


Costing the Future: Securing Value for Money through Sustainable Procurement

The final report of the Westminster Sustainable Business Forum's inquiry into sustainability in public procurement – June 2008

Westminster Sustainable Business Forum

Contents

1. Foreword

The public sector has enormous purchasing power. The Government has a crucial role in guiding procurement so as to raise environmental and social standards. It should be encouraging innovation, stimulating markets and promoting new technological solutions for a more sustainable built environment.

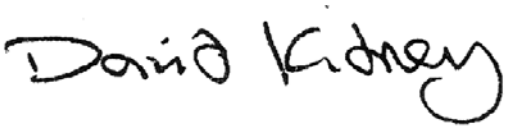
Whilst the Government has recognised that it must use the procurement process to lead by example, progress has not been uniform. It almost seems that every instance of best practice in public sector construction is matched by a missed opportunity.

We undertook this year-long inquiry to examine the procurement process, highlight examples of best practice, and identify barriers to greater sustainability in the procurement of public buildings. In doing so, we brought together a high-profile group of key parliamentarians, senior civil servants, business leaders and procurement experts.

It is encouraging that the Government has recently taken steps towards embedding sustainability in the procurement process. But there is no room for complacency. The Government must ensure that the policies and regulations for sustainable procurement put in place over the past few years are now translated into practice at every level in the public sector. The inquiry report provides key recommendations for how we can make this happen.

We have worked with a broad range of central and local governmental bodies and Departments during the course of the inquiry, all of whom have been helpful and forthcoming. The proposals that we now make are well intentioned and we urge the Government to act on them.

I am grateful for the support and expertise of Barbara Morton, my co-chair in this project. I thank Leo Trinick and Vilhelm Oberg of the Westminster Sustainable Business Forum for the hard work, dedication and commitment they have displayed in authoring this important piece of work.



David Kidney MP
Inquiry Co-Chair

2. Introduction

In 2005 the Government set the target of making the United Kingdom a leader in the European Union on sustainable procurement by 2009.

Our report assesses how close the Government has come to achieving this ambitious goal, drawing on specific examples from the procurement of public buildings, and outlines what measures are needed for sustainable procurement policies to be translated into practice.

By taking a strategic view on the spending of public money, the Government has a real opportunity to use the procurement of public buildings to deliver enduring social benefits and value for money in an environmentally sustainable way. This is an opportunity that must not be missed.

We commend the Government for instituting a focus for leadership and guidance in the field of sustainable procurement with the recent creation of the Centre of Expertise for Sustainable Procurement (CESP) under the authority of the Office of Government Commerce (OGC). We also applaud the Government for establishing this issue as a priority through the inclusion of sustainability amongst the corporate objectives for departmental permanent secretaries.

Many of the necessary policies and regulations for sustainable procurement have been put into place, however these have not consistently been translated into practice. Examples of best practice exist, but there is also a plethora of missed opportunities.

Our inquiry has found that good designs, which would have delivered buildings with low energy use, low running costs and low environmental impact, are either rejected at the planning stage or stripped of their sustainability elements due to short-term affordability concerns. Government must emphasise that value for money does not equate to lowest cost and at the same time provide the incentives to encourage sustainable procurement.

Our inquiry has also discovered that despite the enormous potential of whole-life costing as a tool for delivering sustainable procurement, it is poorly understood in the public sector and rarely applied. Government must ensure that whole-life costing is implemented throughout public sector procurement. Government should also seize the opportunity presented by the publication of the British Standards Institution whole-life costing standard as a means of assembling benchmark data to maximise the application and benefits of whole-life costing.

I would like to thank all the businesses, civil servants and procurement specialists who took part in this inquiry for their contribution and support.

Barbara Morton
Director, Action Sustainability
Inquiry Co-Chair

3. Executive Summary

3.1 Research parameters

This report examines the public procurement process across central and local government. It analyses challenges and barriers faced by policy makers, procurers and contractors throughout the public procurement process. The report draws specifically on examples and case-studies from the procurement of public buildings, highlighting examples of best practice and examining missed opportunities.

3.2 Research methods

The findings in this report are based on written submissions to the inquiry, interviews, desk research and evidence sessions in which the inquiry met with a broad range of local and central government representatives, civil servants, procurement experts, business leaders and other stakeholders.

3.3 Defining sustainable procurement

The inquiry found a tendency amongst public sector procurers to assume that sustainable procurement is in tension with EU procurement law. Furthermore, there is a perception that sustainable procurement inevitably risks being distorted to justify protectionism.

Recommendation 1

Government must strengthen the message that the promotion of social and environmental sustainability through public sector procurement is compatible with EU law.

Recommendation 2

Government must promote an awareness that sustainability is not about protectionism, but achieving social and environmental goals whilst still maintaining the best value for money.

