensible reasons, people do not always go through central procurement to procure. Sometimes it is easier just to nip off down to Rymans or whatever. Do you need to deal with the nipping off to Rymans culture? It is quite difficult to do that and that very often may be the easiest route and why we under-perform vis-à-vis getting at the procurement process. The other thing is getting to the whole department.

Q278 Mr Chaytor: Is there a paragraph in the guidance about nipping off to Rymans?

Ms Rutter: I am just looking at it to see if there is anything like, "For God's sake do not do that".

Q279 Mr Chaytor: Is that a Defra document?

Ms Rutter: No. This is the OGC's. I think we supplied it to the committee earlier. It is the joint note issued in October 2003 by Paul Boateng and Margaret Beckett, jointly issued by the Office of Government Commerce and the Department for the Environment, Food and Rural Affairs, on environment issues in purchasing. There was another SPG recommendation which is still in a follow-up phase, which was to deliver a parallel joint note on social issues in purchasing and that is going to be coming out some time later this year. This gives you clear guidance on what you can and cannot do. This is one of the areas where we have to look very much to OGC guidance on what is compatible with EU procurement directives. You have had earlier evidence on some of the constraints that they may impose because it is very important that we procure legally as part of sustainable procurement.

Q280 Sue Doughty: I want to go on Gershon but just before I do, looking at your memorandum, paragraph 15, you say, "Defra has worked with DfES and the Department of Health on the Healthy Living Blueprint for Schools and Food and Health Action Plan". I am interested in this because I was in a school last week which was fair traded everywhere except school dinners and they were back in the past with school meals. I was saying to them, "What are you doing about improving your school meals?", because the schoolhouse does not have a good reputation, and it was quite clear that no, they were not doing anything, no, they were not going to do anything because they felt the problem was intractable. It is back to this whole problem and I think in fairness you have been outlining this problem about whether you should be pushing information at people or expecting them to pull it down. How soon will we start seeing that gap between the work that is being done on food, the fact

that there is a Healthy Living Blueprint for schools, and the fact that school meals ought to be rather better than they are? At the moment we seem to be relying a lot more on Jamie Oliver and rather less on the department.

Mr Andrew: It is difficult to say how long. We have been working on this for a couple of years now and Jamie Oliver certainly has helped because he has lent a high profile to it and has got a lot of people interested in it. A lot of work has been going on behind the scenes and Defra has published a number of case studies and has been funding pilot projects to encourage more local suppliers of food to schools and hospitals and so on and it is beginning to bear fruit, if you will forgive the pun. There are still barriers to overcome. We had a national suppliers' conference earlier this month and that was quite successful in raising awareness of the issue because one of the barriers is that local producers and farmers in particular will not work together to make themselves more competitive. There are various activities going on. In London, for example, there is—

Q281 Sue Doughty: But when can we see schools—

Mr Andrew: It is already happening in some schools but I agree that it is not widespread yet.

Q282 Sue Doughty: We can always have the good example in any walk of life. When are we going to see a school like the one I was at, which is not particularly bad, is not particularly good, but certainly needs to get its act together on its school dinners, getting its act together?

Ms Rutter: That is a question I am afraid you would have to address to our colleagues from the Department for Education and Skills. All we can do is issue guidance and offer assistance but policy on school meals is very clearly the responsibility of DfES.

Q283 Sue Doughty: Thank you. I will move on to Gershon. We have this problem about Gershon and savings and whole-life costs. One of the things that worries me is always that if people are working with an annual budget whole-life costs do not fit within an annual budget. What are the implications for sustainable procurement of the savings targets that are set within Gershon? Will it take it forwards or backwards?

Ms Rutter: We raised this issue shortly after Sir Peter Gershon's report was published with OGC saying that we had picked up concerns that people felt that the Gershon agenda trumped the sustainable procurement agenda because it was going to run in the opposite direction. What we worked with OGC to do was to make clear that there is no sense in which the Gershon agenda says, "Do not look at value for money" when "value for money" is defined as the most economically advantageous tender, not the lowest cost tender. There is no necessary conflict at all between Gershon and what we are trying to do, and indeed in very many ways sustainable procurement should help Gershon. Some of the areas where you want to invest in things that lead to

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long-run savings should help you meet your efficiency targets rather than take them away from you. There is an issue whenever people feel they are managed on cash and Gershon has given a bit of extra edge to that, but our colleagues in OGC have been very clear in giving people the message that Gershon does not imply lowest cost. Gershon implies best value for money and that is what they should be looking to do. We have been trying to clarify that because down the front line quite a lot of people were assuming that it just meant for everything to go out of the window and just go to the lowest cost.

Q284 Sue Doughty: So you are confident that within those various lines of Gershon of making cash savings, cash savings, cash savings, they can still do that using sustainable procurement and making sure that the environmental considerations are built in? They will not feel under such pressure that they will say, “We do not know what to do. That is cheaper. I have got a deal with that supplier and I am going to meet my boss’s target for saving money on the bottom line”?

Ms Rutter: One of the three legs of sustainability is economy, so where something offers very good value in that sense, sustainable development and embedding sustainable procurement do not say that you do not go for a low cost option that releases more funds to invest in other projects or whatever. What we are saying is that there is not necessarily a conflict. We want people still to be looking at delivering on all three legs and that is why we have set separate targets that they are supposed to be meeting and I suppose the industry produces the same procurement strategies for every permanent secretary then to reconcile their accountability to delivering sustainable procurement with accountability to meet living cash savings as well. In terms of some of the long-running things, for example, energy efficiency, with a small amount of up-front investment, suitably prioritised, can deliver considerable long-run savings. It is a question of unlocking that initial capital investment. Many of you may have been in the chamber for the Budget speech. I was not. I tried to read it on the website but I did not get a chance, but certainly the Defra press notices welcomed the announcement by the Chancellor that energy efficiency was now to have an invest-to-save theme.

Q285 Chairman: It was not mentioned in his speech.

Ms Rutter: It has certainly gone up on the Defra website so we might want to check that one. That is one reason why we are very interested in doing this demonstration project with the Carbon Trust to show other people that a bit of up-front investment and ring-fenced money can yield very considerable long-run efficiency savings. It is slightly different from the whole-life cost issue.

Q286 Chairman: Can I just interrupt? I do not want to be pedantic about the definition of sustainable development but it has actually altered and it now has more than three legs according to the new sustainable development strategy; it has five legs. You say that one of the legs is economy, achieving a sustainable economy, which is not the same as economy in the sense that it is used on an economy pack of baked beans, which is in a sense the criterion by which you may have used it earlier this afternoon.

Ms Rutter: Those are our five new principles. We had ten principles in the 1999 strategy so in a great Gershonite move we have rationalised our ten to five. The SDC had six and the Scots had three so we have now agreed across the UK that we now have five principles. What we have done is move to a new more integrated vision for sustainable development which is what we call in chapter one of the Sustainable Development Strategy the new purpose. It makes it very clear that the economy is a key enabler of sustainable development through a strong economy. Efficiency in government spending is one element in that, which is why you do not want to throw that very crude, first-round value for money completely out. I think we need to be able to justify what the other benefits are that you are delivering if you opt for something other than lowest price because that is part of our duty to taxpayers, to deliver first-round value for money. You have to be pretty clear about articulating what those environmental and social benefits you are delivering are if you go for something other than the lowest cost tender.

Dr Davey: There is also a view in the procurement community that the additional attention that Gershon has given to modern professional procurement could serve to raise the profile of sustainable procurement, so there could be a spin-off from that. The other thing we have is some evidence from the private sector of where retailers in particular have taken a focused approach with their supply chains and delivered savings of around £2.5 million simply from pursuing resource efficiency measures or waste minimisation with a number of key suppliers. We are currently looking at the lessons from that just to see how much of that can be transferred into public sector supply chains and better supply management.

Ms Rutter: I know that OGC feel, as Andy is saying, that there is an opportunity from some of the Gershon themes around concentration of suppliers by using the public sector buying power more intelligently and working with those suppliers to deliver solutions that are both good, which I might in my ex-Treasury role have called crude value for money, but also build in wider environmental and social considerations. I think Andy is right, that we can see this as a threat but also as an opportunity and it is incumbent on us to make sure we exploit the opportunity.

Chairman: Thank you very much indeed and thank you for your time.

Memorandum submitted by the Office of Government Commerce

SUMMARY OF OGC AND ITS RELEVANCE TO THIS ENQUIRY

1. The Office of Government Commerce (OGC) is an independent Office of the Treasury reporting to the Chief Secretary to the Treasury. It is responsible for a wide-ranging programme, which focuses on improving the efficiency and effectiveness of central civil government procurement and the wider public sector. Its main aims are: to help departments meet their efficiency targets of £21.5 billion by 2008; to achieve £3 billion savings from central civil government procurement by 2008; and to assist departments to secure an improvement in the delivery of mission critical projects. From 1 April 2005 OGC's remit will extend to cover the wider public sector as well as central civil government. OGC represents the UK on procurement matters involving the European Union, World Trade Organisation and other international partners, helps departments and other bodies to apply the procurement rules here in the UK and takes the lead on the Government's policy of achieving value for money in public procurement.

OGC'S ROLE IN SUSTAINABLE PROCUREMENT

2. Value for money policy (defined in Chapter 22 of Government Accounting as the optimum combination of whole life cost and quality to meet the user's requirement) applies to the award stage of the procurement process. Each Departmental Accounting Officer is responsible for achieving value for money and it is for departments themselves to decide what to buy (the "user's requirement"), in the context of their overall objectives and subject to the normal public expenditure tests of need, affordability and cost-effectiveness. In considering sustainable procurement, the lead policy department—which for environmental issues is Defra—decides what needs to be achieved and what part public procurement might play. OGC's role is, then, to support and advise on how sustainable procurement can be pursued in line with value for money policy and the EU rules. For example, OGC helped Defra produce guidance on their sustainable timber and food procurement initiatives, OGC and Defra have issued a joint note on environmental issues in purchasing (see Annex A), and OGC will be providing advice at Defra's Public Sector Food Procurement Initiative seminars for local authorities between February and April 2005. Similarly, OGC helps other lead policy departments with guidance on issues such as equality, fair trade and adult basic skills.

3. Sustainable procurement is also promoted through the Government Procurement Service's Certificate of Competence in Purchasing and Supply. The syllabus was recently revised to take account of OGC best practice guidelines and module 1B covers the application of the EU procurement directives to environmentally friendly procurement and the specification of requirements in "green" terms.

4. In 2003, following recommendations by the inter-departmental Sustainable Procurement Group, OGCbuying.solutions published a list of "Quick Win" products and services included in its Framework agreements. Although the use of such agreements is not mandatory, these Quick Wins have been made very prominent in the catalogues (see example in Annex B) to ensure that as far as possible public procurers will take notice of them. In terms of measuring the success of these, it is not within the remit of OGCbuying.solutions (or OGC) to collect information about procurement spend at product level. There is, however, evidence that markets are moving in response to Government demand: recent procurements for electricity and furniture, for example, have demonstrated a much greater availability of green electricity and sustainable timber than in previous years.

ENVIRONMENTAL CONSIDERATIONS AND THE EU RULES

5. All public procurement must be consistent with EU Treaty principles such as transparency and non-discrimination, and public procurements above specified thresholds are also bound by EU procurement directives. The directives allow scope for pursuing sustainable procurement objectives, provided these are relevant to the subject of the contract, non-discriminatory and consistent with the rules governing each stage of the procurement process.

6. It is when formulating the requirement and drafting the specification that there is the greatest scope to consider relevant environmental and social issues. At the specification stage procurers are free to specify environmental requirements and production processes such as recycled materials, organically grown food or sustainable timber. Eco-labels may be requested, provided contracting authorities will also accept other means of proof that the product or service meets the underlying requirement.

7. In selecting companies to tender, procurers may ask for specific environmental expertise or technical capacity, or evidence of environmental management systems, where this is relevant to the contract. Contracting authorities can also exclude candidates who have been convicted of environmental or other offences or grave misconduct.

8. The EU rules permit contracts to be awarded on the basis of either lowest price or most economically advantageous tender (MEAT). This latter is equivalent to "value for money", and Government policy is always to follow MEAT rather than lowest price. Criteria for evaluating MEAT can include environmental issues where these are relevant to the contract and provide a benefit for the contracting authority. This will

include “whole life cost” issues such as energy savings, disposal costs and recyclability. Contract conditions such as frequency of deliveries for catering contracts may also be imposed, again providing these are relevant to the contract and are non-discriminatory.

PUBLIC SECTOR EFFICIENCY

9. If done properly, sustainable procurement should be compatible with the efficiency agenda. Efficiency does not equate to lowest price, and efficiency implementation should not sacrifice longer-term benefits in a drive for cost cutting. Indeed, any message that efficiency is purely about aggregation and lowest price could impede the achievement of efficiency in the longer term by deterring new market entrants, including small and medium enterprises, and reducing competition. Since the efficiency agenda and OGC’s £3 billion savings target must be, and are, fully compliant with value for money policy and EU rules, public procurement decisions will continue to reflect whole life costs and quality (or fitness for purpose) as efficiency is implemented, rather than focussing on lowest initial price. The efficiency agenda does not therefore restrict the scope to take environmental considerations into account in procurement. In fact, environmental considerations can sometimes bring down whole life costs and improve quality, for example through greater recyclability or a reduction in disposal costs: these are legitimate value for money considerations.

10. Efficiency implementation also presents an opportunity for a more joined-up approach to sustainable procurement. The efficiency agenda is creating a new dialogue across the public procurement community, which, as procurement becomes more collaborative, may lead to nationally available contracts with environmental considerations embedded in the specifications.

11. It is vital that procurement objectives are considered very early on in the policy development, so that the market can be forewarned. This will increase the chance of creating capacity to deliver against these objectives and minimise the impact on costs.

Annex A

SOURCES OF FURTHER INFORMATION

- OGC/Defra Joint Note on Environmental Issues in Purchasing.
Online with other guidance on sustainability at: <http://www.ogc.gov.uk>.
- EU public procurement directives
Online at: http://europa.eu.int/comm/internal_market/publicprocurement/legislation_en.htm.
- Government Accounting, chapter 22.

Annex B

Buying Solutions example catalogue pages [not printed]

23 February 2005

Witnesses: **Mr Peter Fanning**, Deputy Chief Executive, OGC, and Executive Director for Access to Skills and Know-How Directorate, **Ms Anne Turner**, Director of Procurement Policy, and **Mr Mike Davis**, Procurement Policy Unit, Office of Government Commerce, examined.

Q287 Chairman: Thank you very much for joining us and sitting in on the previous session. You heard us discussing the old chestnut of the debate between efficiency, value for money and doing the right thing by the environment and sustainable development. Your mission in life is really efficiency, where the greenery of procurement fits into your agenda, that the most efficient option is not always the best in terms of the environment.

Mr Fanning: Perhaps I can begin by introducing myself and my colleagues. My name is Peter Fanning. I am the Deputy Chief Executive of OGC. I am supported by Anne Turner and Mike Davis from the OGC Procurement Policy Unit. Taking the specific question that you asked, our position would be that green issues—and I am interpreting “green” to be sustainable issues—are mutually reinforced by efficiency in the way that we define it. Perhaps I can refer you to the OGC report itself, which on

the first page talked about sustainable efficiencies recognising that simply scoring efficiency in year one and causing a problem in future years was not what the agenda was about. Secondly, again, within the first few pages of the review Peter Gershon made reference to how they define efficiency. There were separate definitions of efficiency. It included things like reducing the numbers of inputs while receiving the same level of service. It referred to lower costs but it also referred to getting additional outputs for the same level of inputs and improved ratios of output per unit cost and so on. The basic point is that it would be a travesty of what has been written in the policies that we have been asked to deliver to equate efficiency simply with lowest cost. It is not what we have been asked to do, nor what we are proposing to do. The other point, which is a matter of information and fact, is that OGC’s remit extends beyond efficiency. We have been given three targets

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within the SRO4 period. The first is to deliver the efficiency agenda. The second is to deliver value-for-money gains within civil central government. The third is also to improve the strike rate of mission critical projects. Beyond the SRO4 period we have got a mandate to support the delivery of continuous improvement within the public sector, to improve government markets and also to support the dissemination and use of know-how and skills both in project management and procurement. We have a wider agenda than simply “green”.