The inquiry noted that central government has tended to emphasise the environmental aspect of sustainability in procurement, whilst the reverse has, to some extent, been true in local government.

Recommendation 3

Government must ensure that all aspects of sustainability – economic, social and environmental – are promoted through public sector procurement.

3.4 Whole-life budgeting

The inquiry found that a lack of clear leadership on whole-life costing has perpetuated a perceived conflict between sustainability and value for money in public sector procurement. Even where this has been overcome, there is still an existing conflict between affordability and value for money which often manifests itself in the allocation of unrealistic budgets for sustainable construction.

Recommendation 4

The Treasury must provide clear leadership on sustainable procurement and ensure that whole-life costing is applied in all public sector procurement.

Recommendation 5

Government must establish realistic budgets for sustainable construction and deliver on its commitment to sustainable procurement by providing the necessary funding to achieve it.

The inquiry found that the division of capital and revenue budgets in public sector spending was often cited as a key barrier to the application of sustainability in procurement. The inquiry also found that while this division could present an obstacle to the application of sustainability to public sector procurement, the key barrier is the absence of mechanisms to allow the transfer of funds from revenue to capital budgets. The inquiry recognises crosscutting public service agreements as an important step in beginning to address these problems.

Recommendation 6

Government must investigate developing a mechanism to allow public bodies to borrow from future resource budgets to fund more sustainable construction.

Recommendation 7

Parliamentary Select Committees should conduct regular health checks of crosscutting Public Service Agreements.

Recommendation 8

Government must alter budget regulations to permit local authorities to plan further ahead in the construction of schools.

3.5 Whole-life costing

The inquiry found that a lack of reliable benchmark data on whole-life costing was inhibiting the implementation of whole-life costing in public sector procurement, and negatively impacting on the accuracy of the results it produced. The inquiry identified problems of standardisation within whole-life costing and a lack of rigorous post-occupancy reviews as the prime causes for deficiencies in benchmark data.

Recommendation 9

Government must seize the opportunity presented by the publication of the British Standards Institution standard on whole-life costing and begin a programme of rigorous post-occupancy reviews to assemble benchmark data to assist procurers in the implementation of whole-life costing.

Recommendation 10

Government must assemble benchmark data to show the true capital cost of sustainable construction to facilitate the creation of realistic budgets for sustainable procurement.

The inquiry found that there is insufficient attention to factors such as future energy and water prices in whole-life costing in public sector procurement. The inquiry also found no evidence that the shadow price of carbon is being included in whole-life costing in public sector procurement.

Recommendation 11

The Department for Business, Enterprise and Regulatory Reform must commission long-term forecasts for future energy prices that may then be used by procurers as a standard when calculating whole-life cost.

Recommendation 12

The Treasury must revise the shadow price of carbon and ensure that it is included in whole-life cost calculations in public sector procurement.

Recommendation 13

The Government should commission a long-term forecast of future water scarcity and water prices that can be applied to whole-life costing.

The inquiry identified the potential for whole-life costing to be applied to social sustainability in public sector procurement.

Recommendation 14

Government must conduct research to establish how building design can achieve better outcomes for service users and the workforce.

Recommendation 15

Government must investigate creating metrics to assess the ability of factors such as good construction to affect community regeneration and in doing so ascribe value to it.

Recommendation 16

Private and voluntary sector contractors and service providers should respond innovatively to opportunities for promoting sustainability and invest in techniques for evaluating the outcomes that they achieve for their clients.

Recommendation 17

Procurers must realise the importance of immediate action on sustainable procurement.

3.6 Leadership and guidance

The inquiry identified good leadership and a strategic approach to procurement as key factors in embedding sustainability within public sector procurement. The inquiry noted that these foundations created the conditions necessary for mainstreaming sustainability in public sector procurement, and for incentivising procurement staff.

Recommendation 18

Government must work to ensure that good leadership is promoted through all levels of government if sustainability is to be successfully embedded in the procurement process.

Recommendation 19

Government must ensure that sustainability permeates all aspects of procurement, rather than being seen as a freestanding component.

Recommendation 20

Government must implement the Sustainable Procurement Task Force's recommendation that a 'Gateway – 1 process'[1] be implemented for all major projects to ensure that sustainability is considered at the earliest opportunity.

The inquiry found that procurers were inhibited in opting for sustainable options by the lack of clear, rationalised guidance available to them. The inquiry also found insufficient assistance from central government to aid the sharing of best practice in sustainable procurement at the local level.

Recommendation 21

Government must produce and promote clear, rationalised and targeted guidance for public sector procurers.

Recommendation 22

Government must support the expansion of local learning networks to enable knowledge transfer and prevent the duplication of work.

Recommendation 23

Government must better promote additional funding streams for sustainable procurement and explore methods of easing their application to specific projects.