Q288 Chairman: Forgive me if this question reflects an ignorance of the deep internal structures of government, which I have to admit exists on my part, but when it comes to sustainable procurement is this an OGC issue or is it primarily an issue to do with OGC Buying Solutions, which is the internal agency?

Mr Fanning: No; it is both. What people refer to as OGC has a policy lead in procurement for civil central government that will be extended to the wider public sector after 1 April. OGC Buying Solutions is our trading arm and that simply offers a variety of services to colleagues right throughout the public sector. For example, if you wanted to buy paper which met Defra’s quick win environmental specifications then Buying Solutions would provide you with pre-qualified suppliers of that paper but it is not the government’s policy to limit the choice of suppliers that accounting officers may choose. It may be the case that a school might find it more satisfactory to go down to Ryman’s to buy a ream of paper than to buy through one of the consortia, of which Buying Solutions is but one.

Ms Turner: Perhaps I could build on that for the committee. Buying Solutions offers a set of Framework Agreements providing pre-tendered goods and services which have gone through all the Official Journal of the European Community processes, and then they are available for other departments, and sometimes the wider public sector, to use. This is a benefit to them because it is quicker and cheaper because they themselves, in forming contracts, be it for paper or for fridges or any of the other range of products and services that are on offer through these contracts, do not then themselves have to tender their specification because that has been done. That is broadly what Buying Solutions offers as a service.

Mr Fanning: It is a bit of theatre, for which I apologise, but this Buying Solutions’ catalogue has 150 pages of suppliers who have already been pre-qualified, as Anne demonstrated, and it speeds up the process of choice of a supplier.

Q289 Chairman: Do you have staff dedicated to sustainable procurement or is it something that is imbued within all staff?

Mr Fanning: I am responsible for OGC’s internal resources and the allocation of those and I think that the truthful answer would be that we do not have a sustainable procurement team but we would regard sustainable procurement as interwoven through the whole of our activity. For example, value for money

is defined as whole-life costs and also being fit for purpose as defined by the user. It seems to me that if you unpick the definition of value for money—and I refer you to our memorandum, and indeed the Defra memorandum—it is entirely consistent with sustainable principles. You have to look at the cost of acquisition, the cost of operating and the cost of disposal of whatever procurement you want to make. The second point I would make is that in addition to trying to ensure that, if you like, sustainable procurement principles pervade everything that we do we are responsible for something called the Government Procurement Service, which is a body which is a virtual body which supports those involved in procurement in civil central government in procurement. A hundred people a year go through the certificate of competence and everybody who goes through that certificate of competence will be trained in sustainable procurement principles. Recently the Supervisory Board for OGC received a paper outlining how the Government Procurement Service might be refreshed as it has been going some time and we would like to invest a little more to re-energise it. As part of that refresh I can give you an assurance, because I am responsible for it, that we will incorporate within it sustainable procurement principles more specifically than we have in the past.

Q290 Chairman: The buck stops with you, does it?

Mr Fanning: I am happy to accept the buck.

Q291 Chairman: You have ownership of the buck?

Mr Fanning: I am happy to accept the buck on that point.

Q292 Sue Doughty: Do you find there is conflict at all between saving the government money and embedding sustainability into what you are doing? Is there still an issue here? If you are driving hard on contracts you have a huge amount of pressure on you from the government to make efficiency savings. Is there not a bit of a conflict there?

Mr Fanning: I would contend that there is not a conflict in that the drive is to make the best use of resources and the way we define best use of resources is by examining value for money in the way that I have described. Perhaps I might involve my colleague to give you a slightly different perspective on it.

Mr Davis: The key thing which is often misunderstood is that if you look at government procurement policy it says that it is about getting the best combination of whole-life cost and quality to meet whatever is the user requirement. The user department or purchaser decides what it needs to buy, maybe by looking at Defra’s strategy or whatever it is which informs its choice. It will then look at how it can do that and put it into a specification. When the bids come in it will consider the whole-life costing and quality of those bids. You do not look at up-front price alone. That policy has been in place a long time and will continue along with the efficiency agenda. As has been said, that agenda does not change that policy. It is set in

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Government Accounting chapter 22 and therefore it is not about cost saving. There may be instances for certain types of products and services where affordability is a big issue, part of what you are trying to achieve, but generally you can build all sustainability issues one way or another into that process, particularly environmental issues, which are about the product and service you are buying. The policy sets the framework for departments like Defra and other policy areas, like the Home Office on quality or whatever it is, to show how you can do both things together and work within that policy to deliver your aims.

Q293 Sue Doughty: You have got in your strategy a commitment to make the UK a leader on sustainable procurement by 2009. How do you see this happening? What is your role?

Ms Turner: The particular targets are going to need to be delivered by departments although this is a Defra strategy objective. Where OGC comes in on the European side is that we are responsible for negotiating for the UK for changes to the European procurement rules. As this committee I am sure knows, Article 6 in the European Treaty has to be reflected in all the European policies that follow on from that. Procurement rules are no exception and so we now have procurement rules that have been clarified to take into account sustainable procurement issues because that is very clear in Article 6 of the Treaty. In terms of the “what” for delivery, that is for Defra, and the “how” as far as the procurement element is concerned is very much for us. We work hand in glove to help our colleagues in Defra and elsewhere to explain how sustainable procurement, including this very important new goal in the Defra strategy, can be achieved through procurement but is also consistent with efficiency and value for money and is completely legal, so it is very much joining all those dots to achieve a particular goal.

Q294 Sue Doughty: How are you making sure that not only are you meeting the rules but also any changing themes within Europe? Are you harnessing and walking step-by-step along what is happening in Europe in terms of what they are wanting from people in terms of procurement or are you going in one direction and hoping to catch bits along the way? Are you negotiating within it or parallel to it?

Mr Fanning: We are responsible for that.

Ms Turner: There is a job to be done within Europe also to join the dots. The European Commission has recently issued a practical green handbook which shows what is being done in different Member States to procure in a sustainable way. So that the Commission itself is trying to join up, because obviously that is dealt with by a different part of the European Commission and it tends to be organised in a very stratified way. The Commission is doing its bit. Within the procurement part of the Commission these policies also find their way into the discussion. Whether that is when we are negotiating new rules or in the advisory committee on public procurement, there is a constant refrain as to how

you can deliver sustainable procurement or environmental objectives through procurement as well as complying with the rules.

Mr Davis: You can always look at them when we are doing things in the UK and when Europe is tackling these things in the same way. What we have done in our relationship with Defra is provide the “how”, how we can do things consistent with value for money and EU rules. They tell us what they are trying to achieve because procurement is usually just one delivery mechanism for what they are trying to do with sustainability. There will be lots of options. They will come to us and say, “Is procurement a good way of dealing with this? What can we do? These are the sorts of product areas we are interested in”, or whatever it is. We will then show how that can fit with the legal and policy framework. In Europe our part of the Commission will be doing the same as us, ie, coming up with good directives that respect sustainability. The new procurement directive gives a lot of advice on how green issues can be taken into account at each stage of the procurement process. As Anne said, there will be another part of the Commission that is looking at sustainability and the two have to work together and the green handbook shows that to some extent. Our joint note with Defra also shows how these two areas of government can work closely together.

Q295 Sue Doughty: In terms of sustainability you obviously take into account environmental impacts. Do you take into account social impacts?

Mr Davis: Social impacts are more difficult. They can be taken into account and, as Defra explained, one of the things we are doing at the moment is coming up with a joint note on social issues in public procurement to supplement the one on environmental factors. Social issues are more difficult for two reasons in my opinion. One is that there are so many of them. They can range from equality issues to helping SMEs, to fair trade, ethical trading, to a whole range of employment issues. They often need to be tackled in different ways. Some of them need to be tackled in terms of award criteria; others in terms of specifications, so to roll all those into one note is quite difficult but we are determined to do that because we think it is right that there needs to be one document that people can look at in terms of social issues in public procurement. Environmental is easier because it is about the product or service that you are buying, a greener product or vehicle or whatever, so that is much more easy to fit within the legal and policy framework. Social issues can be taken into account and we are trying to find ways to show how that can be done in the best possible way.

Mr Fanning: The note is in preparation and we will publish that in due course. If I could round that off, one of the things that emerges very quickly once you begin to dig beneath the surface is that there are lots of very complex issues. There are often lots of trade-offs. The approach we take in OGC is to enable people to make thoughtful decisions. We do not tell people what decisions to make but we do tell them how to make them and we advise them in navigating

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their way through the forest of rules and regulations and problems that arise. We do that through a number of devices. We invest quite heavily in training. I mentioned the Government Procurement Service as part of that package. We also provide guidance and that guidance evolves into standards where that is appropriate. We also provide services. We have consultants who can support people going out there making purchases and also we have got OGC Buying Solutions which gives people lists of suppliers who are pre-qualified. Indeed, the list that I produced earlier identifies products which meet the quick win criteria but also, because I am sure that the committee is interested, the list includes those suppliers which are SMEs and a purchaser may wish to direct their business for policy reasons to the SMEs and we would therefore provide a list of SMEs who would be pre-qualified that they might be able to choose from.

Q296 Chairman: Does Rymans feature in this list?

Mr Fanning: I cannot remember. It is 100 pages and I simply do not know but we are very happy to advise you.

Q297 Mr Chaytor: In terms of the recommendations of the Sustainable Procurement Group, what progress have you made to date and what do you anticipate will be the progress over the next 12 months and 24 months?

Mr Fanning: Most of the substantial recommendations have been largely fulfilled.

Q298 Mr Chaytor: What are they?

Mr Davis: The two things we have had a big interest in were the joint note, the environmental note, which was an update on a much earlier note to make it much more proactive and positive, and the quick wins which had been built into the OGC Buying Solutions framework agreement.

Q299 Mr Chaytor: The quick wins are now ongoing?

Mr Fanning: They are.

Q300 Mr Chaytor: With these extra 56?

Mr Fanning: Yes.

Mr Davis: They have also now featured in the framework for the government estate which now has a section on procurement which has taken that work forward. One of the blessings of the new Defra strategy is that it can bring all these things together, see where we are and therefore what needs to be done in the future. You could argue that there are a number of different strands of guidance and activity at the moment that tend to overlap and one of the things the task force will do is see what the priorities need to be and then take that work forward and establish the key targets for the future.

Q301 Mr Chaytor: In terms of your own planning over the next year or two or three do you have specific objectives in terms of advancing the cause of sustainable procurement? The impression is that this

is all rather nebulous. There is a process taking place, it is a very long-winded process and the borders between the exact responsibility of OGC and Defra are sometimes a little bit fuzzy in that the advice given to departments is a bit tentative. There seems to be a lack of drive and direction. Is that fair?

Ms Turner: We mentioned the Sustainable Procurement Group work. Quite a lot has been achieved already, as my colleagues were saying, and indeed Defra colleagues were saying, but there is some ongoing work as well. The development of this note on social issues is something that we are very much engaged in right now.

Q302 Mr Chaytor: Is there a timescale for the completion of that note?

Ms Turner: There is not a timescale explicitly for the completion of it, but we are aiming to have it completed by the summer. The reason I am being a little bit tentative about that is that there are so many issues and they are all important issues, and we do not want to sacrifice dealing with those issues properly for the sake of an artificial timescale.

Mr Fanning: I would like to challenge the contention that sustainable procurement is any different from any other procurement. The clear policy that is enshrined in *Government Accounting* chapter 22 is that procurement has had to comply with value-for-money considerations and that leads you directly into the whole area of sustainable procurement and the question you very quickly come to is what do you then end up buying. There are two factors, it seems to me, that one has to consider. One is that you have to have information that people who are buying can rely on and the quick win is an example of an initiative taken by OGC outside its direct remit. Indeed, that quick win initiative was taken by colleagues in our trading arm and our trading arm is targeted on meeting financial targets but they took on the quick win work as a sort of *pro bono* activity because they believed in it. The Sustainable Procurement Group is chaired by the Deputy Chief Executive of OGC Buying Solutions. The second thing that one needs to do is get people doing the right thing. They have got to be competent and they have got to know how to use the information sources and the techniques that are promulgated. I would not want the committee to go away without recognising our determination to improve the way things are done. That is a non-trivial task to improve the quality of procurement generally throughout the wider public sector and it is significant that only four departments of state have procurement specialists, if you like, or people with procurement expertise on their board. One of our internal targets is to increase the representation of so-called commercial directors on the boards of government departments. The point I am trying to leave you with is that there is no magic wand here. There is a long march to improve the quality of procurement and project management skills throughout government and the wider public sector. You have to put a policy framework in place but you also have to train and skill people at the same time and that takes time.

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Q303 Mr Chaytor: I understand that. You said it was one of your internal objectives to increase the number of procurement specialists.

Mr Fanning: Yes.

Q304 Mr Chaytor: Is this published?

Mr Fanning: Oh yes.

Q305 Mr Chaytor: In your annual report this appears as a specific objective?

Mr Fanning: I would not want to mislead you. It is certainly something that the Supervisory Board discussed last Tuesday. Indeed, we had a presentation from the Commercial Director of DCA and one of the observations made by a senior member of the board was that the strongest argument we had ever seen for having a commercial director on board had just been presented by the performance of the Commercial Director of DCA. It is something we are pursuing but it is not one of our formal PSA targets.

Q306 Mr Chaytor: Could I turn the clock back to the time when the EC public procurement directives were agreed because your website apparently says that all the UK's objectives were secured in the finalisation of both directives. What were our objectives at that point?

Mr Fanning: On this point I must defer to my colleagues. They were involved and I was not.

Ms Turner: I will begin and then pass to my colleague who had the pleasure of negotiating for real. Directives take an enormous amount of time to agree and the origins of these revised directives go back to 1996. I mention that just to give the committee a flavour of where we have been. The 1996 reference is when the European Commission published a green paper on the way forward for the public procurement directives and the drafts appeared in 2000. The UK's objectives were to simplify and modernise and clarify through the directives. The simplification is the easiest bit in the sense that there has been hitherto one directive for each of goods, works and services and the three have been put into one, so it was an instant hit in that respect. The relevance as far as environmental issues are concerned is that the directives themselves have very much clarified and built up what can be achieved consistent with Eurospeak for value for money, 'the economically most advantageous tender', and there is also consideration of the social issues, and I referred earlier to Article 6 of the Treaty and that was in the UK's objective right from the start and that is why we were pleased to say we had achieved what we set out to do.

Mr Davis: There were about four or five sub-objectives below the objectives Anne has mentioned, of which environmental and social was one. We were getting in our relationship with Defra clear messages that this was something that needed to be on the face of the directive so that, along with ideas on mechanisms for electronic procurement and the like, there were key targets that we were aiming for. What we have got with the directive, which I think is the best you can get with a legal document, is that at key

stages of the process, ie, specifications saying you can take account of green production processes, you can take account of eco label criteria, you can build in essentially what you need to as long as it is relevant to the thing you are buying. At award stage you can take account, as we already knew because this is just a clarification but a very helpful one, things like whole-life costing, energy savings, recyclability. As long as it is about the thing you are buying they can be built in at that award stage. There was a case called *Helsinki Buses* that explained that in a lot more detail but that was something that was not a surprise to us because we always believed that that was what the directive was already saying but we wanted that clarification on the face of it.

Q307 Mr Chaytor: And therefore you do not see that the directive in any way represents constraint?

Mr Davis: In terms of environmental procurement, in terms of what the principles are that people are trying to follow and in getting good products and services from an environmental perspective, no, I would not say that there are constraints. There will be slightly rigid rules on exactly what you can specify. You could not use a trade name and you have to be careful that something is not discriminatory. There will be things like that so I cannot guarantee that someone could not come to you and say, "I tried to get this green product and I was not able to", but genuinely in our work with Defra I would say that on all the things that we are trying to achieve the directives allow one way or another an environmental issue to be taken forward. Social issues are more complex for the reasons that I mentioned. They are usually about secondary issues that sometimes cannot be directly related to the product or service that you are buying. It is more about trying to influence the companies. That can be more problematic for a whole range of reasons. With environmental issues normally there should not be a difficulty.

Mr Fanning: Perhaps I could wrap that up by saying that our experience throughout civil central government and also our growing experience in the wider public sector suggests that it is often not the rules that are the problem; it is the perception of the rules, and part of our job here is to educate, inform and support using a variety of instruments. We would not want you to go away with any anxieties about our determination to enable people to use the rules to meet their own policy objectives. Our general thrust is to enable them to achieve their policy objectives, and if their policy objective is to procure sustainability we can show them how to do it.

Q308 Chairman: Some evidence we had last week suggested that the Danes could teach everybody a lesson in flexible use of the EU rules.

Mr Fanning: I am sure.

Q309 Chairman: I do not know whether you have any observations to make.

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Mr Davis: I would say that in terms of the negotiations leading up to the new directive and the efforts put in the UK was very much at the forefront in trying to make sure that these flexibilities were built in because, as colleagues have said, it is not just about sustainable procurement; it is about good procurement to use whole-life costing and quality as well as just a price for something. We have never seen that as something that we would have a difficulty with. In my view, in terms of the way the negotiations went, the UK was often seen as very much in the lead on those sorts of issues. Whether we are performing as well as some other Member States in various categories of products I would leave to others to say, but certainly the legal framework that we have got is something that we very much fought for and we are very happy with.

Q310 Chairman: Can I touch briefly on the Gershon question, which you will have heard discussed before, and in particular on an issue raised by the Chartered Institute of Procurement and Supply who expressed concern about the focus within Gershon, as they saw it, on cashable gains and the lack of clarity on how long cashable gains are accounted for. Is this something that you have wrestled with and, if so, have you come to any conclusions?

Mr Fanning: Yes, it is something that we have wrestled with. The term “cashable” should not be interpreted crudely as meaning cost savings. It usually means where there are very clear financial assessments that can be made but I referred you earlier to the five different ways in which efficiency can be managed, and indeed colleagues in OGC who are responsible for managing the Gershon programme (or as we term it the Efficiency Programme) within OGC are putting particular effort into supporting departments and other parts of the public sector in, if you like, the theology of measuring efficiency gains. I recognise that there is a tension. If you are going to try to identify quick wins—I hate the phrase—the simple thing to do is negotiate hard with your suppliers and reduce prices. That is only one of the methods that are available. As the departments are going through the second phase of preparing the technical notes which set out in greater precision than has been done hitherto how they are going to deliver their efficiency gains, this issue of measurement, what is and what is not cashable and what is and what is not an efficiency gain and how you measure it, is being considered at this very moment.

Q311 Chairman: Within the culture of the Civil Service though, and given the kind of political environment that is making Gershon happen, that people will be rewarded for achieving non-cashable gains, to use a phrase I do not like, do you think the culture will recognise the achievement of non-cashable gains to the same extent as cashable gains?

Mr Fanning: Part of what we are trying to do is develop the culture, evolve the culture. That is the first point I want to make. The second point is that one of the major areas of efficiency opportunities, in fact, the second largest source of efficiency gains, is

in the area of productive time which is not a straightforward cashable gain. I think that the skill here is in measurement, in developing a much more numerate culture, a culture which is much more used to using accounting information. I make reference to the work that has been done by the Treasury in trying to support professionalisation of the finance profession within central government departments and that contrasts to local government where I have particular experience. I think that the culture of the Civil Service is one of the things that we find ourselves with and one of the things that we are part of the process of changing. One of the key legs of the support that OGC can provide is to help people deal with the measurement of these efficiency gains and that will depend also on the work that has been done by the Treasury, as I said, in strengthening the financial management systems, and that will require change.

Q312 Chairman: There is nothing that you feel is intrinsic to the Gershon process which is unhelpful to the cause of sustainable procurement, or perhaps nothing that cannot be counteracted by determined effort on your part and the part of the Sustainable Development Unit?

Mr Fanning: I would say thoughtful effort. What we want is people who are thoughtful procurers, who have placed due regard on all the various policy objectives that have to be met.

Q313 Chairman: There is a certain smirking going on at the phrase “thoughtful procurers”, I do not quite know why. Perhaps procurers have not always been thoughtful in the past.

Ms Turner: Perhaps I could pick up the theme, Chairman, that we do not see anything incompatible in the objectives of sustainable development, value for money and efficiency. I suspect the reason for the smiles around the piece is that what will make that work for real is good practice, which turns again on skills. We keep on hearing this time and again. It is skills right at the top of the tree for the permanent secretaries, and for ministers ultimately: then the people who are doing the procurement for real understanding the “how” as well as the people in departments responsible for policies like sustainable development and fair trade, whatever it may be, and joining that up, and overcoming perceptions that either efficiency and/or procurement are all about low cost or cutting cost.

Mr Davis: Every accounting officer will still have to look at what government procurement policy says, which is that it is not about the lowest price. It has got to be about this combination of whole-life cost and quality. That is there and will stay there while the efficiency agenda is going forward so, although there will be misunderstandings and a certain amount of tension there, it should be possible to deliver it.

Mr Fanning: Perhaps I can respond to the smirks. The traditional caricature of the procurement process is very formulaic and rule based. In other words, the decision-makers do not actually have to make any real decisions. They simply have to follow

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procedure which produces an answer. Sustainable procurement is completely consistent with our policy of supporting people who make choices which they then have to account for. One of the reasons why we were particularly delighted to present evidence to this committee was that we see the committee as part of the process of holding people to account for the decisions they have made and it simply is not sufficient for someone to say, “I have followed the rules. Therefore the output is okay”. It is for someone to say, “I abided by the rules but I have still got to account for the decisions that I have made and demonstrate how they were consistent with the policy objectives set by government”.

Q314 Mr McWilliam: I have listened to what you have said very carefully and I am still puzzled. I am puzzled because what you are saying I agree with but I cannot see that what you are saying is consistent with the rules set out in the 1923 and 1932 Treasury Acts which are still in force. They have not been amended.

Mr Fanning: Forgive me; I am not familiar with those.

Q315 Mr McWilliam: These Treasury rules have not been amended.

Mr Fanning: Presumably that is chapter 22.

Q316 Mr McWilliam: Yes.

Mr Davis: What I am referring to is chapter 22 of *Government Accounting* which states what accounting officers have to do in terms of public procurement policy and that makes it clear that it is about this broader value-for-money principle and not just price. Strictly speaking a government department that awards a fairly complex contract purely on price is not following what *Government Accounting* says.

Q317 Mr McWilliam: But, you see, I see that as in conflict with the 1923 and 1932 Acts and unless they are amended at the end of the day an accounting officer could be in a great deal of trouble.

Mr Davis: Chapter 22 is not an excuse but it has been in place for a very long time.

Q318 Mr McWilliam: We would all like to see sustainable development and we would all like to see analysis on through-life costs but until we can get away from the annualisation and the rest of it that is imposed by Treasury rules we are not going to get terribly far, are we?

Mr Fanning: I stand to be corrected on this but certainly under the current Budget arrangements people are used to end-year flexibility. There is a suite of reforms that have been enacted which enable people to plan over a longer period. The proposition that you have to spend all your money ‘in-year’ simply no longer applies.

Q319 Mr McWilliam: No, it does, but it is just being ignored and the minister concerned is saying, “We will have to do it that way”, but the legislation underpinning that is still there.

Mr Fanning: I defer to your knowledge on this one but we are working to chapter 22 of *Government Accounting*. That is, if you like, our bible. We work with end-year flexibility all the time. One of the problems, as I referred to earlier on, is that while it is our view that the regulatory framework is quite permissive not everybody knows how permissive it is.

Q320 Mr McWilliam: That is the point.

Mr Fanning: The traditional procurers as it were down at the grass roots often feel—and this is again anecdotal—much more comfortable with very clear rules which prevent them from having to make a decision and then accounting for the decision they make. We are in the business of supporting people but in supporting the environment people have to account for the decisions they have made.

Q321 Mr McWilliam: My real question is, do you agree that we really need to look at the basis of what the rules are in legislative terms before we can come to terms with the kinds of things that you rightly say you want to do?

Mr Fanning: I neither disagree nor agree because it is outside my area of competence. We would be very happy to write to you on that matter should you wish us to.

Q322 Chairman: Thank you very much. Could you also, if you are writing to us, explore a little further—and I am sorry to ask you to do this; I know it is complex and difficult to pin down—how precisely you intend to set about identifying the non-cashable gains within the Gershon context and, as it were, rewarding the process of developing those within the context of sustainable procurement, if that makes sense?

Mr Fanning: I understand what you mean and we will try and satisfy that.

Chairman: That would be really helpful.

Q323 Mr Thomas: You said in reply to an earlier question that you needed skills in measurement. Perhaps you can establish at the end of that how you might measure that and measure the data that comes about so that data collection shows if that is not having the effect against sustainable procurement. Can I conclude on the Gateway review process because that is obviously, from the evidence we have received, an important part of your work? I wonder if you could set out for us briefly how the process works and, particularly for us to understand it better, what sorts of projects the departments have been involved in in that process?

Mr Fanning: Certainly. A gateway review is a review of a project at a point in its lifecycle and there are six gates, starting with gate zero and going to gate five. Gate zero is often referred to as strategic assessment and it asks the question why you have engaged in this particular activity, whether it be development of policy or whether it be the procurement of something, and that something could be a school or any large asset. The final gate, gate five, is what is known as benefits realisation which, when I was

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growing up, we called a post-audit report which asks the question, “Have you delivered what you set out to deliver?”. There are intermediate stages. From memory, gate three is an examination of whether the project looks at procurement options for the project. The process is that at each one of these five defined stages an independent group of people (and by “independent” we generally mean not reporting to the department) will do a review of that project. The review is undertaken primarily by a series of interviews but they will also look at evidence and they will write a report which is offered to the Senior Reporting Officer (SRO) responsible for that project. That report is done usually within five days, so the investigation starts on a Monday typically and the report is presented on a Friday morning, and the report is confidential to the SRO and the guts of the report is a series of recommendations on how that project might be improved. The understanding is that the project would not proceed to another gate unless those recommendations had been carried out.

Q324 Mr Thomas: Any project that enters gate zero will go right through to gate five, will it? The whole life of the project will go through or is there a spot check along the different gates?

Mr Fanning: The first thing is that OGC is invited by the SRO and we have had 900 invitations, I believe, since the gateway process was initiated.

Q325 Mr Thomas: It is not an automatic process?

Mr Fanning: It is not automatic. Departments invite OGC to review the project.

Q326 Mr Thomas: Is this because they have their doubts about the nature of the project?

Mr Fanning: Because they think it is a useful process. Because the gateway process was endorsed by the OGC supervisory board and therefore with support and encouragement, if you like, from the top of the shop, OGC sometimes is invited in and the people who make the invitation may initially feel that they have been told to invite them, but the fundamental thing is that the relationship is one where we support the people who are responsible for driving and leading the project. The reason why the SRO would call OGC in is that it is a good thing to do. It is seen as being useful and a project which is going well would have as much interest in the outcome of a gateway review as a project that might not be going so well. Indeed, anecdotal evidence might suggest that projects which are not going so well would have an interest almost in not asking for a gateway review. The gateway reviews are very popular. Nine hundred of them have been done. There are gateways which on larger projects command a more experienced team and projects are separated into high risk, medium risk and low risk and the high risk projects tend to attract a very experienced team. I know some of those teams include former permanent secretaries, for example. The purpose of the exercise is to support the SRO in leading that project. A key characteristic is that the team is independent and the relationship between the

project team who are undertaking the review and the SRO of the project is entirely confidential. That is key to its success.

Q327 Mr Thomas: Can you say in that process where in particular sustainable procurement fits in and where in that process some of the issues we have been talking about in the last three-quarters of an hour: making sure that it is not just low cost, that there is whole-life analysis of this thing, can that be picked up and what remedial action can the process lead to?

Mr Fanning: Anne is a senior gateway reviewer. That is what they look like.

Ms Turner: I am afraid so, yes. I should declare my interest to the committee. I am a gateway review team leader, one amongst many. The answer to the question is that sustainability issues are generally dealt with under the heading “Wider Context”. You may be familiar with the fact that each gateway stage has a particular workbook and there are prompts within the workbooks for the review team which are put to the SRO, the project team and to all those who have a key interest in the successful outcome of the project, or the programme if it is a programme. I have brought along an example which I will briefly read to you. This is from gateway one, business justification: “Wider context, an area to probe: does the preferred option meet wider government and departmental policies? Strategic objectives: standards and business change programmes”. The review team, the three or four people who will be capable and experienced people in their own right, will be able to interpret that and apply it to other particular project concerns. Allied to these prompts is evidence expected—because the underlying purpose of a gateway review is not just to rely on assertion but to look for evidence that what is being said is true. Against that area that I have just read out one example of the evidence given is “construction projects: contribution to proper work space strategy, health and safety, sustainability and design quality”. These are the ways in which sustainable issues, environmental issues, are built in and can be addressed in the process.

Mr Fanning: Sustainability is specifically referred to in relation to construction projects because of the scale of them and also because of the duration over which the project, and indeed the output cost of the underlying asset, is deployed. As Anne said, if the underlying policy objective is to procure sustainability and that is clearly specified as part of the project specification, then the gateway review team will examine whether the project is being delivered meets the original specification and that is part of that inquisition process, if you like.

Q328 Mr Thomas: What remedial action can that lead to? Are you then empowered, if that is the right word, when you report to the senior reporting officer, to say, “You are off beam here. You are not going to meet the underlying government objectives with the way this particular project is going at the moment”? Can you tell them, “You need to do it this way”, or, “You need to do it that way”? How does that work?

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Ms Turner: The review team does not tell, in the sense of instruct, the project team what to do. What it will do is draw out a number of recommendations, not thousands of them, typically a dozen or fewer, and categorise those as red, amber or green, depending on the severity or the importance really of the recommendations that in the view of the review team should be addressed in order to achieve the project. Anything labelled as red is a clear indication that that should be addressed before the next review. It definitely does not mean “stop”. That is perhaps the unfortunateness of having a traffic-light approach. It really does not mean “stop”, although I would not want to say that it means “jump the lights”, either. It means ‘do something about it now’, and that is taken very seriously by departments because two reds and the reports will be elevated to the permanent secretary.

Mr Fanning: There is a protocol for raising the seriousness of a particular significant project which appears to have a red. The Permanent Secretary of

OGC would write to his opposite number in the relevant department. It is important not to mislead the committee. OGC has no power to mandate. This is helpful advice offered with an open hand. The protocol is that if the advice does not appear to be acted on then there are certain circumstances when we can elevate our concerns. One of the key features of this process is the trust that builds up between the SRO who is the recipient of the advice and the team that is giving it. It is naturally quite a tense relationship but the evidence of the 900 freely given invitations is that people value a good team turning up and doing a good job. I come back to the point that so much of the procurement work and the challenge of procurement is about the people issues as opposed to the system and process issues.

Chairman: Thank you very much indeed for your evidence today and shedding a little light on a rarely seen but very important part of government. We are grateful to you.

Supplementary memorandum submitted by the Office of Government Commerce

At the hearing on 16 March I agreed to supply the Committee with further information about non-cashable efficiency savings and the value of public sector procurement spend, with a breakdown of “green” procurement spend. This letter provides the extra information, and also clarifies my evidence on Gateway Reviews.

In my evidence I referred to the five separate definitions of efficiencies used by the Efficiency Review team and mentioned in Sir Peter Gershon’s report and I also referred to the important work being done by OGC around the measurement of efficiency gains. Departments have been asked to assess their programmes delivering efficiency gains as either cashable or non-cashable. Cashable gains are those that release financial resources, which can be recycled into the front line. Examples of cashable efficiency gains are where the inputs (eg people or assets) to deliver a service are reduced whilst maintaining the same or greater level or quality of service or where the resources required can be obtained at lower prices. Examples of non-cashable gains are where additional outputs, such as enhanced quality or quantity of service can be obtained for the same level of resource. Efficiency gains are scored in situations where the ratio of output per unit cost of input improves and gains will be cashable if cash resources are released and non-cashable if they are not.

All departments have sustainability objectives. Sustainable procurement and efficient procurement should be mutually re-enforcing. This is because departments are encouraged to procure goods/services at the best value for money over the lifetime of the contract, not the cheapest price. Contracts which take account of sustainability may give better quality (reflected in non-cashable gains) over their lifetime, which can be taken account of in the best value for money assessment.

In his efficiency review, Sir Peter Gershon estimated public sector procurement spend at around £120 billion. Currently there is no central systematic collection of public sector procurement spend—the complex nature of the public sector, ranging from large central government departments such as the Inland Revenue and Ministry of Defence to small local authorities and individual schools and colleges makes it very difficult to produce accurate procurement information.

Similarly, OGCbuying.solutions does not monitor sustainable procurement expenditure. Information is held on how much is spent by customers with different suppliers, but this is not broken down to the level of specific products purchased. It is worth noting that less than 2% of public sector procurement is done through OGCbuying.solutions’ frameworks, and these mainly cover commonly used commodity items such as paper.

One objective of the Efficiency Programme’s work on procurement is to improve understanding of total procurement spend and to support sustainable efficiency gains through procurement reform. Departments are currently working to refine their efficiency plans. The revised plans should provide a better picture of the public sector procurement landscape.

One area where we do have good information is on green electricity. OGCbuying.solutions’ contracts are used by over 190 public sector organisations and over 15% of the electricity bought is from renewable sources.

I confirm that OGC does not mandate the use of Gateway Reviews. However, the Accounting Officers of central civil government departments require their departments, agencies and Non Departmental Public Bodies (NDPBs), to undertake Gateway Reviews for all procurement programmes and projects. Reviews of programmes and projects that are rated as high and medium risk are managed by OGC (with the exception of DWP who have now been delegated responsibility for medium risk reviews). Low risk reviews are managed by the organisations themselves.

A total of 123 separate departments, NDPBs and agencies have had a Gateway review of their medium or high-risk projects and programmes. Over 900 reviews have now been completed covering 570 projects and programmes. The penetration of Gateway is monitored on a quarterly basis.

Peter Fanning
Deputy Chief Executive

24 March 2005

Written evidence

APPENDIX ONE

Memorandum submitted by Bristol City Council

1. There are a number of strategies from different government departments such as DEFRA, IdEA and the ODPM and also one from WRAP that is funded by the Government. Whilst these do provide some guidance there is no single comprehensive guidance source. Local authorities are left to produce their own guidance from all of the different sources and are able to implement sustainable procurement to whatever extent they choose. If national government wishes to drive a consistent and serious approach to sustainable procurement, it must provide greater leadership and direction, measuring outcomes.

2. The Buying Green report is an excellent resource with lots of helpful information. The EU regulations do allow for environmental considerations within procurement, but neither they nor the UK national Government require environmental issues to be considered during procurement. There is an opportunity for central government to set out its expectations through stronger policy messages.

3. The main focus of the Gershon Review is administrative efficiency in all public services, where procurement plays an important but relatively minor part, although there is scope to consider sustainability through the review. A multi-year plan for public spending within departments, the implementation of e-procurement and including value for money as part of the Comprehensive Performance Assessment will all help to achieve sustainable procurement. On the other hand, short-term cost cutting and increased use of consortia may have a detrimental affect on sustainable procurement if stakeholders are not consulted on environmental considerations when building specifications.

27 January 2005

APPENDIX TWO

Memorandum submitted by the Environmental Industries Commission

1. THE ENVIRONMENTAL INDUSTRIES COMMISSION (EIC)

EIC was launched in 1995 to give the UK's environmental technology and services industry a strong and effective voice with Government.

With over 240 Member companies, EIC has grown to be the largest trade association in Europe for the environmental technology and services (ETS) industry. It enjoys the support of leading politicians from all three major parties, as well as industrialists, trade union leaders, environmentalists and academics.

2. PUBLIC PROCUREMENT

A wide range of Government and stakeholder reports, not least by the Environmental Audit Committee itself, have set out the huge potential of public procurement to play a leading role in sustainable development.

Government policy has responded slowly to this challenge. However, in 2003 the Government published the "Report and Recommendations of the Sustainable Procurement Group" and followed this with a revised "Joint Note on Environmental Issues in Purchasing" and a list of "Quick Wins" issued by the Office of Government Commerce (OGC). There has also been a handbook developed by the European Commission to clarify EU rules in this area.

EIC, therefore, considers most of the policy drivers are in place to achieve Government policy objectives.

EIC's Members have, however, long reported that there are major gaps between policy and practice in this area. Most glaringly while it has been Government policy for at least 25 years to base decisions on the whole life cost of products and services, rather than capital cost, our Members report that capital cost is still the dominant factor in most public procurement decisions.

EIC Members, have, therefore, been monitoring the implementation of the policies set out in 2003. The overall impression is that there has been a significant improvement since then. However, progress is still very patchy and scrutiny of implementation of policy too superficial. For example the "Sustainable Development in Government: Third Annual Report" goes into some detail on the purchasing of recycled paper, but the sections on energy efficiency and implementation of the "Quick Wins" are very vague.

This gap between policy and delivery reflects a failure to give the necessary political momentum to integrating sustainability considerations into public procurement. Whilst there is clear commitment in Defra to this agenda, it is struggling to get other Departments to take it sufficiently seriously.

EIC considers this is an area where the Government must match its rhetoric with delivery. It cannot lead the world on climate change whilst failing to purchase basic energy efficiency equipment for its own offices.

3. PRIVATE FINANCE INITIATIVE

One procurement area that stands out as failing on environmental considerations—and particularly on energy efficiency, is the Private Finance Initiative.

In a speech on Climate Change in September 2004 Tony Blair announced that “all new schools and City Academies should be models of sustainable development.”

In September 2003 an EIC Member, one of the largest manufacturers of ventilation products in the UK supplying products to several hundred Government construction/refurbishment projects every year, carried out research on 16 Government projects selected at random from all parts of the UK. These were mostly schools and MoD projects and were all new build or major refurbishments; in each case the building would have been expected to have a life of 30 years plus. Most of them were PFI projects.

Whilst the company supplied ventilation plant in all these projects, none of the projects were finally supplied with the most energy efficient products/controls.

EIC has exchanged correspondence with Elliot Morley MP on this issue. The Minister noted that new policy and guidance has been issued since September 2003 which should be improving the situation.

However, our Members indicate that lowest capital cost is still the dominant factor in procurement decisions of equipment for PFI projects.

EIC, therefore, believes that the Government should urgently undertake an audit of energy efficiency in recent PFI projects and issue clear instructions that all PFI projects must meet high environmental and energy efficiency standards in the future.

8 February 2005

APPENDIX THREE

Memorandum submitted by FERN, Friends of the Earth and Greenpeace

1. SUMMARY

The UK Government’s stated policy is to purchase sustainably produced timber and timber products. Yet the Government’s criteria for sustainable forest management exclude social aspects of sustainable forest management, such as protecting the rights, health and livelihoods of people who live in or adjacent to and who depend on forests. This is in contradiction to international agreements to which the Government is a signatory and which the Government cites in its advice to procurement authorities. It is also in contradiction to (planned) procurement policies of other EU member states, notably Denmark and the Netherlands.

The UK Government argues that the EU Procurement Directives do not allow social aspects of sustainable forest management to be taken into consideration in the procurement process because they have no demonstrable bearing on the quality of the finished product. In our opinion and contrary to that of the UK Government, the EU Procurement Directives can and must be interpreted in such a way as to provide as much scope for including social aspects of sustainable forest management in public procurement practice as there is for including environmental aspects. Several other European Governments have or will interpret the Directives in such a way that social aspects of sustainable forest management must be included. FERN, Greenpeace and Friends of the Earth agree with these Governments: in our opinion there is no such thing as sustainable forest management that does not include social aspects. This has also been clearly stated in numerous international conventions and declarations as early as 1992, to which the UK has signed onto.

Furthermore, the UK’s claim that social aspects of sustainable forest management cannot be taken into consideration is inconsistent with the Government’s admittance of environmental criteria. In our opinion, environmental matters related to the way in which forests are managed have the same demonstrable bearing on the quality of the finished product as social matters. It is disingenuous to claim, for example, that protection of a rare species is in some way more relevant to a contract to supply timber than a similar criterion concerning prevention of harm to forest dependent people or protecting indigenous peoples’ rights.

The UK Government, therefore, can and should incorporate into its procurement procedures the social aspects of sustainable forest management that are embedded in the international principles to which it is a signatory.

2. GOVERNMENT POLICY ON PROCUREMENT OF TIMBER AND TIMBER PRODUCTS

The Government's policy on the procurement of wood is to purchase sustainably produced timber (DEFRA 2002). One way in which the Government encourages departments to achieve this is to specify in orders and contracts that (DEFRA 2002):

- suppliers provide documentary evidence (which has been, or if necessary can be, independently verified) that the timber has been lawfully obtained from forests and plantations which are managed to sustain their biodiversity, productivity and vitality, and to prevent harm to other ecosystems and any indigenous or forest-dependent people; and
- timber purchases are in accordance with international agreements such as the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).

The Government's advice to departments notes that the documentary evidence referred to in the first bullet above might take the form of: a certificate issued under a credible, preferably independent, verification scheme; or other documents that demonstrate that timber producers are abiding to a declaration, charter, code of conduct or an environmental management system incorporating forest management criteria that conform with internationally recognised principles (DEFRA 2002).

It is clear that the Government's procurement policy is to purchase timber and timber products that originate in forests that are managed in accordance with internationally accepted principles of sustainable forest management, including the prevention of harm to any indigenous or forest dependent people.

2.1 Principles of sustainable forest management

The Governments' Green Guide for Buyers: Action Sheet on Wood (DEFRA 2002) lists the following sets of principles as reference points for determining whether forests are sustainably managed:

- inside Europe the Pan-European Operational Level Guidelines for Sustainable Forest Management as endorsed by the Lisbon Ministerial Conference on the Protection of Forests in Europe (2–4 June 1998); and
- outside Europe, the UNCED Forest Principles (Rio de Janeiro, June 1992) and, where applicable, to the criteria or guidelines for sustainable forest management as adopted under recognised international and regional initiatives, eg ITTO, Montreal Process, Tarapoto Process, UNEP/FAO Dry-Zone Africa Initiative.

The Government is a party to a number of other international agreements that act as reference points for defining sustainable forest management including: the Intergovernmental Panel and Forests Proposals for Action (UN 2004) the Convention on Biological Diversity's Programme of Work on Forest Biological Diversity (CBD 1998); the Bill of Rights (and International Covenant on Economic, Social and Cultural Rights and International Covenant on Civil and Political Rights) (UN 1966a, 1966b); the World Bank's Forestry Policy (World Bank 2002).

There is now a global consensus on what sustainable forest management means in practice. The consensus was hard fought for. NGOs are concerned that the definition may be interpreted and presented in different ways for different purposes and that the consensus may start to weaken as a result.

The box below contains extracts from some of the internationally accepted principles that illustrate the consensus with regard to social aspects of sustainable forest management.

Rio Principles (UN 1992)

- Principle 2(c): Forest resources and forest lands should be sustainably managed to meet the social, economic, ecological, cultural and spiritual needs of present and future generations. These needs are for forest products and services, such as wood and wood products, water, food, fodder, medicine, fuel, shelter, employment, recreation, habitats for wildlife, landscape diversity, carbon sinks and reservoirs, and for other forest products.
- Principle 5(a): National forest policies should recognise and duly support the identity, culture and the rights of indigenous people, their communities and other communities and forest dwellers. Appropriate conditions should be promoted for these groups to enable them to have an economic stake in forest use, perform economic activities, and achieve and maintain cultural identity and social organisation, as well as adequate levels of livelihood and well-being, through, *inter alia*, those land tenure arrangements which serve as incentives for the sustainable management of forests.

 Ministerial Conference on the Protection of Forests in Europe

- Lisbon Conference Resolution 2, Annex 2, Pan-European Operational Level Guidelines for Sustainable Forest Management, Guideline 6.1: Property rights and land tenure arrangements should be clearly defined, documented and established for the relevant forest area. Likewise, legal, customary and traditional rights related to the forest land should be clarified, recognised and respected (MCPFE 1998).
- VIENNA Conference Declaration, commitment 11: (Signatory governments commit themselves to) fully reflect the social and cultural dimensions of sustainable forest management in forest-related policies. (MCPFE 2003).

ITTO Criteria and Indicators for Sustainable Management of Natural Tropical Forests¹(ITTO 1998)

- Indicator 7.10: Number of people dependent on the forest for subsistence uses and traditional and customary lifestyles.
- Indicator 7.11: Area of forest upon which people are dependent for subsistence uses and traditional and customary lifestyles.
- Indicator 7.14: Number of important archaeological and cultural sites identified, mapped and protected.
- Indicator 7.16: Extent to which forest planning and management practices and processes consider and recognise legal or customary rights with respect to indigenous people and local communities, forest dwellers and other forest-dependent communities.
- Indicator 7.17: Extent of participation by indigenous people and local communities, forest dwellers and other forest-dependent communities in forest-based economic activities.
- Indicator 7.18: Number of agreements involving local communities in co-management responsibilities.

ATO/ITTO principles, criteria and indicators for the sustainable management of African natural tropical forests

- Indicator 1.1.7: The legal and customary rights of local populations related to the ownership, utilisation and management of the land and resources near the permanent forest estate are clearly defined, recognised and respected.
- Indicator 1.2.4: Mechanisms exist to promote the participation of different stakeholders, particularly rural communities, in the management of forests.
- Indicator 1.5.8: All forms of damage caused to the property of the local populations by forestry activities are compensated according to the norms in force or after negotiation.
- Indicator 4.1.1: The legal and customary rights of local populations in respect to the ownership, use and tenure of the forest land and resources are clearly defined, acknowledged and respected.
- Indicator 4.2.1: The concessionaire sets up *ad hoc* bodies for consultation and negotiation with local populations.
- Indicator 4.2.4: Procedures for consultation with populations during the establishment and demarcation of forest concession boundaries are respected.
- Indicator 4.3.1: The forest concessionaire ensures that the populations living within or near the FMU receive a portion of the revenue generated by the exploitation of the FMU.
- Indicator 4.3.2: Local communities living in or near the harvested forest area benefit preferentially from opportunities in employment, training and other services.
- Indicator 4.3.3: In accordance with the importance and impact of the forest operations at the local level, the concessionaire contributes to the development of the local economy.

It is clear that if forest management is to correspond to internationally accepted principles of sustainable forest management, the planning and carrying out of forest use must include social aspects, such as those related to land rights, user rights and worker's health.

The UK and the countries that produce timber consumed by the UK are signatories to one or another of the internationally recognised principles of sustainable forest management. The UK Government therefore has a duty to incorporate every element of the principles into its sustainable timber procurement policy. The governments of producer countries should have an expectation that the UK Government will do this and have no grounds for objecting provided that the policy does not discriminate between countries

¹ These extracts are from the original C&I. ITTO adopted "simpler" C&I in December 2004; they will be published in March 2005.

3. WHAT THE EU PROCUREMENT DIRECTIVES PERMIT

EU public procurement rules are laid down in the procurement Directives (European Union 2004a and 2004b). The European Commission has issued guidance on incorporating environmental considerations (EC Commission 2004) and social considerations (EC Commission 2001) into procurement. The guidance on social considerations was issued in connection with the previous procurement Directives and not with the substantially changed new Directives. Nonetheless the European Commissions still directs Member States to it. There is clear scope for incorporating environmental and social considerations at different stages of the procurement process as follows.

3.1 *Defining the requirements of the contract*

EU procurement rules require procurement authorities to define the subject matter of the contract in the form of technical specifications. In the case of public works contracts, technical specification means the totality of the technical prescriptions contained in particular in the tender documents, defining the characteristics required of a material, product or supply, which permits a material, a product or a supply to be described in a manner such that it fulfils the use for which it is intended by the contracting authority. In the case of public supply or service contracts, technical specification means a specification in a document defining the required characteristics of a product or a service. (EU 2004a, Annex VI). The “characteristics” to which these rules refer may include production process and methods (EU 2004a, Annex VI).

The rules allow procurement authorities to invite potential bidders to submit “variants” to the basic specification. In this case the procurement authority establishes a minimum set of technical specifications for the product to be purchased. The authority then specifies additional requirements for the variant. Bidders may offer to supply products that meet the minimum requirements or may offer to supply products that conform to the specification of the variant. Variants may be used, for example, to enable bidders to offer to supply products that have lower environmental impacts.

The admission of production processes and methods could be taken to mean that authorities may specify, for example, that timber and timber products must be from legal and sustainable sources, provided that the authorities define “legal” and “sustainable” in a manner that allows the conformance of specific materials to be evaluated objectively. EU procurement rules also allow authorities to indicate certification schemes that would be acceptable evidence of meeting their definitions of “legal” and “sustainable” but not to the general exclusion of other evidence not identified within the tender documents. Authorities could specify, for example, “Certification XYZ” or equivalent; or they could specify sustainability criteria and indicate certification schemes that would be accepted as suitable proof of meeting those criteria.

The rules link technical specifications to the performance and functional characteristics of the product, which might be interpreted as disallowing the inclusion of legality and sustainability in the technical specification. However, the Commission’s guidance on incorporating environmental considerations into procurement states that procurement authorities may specify environmental requirements for the timber to be purchased. As an example the Commission states that “*a community planning to purchase fences and street furniture might investigate materials available in the market such as wood from environmentally sustainably managed forests or synthetic materials made from recycled raw material*”; and “*For example, the following criteria can be used in the technical specifications of a contract that is sustainable in environmental terms: the assurance that the rate of harvesting of timber does not exceed levels that can be permanently sustained; use of environment-friendly non-chemical methods of pest control, and the avoidance of use of chemical pesticides.*” (European Commission 2004)

The Commission’s guidance notes that sustainable forest management includes a social dimension but then goes on to say that social aspects of sustainable forest management cannot be included in technical specification because “*as with all technical specifications, you can only include those specifications which are related to the subject matter of the contract. So you cannot include specifications of a scheme on, for example, the protection of forest-dependent people*” (European Commission 2004).

We contend that none of the provisions of the procurement Directives distinguish between environmental and social aspects of production processes and methods. Procurement authorities may specify production processes and methods if they are related to the subject matter of the contract. The Commission’s guidance does not explain why “environmentally sustainably managed forests” may be included in technical specifications but “socially sustainably managed forests” may not.

In its guidance on including social considerations on the previous Directives, the Commission observes that “*social criteria are not included among the various criteria given as examples in the public procurement*

Directives". We understand that this guidance has influenced the UK Government's decision with regard to excluding social aspects of sustainable forest management. However, this guidance has been invalidated by the European Court's ruling in the Concordia bus case (European Court of Justice, 2002).²

3.2 *Selecting suppliers, service providers or contractors*

The Directives lay down rules governing the selection of those candidates whom the contracting authority considers able to execute its contract. The rules concern:

1. the grounds that justify a candidate's exclusion from participating in a public contract;
2. the candidate's financial and economic standing; and
3. the candidate's technical capacity.

The first two rules do not offer any scope for taking environmental considerations into account. The third rule enables, to a certain extent, environmental considerations to be taken into account, by for example, defining a minimum level of equipment or facilities, or guaranteeing the correct execution of the contract; but this seems to offer no scope for bringing the source of timber and timber products into the selection of candidates.

3.3 *Awarding the contract*

The Directives contain two options for the award of contracts: either the lowest price or the "most economically advantageous tender". When a procurement chooses the second option the Commission's guidance (EC Commission 2004) states that it is possible to apply environmental award criteria provided those criteria are linked to the subject-matter of the contract, do not confer unrestricted freedom of choice on the contracting authority, are expressly mentioned in the contract notice and tender documents, and comply with the fundamental principles of EU law. This guidance is based on the Concordia Bus case ruling (European Court of Justice, 2002)² which was in connection with a procurement authority's inclusion of an environmental criterion in its evaluation of contracts to supply a fleet of buses.

3.4 *Contract performance clauses*

The Directives allow social and environmental considerations to be included in contract clauses governing performance of the contract.

The Commission's guidance on environmental considerations states that "*contract clauses should not play a role in determining which tenderer gets the contract, which means that any bidder should, in principle, be able to cope with them. They should not be disguised technical specifications, award or selection criteria. Whereas tenderers must prove that their bids meet the technical specifications, proof of compliance with contract clauses should not be requested during the procurement procedure.*" (European Commission 2004)

The Commission's (old) guidance on social considerations states that "*contracting authorities have a wide range of possibilities for determining the contractual clauses on social considerations*" and gives a number of examples that are based on the Commission's opinion that "*the term 'social considerations' covers a very wide range of issues and fields. It can mean measures to ensure compliance with fundamental rights, with the principle of equality of treatment and non-discrimination (for example, between men and women), with national legislation on social affairs, and with Community Directives applicable in the social field. The expression 'social considerations' also covers the concepts of preferential clauses (for example, for the reintegration of disadvantaged persons or of unemployed persons, and positive actions or positive discrimination in particular with a view to combating unemployment and social exclusion)*". (European Commission 2001)

The Commission's guidance goes on to say that "*it would appear more difficult to envisage contractual clauses relating to the manner in which supply contracts are executed since the imposition of clauses requiring changes to the organisation, structure or policy of an undertaking established on the territory of another Member State might be considered discriminatory or to constitute an unjustified restriction of trade.*" (European Commission 2001)

² This case, referred to the ECJ in 1999, concerned a tender launched by the city of Helsinki for bus transport operations within the city. The city explicitly stated that it included environmental criteria, principally air and noise emissions and a certified Environmental Management Standard (EMS), within the award criteria and that it would allocate a number of points therein. This was subsequently challenged by one of the unsuccessful bidders who argued that allocating additional points for equipment whose nitrogen oxide emissions and noise levels were below certain limits was unfair and discriminatory and that, in the overall assessment of the tenders, there could be no question of applying environmental factors which had no direct connection with the subject of the call for tenders—ie an EMS. One of the key elements of the case, therefore, was whether environmental criteria could be included in award criteria, and, more specifically, whether they must have a direct economic advantage for the contracting authority and be of direct relevance to the contract. In its judgment of 17 September 2002 the ECJ ruled that "where, in the context of a public contract for the provision of urban bus transport services, the contracting authority decides to award a contract to the tenderer who submits the economically most advantageous tender, it may take into consideration ecological criteria such as the level of nitrogen oxide emissions or the noise level of the buses, provided that they are linked to the subject-matter of the contract, do not confer an unrestricted freedom of choice on the authority, are expressly mentioned in the contract documents or the tender notice, and comply with all the fundamental principles of Community law, in particular the principle of non-discrimination."

We note that the Commission's guidance does not exclude the inclusion of social aspects of sustainable forest management in contract performance clauses. With regard to the Commission's observation concerning supply contracts we note that countries that produce timber and timber products are signatories to internationally accepted principles of sustainable forest management, are therefore committed to ensuring that forest management addresses the social aspects of these principles, and therefore would not have grounds for complaining that contract performance clauses that include social aspects of sustainable forest management are discriminatory.

4. HOW THE UK GOVERNMENT IMPLEMENTS ITS TIMBER PROCUREMENT POLICY

The Government's model procedure for procuring timber includes a contract condition to ensure supply of timber from legal sources and a variant specification for the option of supplying sustainable timber. A key requirement of the contract and variant specification is that suppliers must be able to provide evidence to the Government that the wood or wood products they supply are from legal and, if promised by the supplier, sustainable sources.

4.1 *The basic and variant technical specifications*

The Government advises procurement authorities to limit the basic technical specification to the technical and physical characteristics of the timber or products required. It will set the minimum quality standard acceptable for performance of the contract. There should be no reference to "sustainable" timber criteria in the basic specification. This minimum standard is acceptable as a fallback if a competition is unable to produce an acceptable variant offer for "sustainable" timber.

With regard to the variant specification, the Government advises procurement authorities to give tenderers the option of offering sustainable timber as an addition to the minimum specification. The Government provides a model variant specification that includes all the minimum criteria plus additional criteria that require the majority of the timber/wood supplied to be either recycled or from forests that are managed to protect their well being and sustain future supplies of timber. This higher quality variant is the preferred choice of the UK Government. In all competitions the procurement authorities should choose this variant bid if financial considerations support such an approach.

The model variant specification includes sustainable forest management standards and defines these as standards that sustain forest biodiversity, productivity and vitality, and minimise harm to ecosystems, including people, that depend on forests for their well being.

However, concerning social issues the Government notes that *"To ensure transparency and non-discrimination, procurement regulations do not allow the Authority to include social and ethical criteria in contract specifications if they do not directly relate to the subject matter of the contract. There are unlikely to be any government contracts involving timber/wood supplies where social and ethical matters are a primary consideration in the specification of goods, services and works. Therefore, the criteria for 'sustainable' timber, as set out in the variant specification cannot include specific requirements dealing with social customs, behaviour and conditions."*

The Government also notes that *"The interests of people who depend on forests for their livelihoods or social well being may be protected to an extent as a consequence of forests being managed to sustain forest productivity, health, vitality and bio diversity. These are outcomes that can be legitimately reflected in production and process specifications because they relate directly to the material used to create the product being demanded. It doesn't matter that the finished product could look and perform equally well if made from trees grown in a badly managed forest. The Authority can legitimately specify production and process methods that can affect the physical product or sustain its future supply."*

The UK Government excludes social aspects of sustainable forest management on the grounds that social and ethical matters are unlikely to be a primary consideration in the specification of goods, services and works and by implication unlikely to be directly related to the subject matter of a contract that involves the supply of timber. On the other hand the Government considers it acceptable to include environmental aspects of sustainable forest management such as biodiversity that are no more closely connected to the subject matter of such contracts, as our analysis below of the Government's criteria for assessing forest certification schemes shows.

4.2 *The Government's criteria for assessing certification schemes*

The Government advises procurement authorities that one way of achieving its timber procurement policy is to supply products from certified sources, provided that the certification scheme involved delivers the Government's requirements for legality or sustainability. The Government has developed criteria for assessing certification schemes and has applied the criteria to a number of schemes.

The criteria for sustainability are listed in Annex 1 of this submission. None of the criteria have any bearing on the technical characteristics of the timber that is supplied. Most of them have a bearing on the future productivity of the forest and therefore on the forest's potential to continue to supply timber. Some

of them have no bearing whatsoever on the future productivity of the forest, for example concerning the protection of biodiversity: implementation of safeguards to protect rare, threatened and endangered species; the conservation/set-aside of key ecosystems or habitats in their natural state; the protection of features and species of outstanding or exceptional value.

We support the inclusion of criteria aimed at protecting biodiversity but we contend that these criteria have no more bearing on the subject matter of a contract to supply timber than do such social aspects of sustainable forest management as protecting the rights and livelihoods of forest dependent people.

5. HOW OTHER MS HAVE INTERPRETED THE EU PROCUREMENT RULES

5.1 Denmark

The Danish government has published guidelines that are designed “to make it easier for public and semi-public institutions to ensure that the tropical timber they purchase is produced in a legal and sustainable manner” (DEPA and DFNA 2003). The guidelines recommend that purchasers specify three variants:

- (i) legal and sustainable;
- (ii) legal and progressing towards sustainable; and
- (iii) legal.

Purchasers are advised to accept timber that is clearly produced legally and is either partially sustainable or on the way towards sustainability, if fully sustainable timber cannot be obtained with adequate documentation. As a minimum, suppliers should be required to document that the timber has been legally produced. The guidelines include a checklist that purchasers are advised to ask suppliers to complete. The checklist sets out the criteria for “legal/sustainable” and the evidence required for determining compliance with these criteria.

The guidelines recommend that requirements for “sustainably produced” tropical timber should be based on the principles set out in the 1992 UNCED Statement of Forest Principles and the principles and criteria developed by the International Tropical Timber Organisation (ITTO) and Center for International Forestry Research (CIFOR). The checklist includes the following questions:

- Does the forest management meet the social, economic, ecological, cultural, and spiritual needs of present and future generations?
- Has the forest management respected and given appropriate consideration to legal and institutional frameworks, the size of the forestry resource, the health and vitality of the forest, its production and protection functions and biodiversity, and socio-economic, cultural and spiritual assets and needs?

5.2 Netherlands

The Dutch Government has prepared national guidelines for assessing forest certification schemes (VROM, 2004). These guidelines will be used to support the Government’s policy of procuring timber from sustainable managed forests.

The guidelines include many references to social aspects of sustainable forest management including:

- *Criterion 15.1:* The local and indigenous populations with ownership rights or customary rights in the forest estate . . . must have sufficient authority to be able to preserve these rights unless they have voluntarily delegated them on the basis of prior informed consent.
- *Criterion 15.3:* Disputes with the local and indigenous populations or workers concerning ownership rights, forest rights, jobs or social facilities, must be adequately solved.
- *Criterion 15.4:* The local and indigenous populations must be given priority in respect of jobs in the business and shall be actively involved in the management of the forest.
- *Criterion 15.5:* Active contributions must be made to the development of the local physical infrastructure, social facilities and programmes for the local and indigenous populations on a scale corresponding to the extent of the forest exploitation system with the prior informed consent of the local and indigenous populations. The local physical infrastructure must not undermine the aim of sustainable forest management.
- *Criterion 15.6:* Workers and local and indigenous populations must be properly informed about sustainable forest management and the forest cultivation and exploitation system being applied.
- *Criterion 16.1:* Forest areas or objects with special socio-cultural values must be managed as protected objects.
- *Criterion 17.1:* The forest management measures and plantation forests to be planted must not have a negative impact on the rights, traditions and values of the local and indigenous populations and their access to forest products.

- *Criterion 17.2: Where the local and/or indigenous population's knowledge of forest management is used, or where the rights, traditions or values of local and indigenous populations or their access to forest products are adversely affected, they must be compensated on the basis of the prior informed consent of the people concerned.*

Other Member States, notably Denmark and the Netherlands, have interpreted the procurement Directives in a way that admits the inclusion of social aspects of sustainable forest management.

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Annex 1

CRITERIA FOR ASSESSING WHETHER CERTIFICATION SCHEME PROVIDE EVIDENCE OF SUSTAINABLE FOREST MANAGEMENT

1.2.1 Certification standards must be based on a widely accepted set of international principles and criteria defining sustainable or responsible forest management at the forest management unit level, such as:

- (i) Intergovernmental processes designed for use at FMU level;
- (ii) ITTO Criteria;
- (iii) FSC P&C.

1.2.2 The standard should be performance-based.

1.2.3 The standard must ensure that harm to ecosystems is minimised. In order to do this the standard should include requirements for:

- (i) appropriate assessment of impacts and planning to minimise impacts;
- (ii) protection of soil, water and biodiversity;
- (iii) controlled and appropriate use of chemicals and use of Integrated Pest Management wherever possible; and
- (iv) proper disposal of wastes to minimise any negative impacts.

1.2.4 The standard must ensure that productivity of the forest is maintained. In order to do this the standard should include requirements for:

- (i) management planning and implementation of management activities to avoid significant negative impacts on forest productivity;
- (ii) monitoring which is adequate to check compliance with all requirements, together with review and feedback into planning;
- (iii) operations and operational procedures which minimise impacts on the range of forest resources and services;
- (iv) adequate training of all personnel, both employees and contractors; and
- (v) harvest levels that do not exceed the long-term production capacity of the forest, based on adequate inventory and growth and yield data.

1.2.5 The standard must ensure that forest ecosystem health and vitality is maintained. In order to do this the standard should include requirements for:

- (i) management planning which aims to maintain or increase the health and vitality of forest ecosystems;
- (ii) management of natural processes, fires, pests and diseases; and
- (iii) adequate protection of the forest from unauthorised activities such as illegal logging, mining and encroachment.

1.2.6 The standard must ensure that biodiversity is maintained. In order to do this the standard should include requirements for:

- (i) implementation of safeguards to protect rare, threatened and endangered species;
- (ii) The conservation/set-aside of key ecosystems or habitats in their natural state; and
- (iii) the protection of features and species of outstanding or exceptional value.

APPENDIX FOUR

Memorandum submitted by Hewlett-Packard (HP)

1. EXECUTIVE SUMMARY

1.1 Hewlett-Packard (HP) is pleased to have the opportunity to make a submission to this inquiry and welcomes the Committee's Report as a timely look at the strategy behind a sustainable procurement policy for the UK public sector.

1.2 HP believes that environmentally sustainable development is not an option but an imperative. Environmental responsibility is an integral part of our offering, environmental considerations are built into our R&D process and our robust stance on this issue is a key differentiator in the marketplace.

1.3 As a result, HP welcomes significant customers like the public sector developing sustainable procurement guidelines which provide a financial incentive to develop products and practices with a lower environmental impact and provide market recognition for innovators such as HP.

1.4 HP has led the IT industry's work with governments and international bodies to develop workable environmental standards which can be used as the basis of sustainable procurement policies. It is important that the UK Government do not seek to "reinvent the wheel" when developing their preferred approach but instead seek to adopt best practice from these existing schemes.

1.5 There are numerous environmental labelling schemes in the global marketplace for IT products and for consumer products in general, such as Energy Star or Blue Angel. However, many of these schemes have different environmental criteria and measurement methodologies. This means that, in order to obtain accreditation from the different labels, the products of global companies such as HP have to go through rigorous testing procedures several times in order to meet the criteria for the differing national and regional standards. HP therefore supports the general harmonisation of the various labelling schemes for IT products, particularly in relation to the criteria and the testing methodologies.

1.6 The Government should continue to consult with industry when setting sustainable procurement criteria to ensure that the agreed standards are realistic, effective and workable.

For HP's key recommendations please see section 6.

2. INTRODUCTION

2.1 Hewlett-Packard (HP) is the world leader in personal computers, IT storage systems, and imaging and printing technology. HP believes that sustainable development is not an option, but an imperative. Across the company's global operations, HP works toward a sustainable future by developing programs that reduce its environmental footprint, as well as those of its customers and partners. HP's vision is to develop products and solutions, and operate the company in such a way, that it is able to lead global businesses toward a sustainable future.

2.2 Hewlett-Packard has been established in the UK for over 40 years and the HP UK business is now the largest division of HP outside of North America. HP has corporate functions located in London, Bracknell, Reading, and Warrington. The UK is also home to HP's largest R&D establishment outside of the United States, HP Labs in Bristol, which employs over 120 full time researchers. In Scotland, a key part of the company's European manufacturing operation is located in Erskine, Ayrshire. All together, HP employs around 10,000 people across the UK.

2.3 HP believes that environmentally sustainable development is not an option, but an imperative. In our operations across the globe we work towards a sustainable future by developing programmes that reduce our environmental footprint, as well as those of our customers and partners. HP's vision is to develop products and solutions, and operate the company in such a way, that it is able to lead global businesses toward a sustainable future.

2.4 HP has, for some time, been in discussions with both the Department for Environment, Food and Rural Affairs and the Environment Agency about potential criteria for sustainable procurement policies. Both of these organisations have shown particular interest in the IT ECO declaration programme which was set up by IT manufacturers in response to increasing interest from public bodies in the Nordic region about the environmental attributes of products. HP was instrumental in the development of the resulting programme which allows participating manufacturers to communicate environmental information in a set format whilst self-verifying the data (see section 4.1.2 for further information).

2.5 HP has also participated in the development and implementation of sustainable procurement guidelines by many of its major customers (including governments) across the globe. In the United States HP have recently worked with a range of environmental stakeholders including NGOs and the Environmental Protection Agency on the development of the Electronic Products Environmental Assessment Tool (EPEAT). The resulting programme will ultimately advise procurement officials about the environmental attributes of personal computing devices based on a "total cost of ownership" assessment (see paragraph 3.5 for more details).

3. HP'S APPROACH TO THE ENVIRONMENT AND SUSTAINABLE PROCUREMENT

3.1 HP sees environmental responsibility as an integral part of our product offering and so we are willing and able to differentiate ourselves in the market through our environmental responsibility programmes. HP developed its Design for Environment program over 10 years ago with the goal of reducing the environmental impact of products and services. In addition to meeting safety and regulatory requirements, our objective is to design products that use fewer materials, are more energy efficient, and are easier to recycle, while maximising overall value for our customers. Our Design for Environment Programme involves work with product designers, research and development teams and customers to identify, prioritise, and recommend environmental design innovations.

3.2 Over a decade ago, HP was a pioneer in developing a convenient and free method for customers to recycle our laser printer supplies. Today, this recycling program has expanded to include inkjet printer supplies, and is now available in each region throughout the world. The programme has taken back more than 80 million kilos of printer supplies over its 12 years of operation, but our recycling strategy is expanding rapidly so that by 2007 we aim to reach a total take back target of one billion pounds (around 500 million kilos), which will include over 300 million kilos of waste products as defined by the WEEE Directive.

3.3 Environmental considerations are also built into HP's R&D process, with Product Stewards appointed for each new product to ensure compliance with regulations, maximise energy efficiency, minimise material usage and maximise recyclability.

3.4 As a result of this approach, we welcome significant customers like the UK public sector developing sustainable procurement guidelines which provide an opportunity to gain market recognition of our investment in products and practices with a lower environmental impact.

3.5 While it is likely that products will have to meet a range of pre-qualification criteria (including environmental specifications), ultimately value for money principles will be a priority for procurement officials. It is therefore important that sustainable procurement guidelines are based on "total cost of ownership" measures in terms of costs, energy usage, reliability, recyclability at end of life etc rather than simple "headline" measures. Procurement decision-makers must be encouraged to prioritise long-term environmental and efficiency criteria ahead of the short-term financial gain. The current printer cartridge market illustrates this point. The low initial outlay and apparent environmental benefit of selecting remanufactured printer cartridges may be negated over the long-term when total cost of ownership, including reliability (specifically the amount of paper used during the life of the cartridge) and end of life disposal, is considered.

4. THE GOVERNMENT'S APPROACH TO SUSTAINABLE PROCUREMENT

4.1 HP has been involved in discussions with DEFRA regarding the Market Transformation Programme and more specifically the "Quick Wins" programme for some time. There are five key issues arising from these discussions that we would highlight to the Committee:

4.1.1 *Harmonisation*

- There are numerous environmental labelling schemes in the global marketplace for IT products and for consumer products in general, such as Energy Star or Blue Angel. However, many of these schemes have different environmental criteria and measurement methodologies.
- This means that, in order to obtain accreditation from the different labels, the products of global companies such as HP have to go through rigorous testing procedures several times in order to meet the criteria for the differing national and regional standards. HP therefore supports the general harmonisation of the various labelling schemes for IT products, particularly in relation to the criteria and the testing methodologies.
- Harmonisation has two immediate advantages:
 1. The development of a single harmonised set of criteria that are applicable to the products, measurable and comparable as well as being linked to international standards and recognised test methods, reduces the need for redundant testing and record management while increasing the efficiency of environmental information dissemination.
 2. The development of consistent international standards, incorporating best practice from existing systems will also reduce confusion for the purchasers who are interested in the environmental attributes of IT products.
- A prime example of this is the harmonisation of electrical safety codes over the last 15 years. Through the collaborative work of governments, standards bodies, industry and other stakeholders a global standard has emerged that is universally recognised and means the same thing for all applicable products around the world.
- An example of where the Government could benefit from a harmonised approach is in relation to DEFRA's proposed "Quick Win" targets for energy usage of IT equipment. Although DEFRA's development process is not yet complete (DEFRA are yet to consult with industry), at present

there is no agreed system for measuring energy usage during the operational phase of PCs and laptops. Under the proposed system of self-declaration each supplier would define their own measurement system making it difficult for procurement officials to compare products accurately. A harmonised standard would allow officials to compare “apples with apples”. While there is no generally agreed standard in existence yet, Energy Star is currently working on a methodology for measuring energy usage during the operational phases of PCs and laptops.

4.1.2 *Self-declaration*

- In response to increased interest in sustainable procurement in Nordic countries, an industrial consortium developed a self-declaration system by combining elements from numerous ecolabels along with frequently asked questions from customers. The resulting “IT ECO declaration” system is one of the most widely used product environmental information tool for electronics in Europe.
- Where a relevant standard exists, the IT ECO declaration programme includes a set of operating principles to ensure that each manufacturer measures in the same way and presents results in the same format. This ensures that purchasers of IT products can compare products on a like-for-like basis. The scheme also includes a spot check system to guarantee that all manufacturers accurately communicate environmental information.
- Self-declaration systems avoid the time to market delays and expense associated with third party testing. Manufacturers are held to the same verification requirements used in many ecolabel schemes and must provide verification data when requested by the customer. The system is self-policing and IT manufacturers are required to correct their submissions or leave the system when information has been found to be inaccurate.

4.1.3 *Data Output*

- The UK Government has proposed developing a database to store environmental information about IT products. If this were implemented it is recognised that HP would be requested to supply environmental information about products on a regular basis. To ensure efficiency and speed of delivery it is strongly suggested that an automatic electronic system be designed. This would offer greater efficiency, for both HP and the Government, over a paper based system. The use of an automated electronic system eliminates the need for manual handling of information and the associated potential for inaccuracies and errors during data transfers.
- The establishment of such systems has already been attempted in other EU Member States where the critical success factor has been the ability to update the database with information about new products that enter the market at high speed, such as personal computers for home use. If the Government is to develop such a system, it is suggested that existing database, such as that of EPA Energy Star compliant products, are not duplicated, but incorporated into the new system.

4.1.4 *Recognition of voluntary initiatives*

- HP is involved in a number of voluntary initiatives to encourage the dissemination of environmental information. For example, HP is involved in a multi-organisation programme to develop a green procurement tool. The US EPA Electronic Products Environmental Assessment Tool Project (EPEAT) will be designed to help purchasers buy IT products with their environmental attributes in mind.
- HP is also involved in the Material Declaration Guideline project, a multi-organisation project to develop a material content communication standard for communicating material content data about IT products.
- Both these initiatives are examples of voluntary initiatives which the Government should consider recognising during the development and operation of their sustainable procurement programme.

4.1.5 *Dialogue with manufacturers*

- HP believes that dialogue with IT manufacturers is essential to ensure that the Government’s sustainable procurement programme has realistic goals and expectations.
- Dialogue with manufacturers will provide the Government with a clearer picture of what is happening in the market place. For example, the Government (through the Market Transformation Programme) is investigating the possibility of setting environmental specifications for IT products three or four years ahead of time. This is an attempt to provide IT manufacturers with three or four years to develop products which meet the future environmental specifications. In particular, Government and industry must work in partnership to ensure that the environmental specifications set are realistic and achievable in order to protect competition, choice and value for money in public body tenders.

-
- HP believes that a formalised structure should be developed which ensures accurate and timely industry input into the Government's sustainable procurement programme and will volunteer to help with this effort.

5. THE GOVERNMENT'S APPROACH TO SUSTAINABLE PROCUREMENT

5.1 In its press release relating to this inquiry, the Committee set out three key sets of questions. While HP cannot answer all of these questions, we would summarise our response as follows:

5.2 There is a clear overall sustainable procurement strategy within government with clear lines of responsibility. However, implementation of the strategy is not consistent across government departments. Local authorities have separate advice and guidelines from bodies such as the Improvement and Development Agency.

5.3 A more joined up approach across the public sector would be helpful for suppliers to understand and adhere to and would also have a greater impact on the market as the full weight of the public sector's buying power could change practices in the industry.

5.4 The EU's regulations on public procurement leave considerable scope for environmental considerations to be taken into account in purchasing decisions. However, the utilisation of this scope varies from department to department. For example, in our experience the Environment Agency makes considerable use of the scope for balancing value for money considerations with environmental considerations.

5.5 The Government's public sector efficiency drive, as set out in the Gershon Review, can utilise some elements of sustainable procurement policy. For example, government departments, as part of their implementation of the efficiency measures should look to the total cost of ownership over the lifetime of ICT equipment, rather than simply the cheapest purchase price. This approach means that more energy efficient products, which may have a more expensive list price, can be seen to cost less as they use less energy. This creates both an environmental win and an efficiency win, as lower energy costs will offset a higher purchase price.

5.6 As stated above, a more centralised approach to purchasing ICT products and services, as advocated by the Gershon Review, can allow the public sector to make the most of its purchasing power and provide the market with a clear economic incentive to create more energy efficient and environmentally friendly products.

6. RECOMMENDATIONS

6.1 The UK should take the best practice from other countries and encourage a degree of harmonisation of standards across Europe and beyond (particularly in relation to criteria and testing methodologies) in order to make it easier for producers to make and supply products which meet sustainable procurement guidelines.

6.2 Industry-led self-declaration systems, such as the IT ECO declaration, tend to be more workable than externally imposed standards, which risk being arbitrary and unfairly benefit one supplier over another. HP would therefore encourage the Government to build upon existing systems of self-declaration and continue to consult with industry to ensure that sustainable procurement criteria are realistic, effective and workable.

6.3 For reasons of efficiency and speed, HP encourages the UK Government to implement an automatic, electronic system for the collection and storage of environmental information about IT products, where appropriate incorporating existing database.

7 February 2005

APPENDIX FIVE

Memorandum submitted by Jane Griffiths MP

Please find enclosed with this letter a submission for the Environmental Audit Committee's investigation regarding the Government's procurement policy and climate change. Rather than give examples across the range of Government procurement I have focused in on one particular area. The detail in my response comes from answers supplied to Parliamentary Questions and other publicly available information. They show that as far as coolants and refrigerant for air conditioning are concerned the Government has not only failed to follow its own procurement policy, it has purchasing guidance amongst departments which specify the procurement of items which run contrary to both their own procurement and climate change policies.

In the last couple of years I have been trying to do something about this, I have raised the matter through questions, EDMs and an adjournment debate. I have had a meeting with the Science and the Environment Ministers but as you see from the evidence the procurement of air conditioning and coolants with HFC continues.

CLIMATE CHANGE AND UK GOVERNMENT PROCUREMENT

The importance of the climate change issue: UK political commitments

The UK Government's Chief Scientific Adviser, Professor Sir David King, recently stated, "In my view, climate change is the most severe problem that we are facing today, more serious even than the threat of terrorism." (*Science*, 9 January 2004). The study "Abrupt Climate Change" (2003), produced by Global Business Network for the US Defense Department, states that climate change "should be elevated beyond a scientific debate to a US national security concern", with catastrophic climate change—involving flooding, drought, famine, civil disorder and international conflict—as being "plausible" and challenging "US national security in ways that should be considered immediately".

The UK Climate Change Programme 2000 stated: "HFCs are not sustainable in the long term". The Deputy Prime Minister confirmed "a clear signal to industry that HFCs have no long-term future" (9 March 2000). Caroline Spelman MP, then Shadow Environment Secretary, said, "The decision to replace CFCs with HFCs was a dirty deal . . . HFCs are a major contributor to the greenhouse effect" (EU Standing Committee A, 14 January 2004, col 16). Sue Doughty MP, Liberal-Democrat Environment spokesperson said: "The Government seem to have watered down their proposals . . . We need much greater ambition . . . in the end, we just say 'we will make it less bad'. I would like fluorines to be phased out much faster" (bc cit, cols 7 and 18).

The Prime Minister stated on 14 September 2004: "What is now plain is that the emission of greenhouse gases, associated with industrialisation and strong economic growth . . . is causing global warming at a rate that began as significant, has become alarming and is simply unsustainable in the long-term . . . By unsustainable . . . I mean a challenge so far-reaching in its impact and irreversible in its destructive power, that it alters radically human existence . . . Its likely effect will not be felt to its full extent until after the time for the political decisions that need to be taken has passed" Among several pieces of evidence, Mr Blair cited: "Swiss Re, the world's second largest insurer, has estimated that the economic costs of global warming could double to \$150 billion each year in the next 10 years, hitting insurers with \$30–40 billion in claims." As a clear indication of further ambition on this issue, he added: "We have to recognise that the commitments reflected in the Kyoto protocol and current EU policies are insufficient, uncomfortable as that may be."

While Mr Blair did not refer to HFCs as such, the Leader of the Opposition, Rt Hon Michael Howard MP, was very specific: "We must be more active in removing the causes of harmful emissions where we are able to. I can announce today that the Conservatives are committed to phasing out the use of hydrofluorocarbons, or HFCs, between 2008 and 2014 . . . HFCs currently account for 2% of the UK's greenhouse gas emissions and that will have doubled by the end of the first decade of the 21st century. Unless . . . the Government gives a clear lead, then the situation will only worsen." (13 September 2004)

Background

Fluorinated GHGs, including HFCs, are used in refrigeration and air-conditioning, including vehicle air-conditioning, foam blowing, solvents, aerosols and other products. These largely replaced chlorofluorocarbons (CFCs), banned under the 1987 Montreal Protocol because of their potential to damage the ozone layer. While HFCs do not damage the ozone layer, they have a powerful GWP. The most common, HFC-134a, is 1,300 times worse than CO₂. HFCs are among the gases which the Kyoto Protocol commits the EU to reducing by 8% overall by 2008–12 compared to 1990. While CO₂, methane and N₂O levels are steady or rising slightly in Europe, HFC emissions are growing very fast— between 2000 and 2010 these may at least double, to represent a third of the UK's commitment under Kyoto.

Meeting Kyoto Targets: HFCs and CO₂

HFCs currently account for 2% of EU's greenhouse gas emissions, compared with CO₂'s 80%, but their usage is rising rapidly—particularly with the increased demand for air-conditioning of vehicles and buildings. The HFC industry itself forecasts that HFC production in 2007 will be three times greater than it was in 2001. The 2004 Budget Report stated (para 7.8 and chart 7.1) that UK CO₂ emissions are down only by 8.7% since 1990, and running level or slightly increasing since 1997, well above the Kyoto target for 2010. The International Energy Agency warned on 2 March that, "Energy savings rates across all sectors and in almost all countries have slowed since the late 1980s, as has the decline in CO₂ emissions relative to GDP". Without action on HFCs there will have to be further reductions in transport and energy emissions (both currently growing fast). Such measures may carry economic costs and distortions and, in view of their unpopularity, will test the political will of EU Governments.

Refrigeration procurement: the Government record

Evidence of the UK Government's disappointing implementation of its environmental commitments is manifested by various recent procurement decisions which, despite specific commitments, use HFCs. Beverley Hughes MP, as Parliamentary Under-Secretary of State for DETR, stated, "Our policy is to switch, where possible, from hydrofluorocarbons (HFCs) . . . to environmentally-preferable substitutes" (WA 9 March 2001), thus reiterating the statement in "Climate Change—The UK Programme" (November 2000) that "HFCs should only be used where other safe, technically feasible, cost effective and more environmentally acceptable alternatives do not exist".

HFCs have been used in the following: refurbishment of No 10 Downing Street, the new GCHQ at Cheltenham, the MoD Whitehall complex and RAF High Wycombe, Great George Street Treasury Building, the new Home Office at Marsham Street, a building leased by DEFRA in Temple Quay Bristol, and the DFID office, 20 Victoria Street. More recent failings include: the HSE new building in Bootle; MOD Admiralty Arch, London; Romford Hospital PFI project; British Cattle Market Service, Workington (part of DEFRA); Windsor Library, Imperial College; University of London Tanaka and HQ buildings; and Liverpool University Surface Science Building. *The Observer* reported the Meteorological Office's new £150 million headquarters in Exeter has installed an HFC air-conditioning system (26 September 2004).

The story is not all bad the new air conditioning for the IMO building on the Albert Embankment and the new air conditioning for the QEII Centre were both non-HFC installations.

In an adjournment debate in 2002 I said, "The Foreign and Commonwealth Office . . . asked about the coolant for the new Government communications headquarters building . . . said that the building will use the refrigerant HFC134A . . . HFC 134A was responsible for 2.61 million tonnes of greenhouse gas emissions in 2000. That is not quite the Government climate change policy of not using HFC unless there is no choice . . . The Secretary of State for Health provided me with a list of 77 building projects currently under way . . . The Department did say that [the] NHS Model Engineering Specification . . . advises that HFC 134A or 407C and its associate blends are used. That is even further from the climate change policy . . . The Lord Chancellor's Department . . . has a number [of building projects] in the planning stage and . . . [takes] no consideration of climate change impact. Disappointingly, the Government are not doing very well in implementing their own climate change policies," (*Hansard*, 24 May 2002, cols 570–1).

19 January 2005

APPENDIX SIX

Memorandum submitted by Metropolitan Borough of Wirral

1. INTRODUCTION

1.1 Wirral is a peninsula of 60.35 square miles on the North West coast of England, bounded by the Cheshire Plain, the Dee Estuary, the River Mersey and the Irish Sea. The Metropolitan Borough of Wirral was formed in 1974, following the reorganisation of local government by the amalgamation of the County Boroughs of Birkenhead and Wallasey, the Borough of Bebington and the Urban Districts of Hoylake and Wirral.

1.2 It is a very large, complex organisation with some 13,000 employees (including teachers) to provide a comprehensive range of services to Wirral residents. It is by far the largest single employer in the area.

1.3 Wirral is the ninth largest metropolitan district in the country, the third largest in the north west of England. It comprises 25% of the Merseyside area. The other four local authorities which make up Merseyside are Liverpool City Council, St Helens Metropolitan Borough Council, Knowsley Metropolitan Borough Council and Sefton Metropolitan Borough Council.

1.4 The Authority has an annual budget of £336 million and is responsible for the management of the Merseyside Pension Fund presently totalling some £3 billion.

1.5 The Corporate Procurement Support Unit (CPSU) was created in October 2003 to manage the Council's £160 million spend on its products and services. The Procurement Strategy was approved by Cabinet in December 2003. To achieve the objective that "all major procurement will recognise the impact on the social, economic and environmental wellbeing within the Borough" and in concert with the National Procurement Strategy, the CPSU have produced a Sustainable Procurement Policy which was approved in December 2004. This policy provides guidance for staff to "green" their purchases to support our Environmental Management System and national environmental objectives.

2. THE METROPOLITAN BOROUGH OF WIRRAL RESPONSE TO THE INQUIRY

2.1 The Inquiry outlines a number of key issues to which it requests evidence. Each point is stated below separately giving the original question and the response.

2.2 Is there a clear overall strategy within Government for implementing a sustainable procurement policy?

2.2.1 The National Procurement Strategy suggests “Every Council should build sustainability into its procurement strategy, processes and contracts”. It does not prescribe how this should be incorporated or to what extent.

2.3 How coherent and effective is the guidance made available to departments, non-departmental bodies and local authorities on this issue?

2.3.1 Guidance in this area comes from a variety of sources.

2.3.2 The Local Government Task Force (LGTf) gives advice about incorporating sustainability into construction.

2.3.3 The Improvement and Development Agency (IDeA) have produced a comprehensive document on “Sustainability and Local Government Procurement”. This outlines how local authorities can implement a sustainable procurement policy. It suggests a risk-based approach, focusing on specific categories of spend.

2.3.4 The Department for the Environment and Rural Affairs (DEFRA) and the Office of Government Commerce (OGC) have produced guidance in response to the requirement in November 2003 for all central government departments to set “minimum environmental standards”. This guidance outlines a number of “quick wins” based on products common to government departments and gives the specification for the minimum environmental target.

2.3.5 The National e-Procurement Project has also produced guidance on a Legal Framework for sustainability of the local economy. This does provide useful guidance and real examples where sustainability has been incorporated into contracts.

2.4 Are the roles and responsibilities for dealing with sustainable procurement clear?

2.4.1 IDeA suggest leadership by members and senior managers and implementation of the policy led by the Head of Procurement. Chief Officers who undertake procurement activity, particularly in the area of construction also have a significant role to play in developing specification. Chief Finance Officers also have a responsibility to encourage the consideration of whole life costs when allocating budgets.

2.4.2 I would also suggest that the Environmental Manager and/or LA21 officer have a role to play in ensuring that procurement activity compliments environmental policy and the community plan.

2.5 What scope do EU Regulations allow for environmental considerations to be included in public purchasing policy?

2.5.1 IDeA guidance advises procurement staff to incorporate environmental issues at the specification stage. This allows the tender to be evaluated according to compliance with specification (amongst other criteria). This satisfies EC public procurement rules. Environmental criteria can be used as award criteria but the Procurement Officer must ensure it is relevant to the contract and objective or they could leave themselves open to challenge. There is still uncertainty regarding the extent or weighting that can be given to environmental criteria and also surrounding the use of ecolables (for example in specifying Forest Stewardship Council (FSC) timber, we must state “or equivalent” and consider all responses claiming “sustainable forest source” equally, even though some sources cannot be substantiated as “fully sustainable”).

2.5.2 The Commission of the European Communities has produced a Commission Interpretative Communication on the Community Law applicable to public procurement and the possibilities for integrating environmental considerations into public procurement. This provides guidance for procurement personnel on formulating specifications, the use of ecolables, specifying production process, prescribing primary materials and consideration of whole life costs.

2.5.3 It is left to the contracting authority to find a balance between financial considerations and “greening” their purchases. The Commission recommends requesting variants (with perhaps a higher environmental performance) to allow consideration of “green” products where additional cost is outweighed by the environmental benefit. This can often prove difficult for procurement staff to implement without a set policy by either the Local Authority or the Government due to the delegated nature of budgetary control.

2.6 To what extent does the UK Government's public procurement policy fully exploit this scope?

2.6.1 The National Procurement Strategy outlines strategic objectives for “Stimulating markets and achieving community benefits” advising councils to “use procurement to help deliver corporate objectives including the economic, social and environmental objectives set out in the community plan”. This includes a target to “build sustainability into the procurement strategy, processes and contracts”.

2.6.2 The advice given on “how” to achieve these community benefits is limited to a few lines on whole life costing and risk based strategies to include environmental requirements in the specification. However, it does refer the procurement officer to the IDeA for further guidance in Annex D.

2.7 How are the public sector efficiency proposals in the Gershon Review likely to impact on the implementation of a sustainable procurement policy within both central and local Government?

2.7.1 The Gershon Review defines efficiency in terms of reducing the number of inputs, creating additional outputs and enhancing the quality of service. The emphasis on “lower prices for resources” has concerning implications for procurement staff who recognise the need to account for whole life-cycle costs, not just the lowest purchase price. The Review sets out savings over a relatively short three years, putting pressure on procurement staff to realise savings over the short term, rather than looking at more long term, sustainable options.

2.7.2 Gershon also suggests “aggregating Public Sector demand in a strategic way with the supply sector, thereby enabling the supply side better to anticipate and plan for shifts in the public sector demand”. Concerns were raised during the initial consultation that encouraging aggregation and the use of consortia could be contradictory to the strategic objective of “using procurement to help deliver corporate objectives including the economic, social and environmental objectives set out in the community plan” as outlined by the National Procurement Strategy. Through aggregation of demand and the creation of large regional “super contracts”, we could be excluding local SME’s and the voluntary sector, although the Centres of Procurement Excellence have a Local Economies workstream whereby Local Authorities can meet, discuss and implement policies that balance objectives that on first sight can appear contradictory.

2.7.3 Sustainability involves environmental, social and economic factors over the long term. It may be necessary for Local Authorities to put measures in place, where savings may not be fully realised in the short term, therefore not conducive to the drive for short term savings as emphasised by Gershon (the example of the energy efficient light bulb having a higher initial price but lower running costs over a longer life cycle illustrates this point).

2.8 How might the inclusion of environmental specification in the procurement process be affected?

2.8.1 Inclusion of environmental specification (for the raw material, product performance or manufacturing method) in the procurement process can lead to a more costly initial purchase price. This cost can usually be outweighed by environmental, social or economic benefit, however, this is difficult to allocate a “cash” saving to. Often, an environmentally friendly product would have greatly reduced disposal costs if the product components can be recycled or, as in the example above, the running costs are reduced through energy efficiency.

2.9 Is the Office of Government Commerce's £3 billion cost-saving target likely to have a detrimental impact on environmental considerations?

2.9.1 The pressure to realise significant savings in the short term could be detrimental to the aim of long term sustainability as the focus for the Procurement Officer is lowest initial or short term cost. The Government have indicated their commitment to sustainability and set targets in place to improve environmental performance of public sector purchases (for example, recycled copier paper and carbon emissions on vehicles). However, without mandatory levels of minimum environmental specifications (currently only “recommended” environmental specification in the quick wins list compiled by the OGC), Procurement Officers will be more concerned with lower cost, shorter term options to achieve Gershon's efficiencies.

7 February 2005

APPENDIX SEVEN

Memorandum submitted by the Sustainable Development Commission

1. The Sustainable Development Commission (SDC) is the Government's independent advisory body on sustainable development reporting directly to the Prime Minister and the First Ministers of the Devolved Administrations. The SDC's mission is to inspire government, the economy and society to embrace sustainable development as the central organising principle.

2. Through our work with public bodies—national, regional and local—we have been made aware of a range of challenges and opportunities for sustainable procurement. Sustainable procurement issues touch on all virtually all aspects of our various work programmes, for example:

- our Healthy Futures work programme has been engaged in procurement issues in the NHS, particularly on food and capital spending;
- through our food work programme we sit on the Public Sector Food Procurement Implementation Group; and
- through our “inside-track” involvement in the development of the new UK Sustainable Development (SD) Strategy, we have been engaged with a number of key stakeholders in an effort to push forward the sustainable procurement agenda.

3. The SDC held a workshop on Sustainable Public Procurement at HM Treasury on 13 December 2004. The workshop attendees were from a range of backgrounds including OGC, HM Treasury, Local Government and procurement practitioners. A full report of this seminar is attached as Annex 1. The purpose of the afternoon was to explore the challenges and opportunities for embedding sustainable procurement practices at both national and local levels. The workshop aimed to address the following questions:

- What are the gaps in the business case for sustainable procurement?
- What are the key institutional barriers to sustainable procurement?
- What capacity building would be most useful on sustainable procurement, and for whom?
- What is the impact of efficiency drives on LA procurement?

4. This SDC workshop at HMT, and subsequent meetings with Defra, HMT and OGC have highlighted the key barriers to progress on sustainable public procurement.

CLARITY

5. Sustainable development is a broad and complex issue for procurers to understand. A strategic approach is required, and buyers and contract specifiers need clear guidance on what sustainable procurement entails, and what the priorities are. To date the focus has tended to be on environmental aspects and less attention has been paid to promoting and encouraging the use of social clauses within service contracts, for example to promote and advance the uptake of local skills training and jobs within regeneration areas. We believe the OGC could be far more directional and assertive in promoting what can be achieved through these approaches that makes the links to the long-term well-being of communities, and key objectives defined within Community Strategies.

DEVOLVED DECISION-MAKING

6. There are around 35,000 points of procurement in England, which are hugely diverse in their knowledge of and interest in sustainability.

LEADERSHIP

7. At the SDC workshop lack of leadership was the most frequently identified barrier to achieving sustainable public procurement. This lack of leadership is found at all levels of government. Keen interest at the senior management level will encourage practitioners to procure sustainably, as they will be delivering on the key objectives. We are hoping therefore that there will be a serious commitment in the new UK Strategy to improving sustainable procurement practice across the public sector and that this will be initiated through departmental SD action plans, applied to agencies, the central bodies, and extended to local authorities.

EVALUATION

8. Delivery of SD principles is not part of the evaluation process at Departmental and LA level. Value For Money enquiries by the Audit Commission and the National Audit Office (NAO) do not look at long-term sustainability. Evaluation by bodies such as the NAO, Audit Commission (AC), and the Healthcare Commission (HC), should embed sustainable procurement approaches, especially whole life costing and creative approaches to best value, into their performance assessment tools (such as the AC's Comprehensive Performance Assessment or the HC's Assessment for Improvement) and be linked with relevant indicators.

CAPITAL SPEND VERSUS RUNNING COST SAVINGS

9. One of the big barriers to sustainable procurement is that capital cost is spent one year, but running cost savings are seen for several years, depending on the product. This makes accounting difficult as HM Treasury public sector accounting rules preclude a Department gaining any real benefits from the ongoing revenue savings. This is why there is a clear need for an "Invest to Save" initiative across the public sector. Such an initiative has already been started by the Carbon Trust to enable major local authorities to benefit from such a scheme. It is working very successfully and should be examined to see how it could be replicated elsewhere.

10. If such a scheme is developed it would enable incentives to be put in place to credit procurers with making sustainable investments, if this was thought necessary.

EDUCATION AND TRAINING

11. Sustainable Development is a wide and complex issue and there is concern that there is a lack of technical knowledge and know-how at lower levels of procurement practitioners, which is hampering efforts to improve procurement. Although a broad interpretation of SD is useful for politicians, procurement practitioners are often confused about which SD policies should be prioritised. They can also feel confused by numerous, and sometimes contradictory, policy initiatives coming from departments.

12. To address the lack of technical knowledge and know-how amongst procurement teams, specifiers, and buyers, and among many other professionals within organisations who have client commissioning roles, SD guidance should be embedded in public sector training programmes. These should be designed also with Local Strategic Partnerships in mind. This should facilitate more collaborative purchasing across the public sector—for example LAs with Primary Care Trusts—and advance opportunities for partnering to "grow the market" and develop a mixed economy.

OGC AND DEPARTMENTS

13. The OGC currently has no "customer focus"—its role covers purely legal and process issues, whilst the range of sustainability policies relevant to procurement come directly from Departments (timber, energy efficiency, racial equality, fair-trade, etc). This diversity of policy sources contributes to the perception of large numbers of conflicting policies. This problem is exacerbated by the fact there is still no centralised advice service for all public sector professionals involved in procurement.

14. Therefore the SDC is offering to work with OGC to ensure that procurers know what to do and where to obtain further advice beyond the simplified guidance. We believe OGC's remit should be expanded to include an in-house advice service on sustainable procurement, creating a one-stop shop for procurement professionals. This centralised advice and particularly, technical "know-how" service would, at the same time, make it easier for Government to prioritise particular issues.

GOOD PRACTICE

15. Despite the problems outlined above there are already many good examples of sustainable procurement across the public sector, including in PFI contracts. Defra, for example, collects good practice food procurement case studies on its Public Sector Food Procurement Initiative web pages.³ Good practice examples and case studies should be collated and published on a central sustainable procurement website as a complementary tool to the centralised advice service.

³ <http://www.defra.gov.uk/farm/sustain/procurement/casestudies/index.htm>.

REGIONS

16. Regional government machinery should recognise that sustainable procurement is a route to small business development, to local enterprise creation and to skills training. These should be part of a duty on the regional approach to SD.

17. There should be a much clearer role for the Regional Centres of Excellence to be beacons of sustainable procurement best practice. To this effect, each Centre should have a duty to promote and advance sustainable procurement, supported by an explicit 17 requirement that each Centre of Excellence should consider sustainable procurement within their terms of reference and that this should be evidenced within their evolving business plans.

18. We understand that OGC have informally assigned the North-West's Centre as the key procurement champion for sustainable development issues to help lead and disseminate good practice to all the other centres. We would like OGC to clarify these plans. Ideally, each and every Centre could lead, and act as innovative best practice models, on specific SD themes, while at the same time embedding overall sustainability requirements throughout their activity and advice on procurement practice.

19. It is unclear at present how LAs will be supported in achieving sustainable procurement objectives. To this end, Regional Centres of Excellence should have a key role in providing support and advice to LAs to ensure Gershon efficiency initiatives are compatible with SD (see below).

THE GERSHON REVIEW

20. There is concern that the focus on efficiency savings as initiated by the Gershon review is stifling decision-making and innovation by procurement practitioners to support the principles of SD. The Gershon efficiency drive appears to simplify buyers' decisions, making the sustainable development agenda even less attractive.

21. Gershon and SD are not necessarily incompatible, although they are often perceived that way. As a result, the Gershon efficiency drive needs to be carefully managed and monitored—with Whole Life Costing an important element—to ensure that SD is not the loser.

22. Concern over how Gershon is interpreted runs to Ministerial level. It is worth noting Lord Whitty's comments in his letter of December to LAs and LEAs inviting delegates to the regional training workshops:⁴

"I should also be grateful if you would arrange for the message on the Gershon Efficiency Review at Appendix B from Martin Sykes—OGC's Executive Director of the Supplier and Government Marketplace—to be disseminated among your authority's procurement officers. He states that efficiency does not signal a return to mindless aggregation and lowest price as the basis for decision-making and that buyers need to harness public sector spending power to support delivery of sustainability objectives.

He continues . . . "Of particular concern is evidence that some public sector bodies are implementing the Review by cutting the cost of their procurement without properly weighing up the affect on other operations within their organisations from the public sector as a whole. For example, cutting budgets for the procurement of food and catering where this results in the provision of less healthy and nutritious food can result in more spending by the NHS on obesity and heart disease etc. That's not realising long-term benefits."

23. Best practice examples must therefore be focused on illustrating how to squeeze out costs without ignoring SD initiatives. In this drive for rationalisation of the supply chain to achieve greater efficiencies, many Local Authorities, who already source from the same big suppliers for equipment and services such as IT, could achieve greater economies of scale through greater cooperation on some areas of procurement. Significantly, this can easily be done without damage to the SME sector; ODPM's NAPP project provided compelling evidence that clearly demonstrated the high vulnerability that many of SMEs face from supply chain rationalisation.

NATIONAL PROCUREMENT STRATEGY (NPS) FOR LOCAL AUTHORITIES

24. The NPS contains a whole series of milestones to be achieved (first set by 2004). One is the expectation that "all LAs should have embedded sustainability into their procurement practices by 2004".

25. Our belief is that some of the more basic milestones have not yet been achieved, such as, "every council should publish a selling to the council guide" . . . We recommend the need for a thorough audit of the NPS milestones. The key milestones should be factored into Comprehensive Performance Assessment particularly to the "Use of Resources" lines of enquiry linked to Value for Money.

⁴ <http://www.defra.gov.uk/farm/sustain/procurement/pdf/whitty-laletter.pdf>.

SPECIFICATION

26. There is a need for procurement specifications to take account of the long-term SD view so that they encourage sustainable solutions. At the same time, it is important not to over-specify so that innovation is stifled.

E-PROCUREMENT

27. The internet provides many opportunities for improving procurement. One suggestion is to create some sort of public sector “e-bay” website of equipment such as office equipment, IT, etc which would make it quicker and easier for procurers to source second hand goods. A potential model is “eDisposals”, the website (www.edisposals.com) of the Disposals Services Agency which seeks markets for used British defence equipment.

28. In Wales, the Welsh Development Agency and the Welsh Assembly Government have developed an initiative called Sell2Wales which aims to help small and medium companies work successfully with public sector clients. The website provides a central point for public sector organisations to advertise tender contracts. Businesses register online and then receive personalised emails introducing them to opportunities that match their profile. This is an interesting initiative, and depending on its success, might be relevant for replication elsewhere.

29. Increases in e-procurement need to be accompanied by effective support and development for SMEs to “e-enable” them. Unless specific up-skilling can be provided, eg IT development courses to improve their awareness of opportunities and accessibility to bid for contracts, SMEs will be seriously disadvantaged by e-procurement advancements. “E-enabling” should be a priority at all levels of government.

Annex A

Sustainable Development Commission/HM Treasury Workshop on Sustainable Public Procurement—a £110 billion nirvana?

WORKSHOP NOTES

CONTEXT AND PURPOSE

This is a summary of the SDC workshop held on Sustainable Public Procurement on 13 December 2004. Chatham House rules applied to the discussion sessions. The workshop agenda (Appendix A) [not printed] and the attendees list (Appendix B) [not printed] can be found at the end of this paper.

The purpose of the afternoon was to explore the challenges and opportunities for embedding sustainable procurement practices at both national and local levels. The key questions posed were:

- What are the gaps in the business case for sustainable procurement?
- What are the key institutional barriers to sustainable procurement?
- What capacity building would be most useful on sustainable procurement, and for whom?
- What is the impact of efficiency drives on LA procurement?

PRESENTATIONS

Rebecca Lawrence from the EFRA Team in HM Treasury welcomed the participants. The opening session was chaired Professor Tim Jackson from the Sustainable Development Commission (SDC). Presentations were delivered on four key topics:

1. *Public procurement and SD—Why does it matter?*

Professor Tim Jackson, SDC Economics Chair

Professor Tim Jackson defined sustainable procurement as buying products and services that bring long-term benefits for the three key areas of sustainable development (SD):

1. Economic (such as sourcing from the SME sector and supporting local economies).
2. Social (job creation, promoting equality and health).
3. Environmental (minimising resource usage—for example energy and water efficiency).

With the annual spend on public procurement up to £140 billion, the potential for market transformation is huge if public money is channelled to better support more sustainable products, services and solutions. Sustainable procurement has considerable implications for the future of the UK economy, building up innovation and knowledge to achieve global leadership in sustainability.

He noted that for this goal to become a political reality there remain many obstacles, but that the development of the Government's new SD Strategy gave the opportunity to explore solutions and get cross government commitment to the issue. The two areas that need most work are:

- Influencing and educating public buyers so that purchasing decisions are more supportive of sustainable development.
- Ensuring the Gershon efficiency drive does not negatively impact on sustainable procurement initiatives.

2. *OGC Buying—the constraints and challenges*

Dr Clare Poulter, Deputy Chief Executive, OGCBuying.solutions
Powerpoint presentation (not attached).

3. *Procurement in Practice—a Home Office perspective*

Dave Dorrington, NASS VS Contract Manager, Home Office
Powerpoint presentation (not attached).

4. *Impact of Efficiency Drives on LA Procurement*

Nicol Thornton, Assistant Procurement Director, Suffolk CC

Two years ago, Suffolk CC examined their procurement practices taking into account sustainability issues. Problem:

1. People think that sustainable development means environmental issues only, but the issues run much wider, such as supporting Suffolk SMEs.
2. Gershon Review: has led to eyes being taken off the sustainability ball. It is too early to tell what effect this will have. There is concern that this will be interpreted as needing to buy things cheaper, but which may lead to greater resource use (less efficient over the lifetime).

There are three large areas of concern:

- Social care.
- Construction costs.
- Transport.

Nicol concluded that the impact of efficiency drives on LA sustainable procurement presents a “greyish” picture.

BREAK-OUT DISCUSSION

The workshop worked in five small groups, each of which answered and reported back on one of the following three questions:

1. *What are the gaps in the business case for sustainable procurement?*

1 (a) What buzzwords/simple phrases explain “what is the business case for sustainable procurement”?

Whole-life costing/Market leader/Quality of life/UK Plc success—regeneration/Good Corporate Citizenship: image, social development, community leadership/Environmentally sound/Minimise and avoid risk/Political imperative/Challenge the need to procure.

1 (b) What are the key gaps in the business case?

- Lack of “carrots and sticks” (CPA, targets, priorities).
- Perverse disincentives (cheap utilities; “short-termism”; annual budget straightjackets; PFI—build cheap, run expensive).
- Lack of expertise/knowledge (even on simple things like purchase “low-waste” products).
- SD is too big—where do you start?
- Culture of risk aversion.
- Lack of sign-up from leadership of organisations (linked to first two bullets).

2. *What are the key institutional barriers to sustainable procurement?*

- 2 (a) Come up with buzzwords/simple phrases on what you think are the barriers:
- Devolved decision-making and responsibilities.
 - Procurement is not integrated/owned across organisation—and not top of agenda: regarded as “someone else’s problem”.
 - Lack of leadership, both organisational and political.
 - Scale and complexity—difficult to know what the priorities are. At present, there are conflicting messages and initiatives—policy not sufficiently clear.
 - Seeking short term benefits—Whole Life Costing not used (and there is a lack of knowledge on how to use it).
 - Lack of understanding of issues by front line procurers/users/specifiers.
 - Not sufficient encouragement for suppliers to innovate—traditional/historic procurement process—does not encourage thinking “outside the box”.
 - Incentive systems (through definitions and measurability).
 - Resource infrastructure eg recycling.
 - Specifications—optimum use procurement of process/stages.
 - Failure to learn from good practice.
- 2 (b) What are the key barriers (answered by two groups)?
1. Lack of accountability and ownership at all levels, not just procurement practitioners.
 2. Short-termism—objectives, goals, targets.
 3. Lack of leadership and clear policy (nationally and locally)—lack of “thinking outside the box”:
 1. lack of leadership;
 2. lack of definition and measurements;
 3. lack of incentive systems (sticks and carrots); and
 4. lack of learning from the field.

3. *What capacity-building (guidance, hand-holding, advice, etc) would be most useful on sustainable procurement and for whom?*

- 3 (a) Give examples of what capacity-building already exists:
- ENV (G)—Ministers should push agenda at a higher level.
 - Sustainable Procurement Group—‘Quick Wins’.
 - Defra/OGC “Joint Note on Environmental Issues in Purchasing”.
 - EC interpretative documents (and green handbook).
 - “Sustainable Development In Government” website.⁵
 - OGC/HO guidance on voluntary sector—“Think smart . . . think voluntary sector”.
 - Chapter 22 of Government Accounting.
 - Guidance on PFI (OGC/HMT) eg “A step-by-step guide to the PFI procurement process”.
 - Public Sector Food Procurement Initiative (Defra).⁶
 - Central Point of Expertise on Timber (Defra).
 - Waste Resources and Action Programme (WRAP) guidance.
 - Improvement and Development Agency (IdeA) guidance.
 - National Procurement Strategy for Local Government (ODPM).⁷
 - Carbon Trust/Energy Savings Trust support.
 - NHS PASA.
 - The Chartered Institute of Purchasing and Supply.
 - Haringey Borough Council—“Trade Local”.
 - Groundwork—NHS Suppliers Bureau.
 - Forum for the Future’s “Sustainable Procurement Tool”.
 - Welsh Procurement Initiative Assessment Tool.
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⁵ <http://www.sustainable-development.gov.uk/sdig/improving/>.

⁶ <http://www.defra.gov.uk/farm/sustain/procurement/index.htm>.

⁷ http://www.odpm.gov.uk/stellent/groups/odpm_localgov/documents/divisionhomepage/029685.hcsp.

3 (b) What are the most useful—you may want to add new ideas (answered by two groups)?

- Political drive and leadership.
- Crystallising SD priorities to make it easily understood.
- Incentives and objectives.
- No more general guidance.
- Training.
- Collaborating on specification for products and services.
- Guidance for Chief Officers and Audit Commission on interpretation.
- Detailed guidance.
- Good practice and pilot projects.
- Need for more interpretation—working together, measuring nationally.

RIGHT OF REPLY PANEL DISCUSSION

Panel members Jill Rutter (Defra), Martin Sykes (OGC), Jeremy Skinner (HMT) and Gordon Murray (IdeA) replied to comments and questions from the floor. The session was chaired by Anna Coote, SDC. The main points from the discussion are summarised below:

Clarity

- SD is an all-embracing concept and this leads to tensions about priorities for sustainable procurement. Too many procurers are still unclear about what sustainable procurement is. There is a need to be more strategic and clearly define SD priorities for procurement.

Leadership

- During the break-out session, lack of leadership had been the most frequently identified barrier to achieving sustainable public procurement.
- The priorities for sustainable procurement should be backed up by strong leadership to encourage others to deliver them.
- Sustainable procurement can help deliver other Government policy priorities. The UK Government is taking a lead on climate change and could exploit this by setting a new target for LA Chief Executives and elected members to help deliver the target through sustainable procurement.
- NAO has just completed research into “diversity” in public services. There had been a similar lack of leadership and interest in central Government tackling diversity, as now exists for SD. The key could be to create a “civil service champions network” that includes some Permanent Secs. The Cabinet Office and the Council of Civil Service Unions could play a major role to empower staff at all levels on SD.

Ownership and co-ordination

- There are over 35,000 procurement centres, which are hugely diverse, and whose understanding ranges from nothing to a good understanding of some SD issues. It is rare to find one that understands all elements of SD.
- One panel member stressed the importance of sustainable procurement being owned across the public sector, to avoid Defra having to be the driving force.
- There should be a cross-departmental “Invest to Save” fund. Sustainable procurement initiatives can be more expensive in the short term or often the benefit does not fall to the procuring department’s budget. Departments would be able to apply to the fund to pay for the extra short term costs and pay into the fund as long-term benefits accrue (this could equally apply to the wider public sector).
- There needs to be better central-regional co-ordination. The Sustainable Development Unit (SDU) in Defra and ODPM need to work with the Centres of Excellence to develop best practice. Potentially each Centre could lead on specific SD themes and be responsible for disseminating best practice.
- At the local level, the Association of London Governments, which accounts for £9 billion of the total public sector’s estimated £110 billion spend, has identified that 33 councils spend 50% of their budget on the same suppliers; substantial savings could be made by pooling their buying needs, but without negatively impacting on SMEs.

Gershon Efficiency Review

- The Efficiency Review provides opportunities but it must not underestimate the complexity of the buyer marketplace.
- SD and the Efficiency Review are not incompatible; efficiency and SD should both be welcomed.
- Measuring the success of Gershon needs to be defined at national level, including valuing efficiency gains in terms compatible with SD.
- It is important to ensure that pursuing SD and Gershon does not impose prohibitive costs on SMEs by making compliance to procurement requirements prohibitively expensive.

Capacity-building

- A public sector version of “e-bay”, for office equipment, IT etc could be helpful.
- The processes for procuring effectively, such as the OGC Gateway Review Process and effective Local Government scrutiny, are good but are not yet well used.

Guidance

- A key issue for Local Authorities is the need for technical guidance. IDeA don't currently provide technical support but think there is a great need for it.
- Making procurement requirements overly detailed can reduce the scope for innovation, but specifying minimum standards to be achieved gives clear guidance, above which companies can improve their products and services.
- The Green Alliance's study on PFI—PFI: Meeting the sustainability challenge—has been successful in raising the issues.

Comprehensive performance assessment (CPA)

- CPA 2005: there is scope to look at the “use of resources” assessment questions to see how sustainability could be woven through the achievement.
- A CPA performance indicator would be a serious motivator for LAs to deliver on this agenda.
- There are practical examples of how encourage LAs to buy sustainably eg the Carbon Trust LA finance incentive loan fund for energy efficiency measures. This could be developed into a bigger scheme.
- Also at the local level, there is a need for sustainability gains to reward those who identify solutions eg if whole LSPs can become procurement entities, the potential savings could be captured and divided up. Innovative procurers could be rewarded through sustainable procurement performance-related pay.

11 February 2005