1 Procuring the Future (Sustainable Procurement Task Force, 2006) p.39

3.7 Measuring success

The inquiry noted that the Sustainable Operations on the Government Estate (SOGE) targets are limited by their focus on environmental sustainability. The inquiry also noted that there are substantial parts of central government not covered by the SOGE targets.

Recommendation 24

The Government should expand the SOGE targets to include all aspects of sustainability. Furthermore, the targets should cover all departments and non-departmental public bodies.

Recommendation 25

The Audit Commission must ensure that those carrying out Comprehensive Area Assessments are fully skilled in assessing all aspects of sustainability.

The inquiry acknowledged Building Research Establish Environmental Assessment Method (BREEAM) as an important tool in assessing sustainable construction, but highlighted a number of limitations with the assessment method.

Recommendation 26

The Building Research Establishment should consider introducing thresholds when calculating ratings that require a building to achieve at least a "very good" rating in each aspect of its design if it is to achieve an "excellent" rating overall.

Recommendation 27

Government should consider developing tailored targets for new public sector constructions that are sensitive to: type of building, school, location, size (area or occupants) and hours of usage.

Recommendation 28

Government must investigate involving the future user of any public building throughout the procurement process to promote functionality in design.

3.8 Best procurement practice

The inquiry identified the move to commissioning outcomes as a major factor in embedding sustainability within public sector procurement. The inquiry also identified good client-contractor relationships as crucial in good procurement.

Recommendation 29

Government must ensure that public sector procurement fully adopt the system of commissioning for outcomes and provide the necessary training for procurement personnel to effectively manage the process.

Recommendation 30

Procurers must ensure that the sustainability aspects of a contract are maintained throughout the procurement process.

Recommendation 31

Where public authorities seek to use contract conditions or social clauses, they should ensure fair competition and aim for a 'win-win' between delivering the core contract and achieving wider economic, social or environmental benefits.

4. Methodology

4.1 Introduction

The inquiry was initiated in June 2007 and the inquiry sessions ran from October 2007 to April 2008.

The recommendations in this report are based on the evidence sessions, additional meetings with experts and stakeholders, written submissions, parliamentary questions and desk research.

4.2 Inquiry sessions

Evidence was taken in a series of meetings led by the project co-chairs Barbara Morton, Director, Action Sustainability, and David Kidney MP during which the various aspects of the procurement process were discussed with a broad range of business leaders, procurement experts, local and central government representatives and other stakeholders. Case study evidence focused on the procurement of public buildings.

First Inquiry Session: 'The business perspective'

Witnesses:

- David Beck, Associate Director, Buro Happold
- Bill Farmer, Director Business Development, Interserve
- Matt Fulford, Partner, EC Harris
- Simon Grubb, Head of Strategic Development, Interserve
- Andy Jones, Operations Director, Carillion
- Roger McDonald, Project Leader Development, Laing O'Rourke
- Dale Sager, Design and Construction Director, Carillion

Second Inquiry Session: 'Central government scrutiny I'

Witnesses:

- Joe Cavanagh, Director Business Development, National Audit Office
- Eric Lewis, Audit Principal, National Audit Office
- James Robertson, Chief Economist, National Audit Office

Third Inquiry Session: 'Central government scrutiny II'

Witness:

- Stewart Davies, Business Commissioner, Sustainable Development Commission

Fourth Inquiry Session: 'Local government scrutiny'

Witness:

- Wanda Rossiter, Performance Manager, Audit Commission

Fifth Inquiry Session: 'The local government perspective'

Witnesses:

- Liam Brady, Building Schools for the Future (BSF) Informed Client, Manchester City Council
- Terry Burke, Head of Corporate Technical Services, Manchester City Council
- Lee Digings, National Adviser on Procurement, Improvement and Development Agency for Local Government (IDeA)
- John Finlay, Procurement Manager, Manchester City Council
- Amanda McIntyre, Board Member, New Local Government Network (NLGN)
- Charles Wasilweski, BSF programme, Borough of Tower Hamlets

Sixth Inquiry Session: 'The central government perspective'

Witness:

- John Stewart, Director for Policy and Standards, Office of Government Commerce

Additional meetings and interviews

In addition to the evidence sessions, a series of meetings and interviews were held with a number of leading experts and stakeholders, including:

- Kathryn Bourke, Associate Director, Faithful and Gould
- Matt Ray and Eric Lewis, Audit Principal, National Audit Office
- Richard Penn, Consultant, Solace Enterprise
- Duncan Wilkinson, Head of Audit and Risk Management, Milton Keynes Audit Committee

Written Evidence

Over 100 businesses and local authorities were invited to submit confidential written evidence to the inquiry. The report is based on the responses to this call for evidence.

5. Sustainable Development Policy Context

In 2005 the Government published the Sustainable Development Strategy, *Securing the Future*, which set the target for the UK 'to be recognised as amongst the leaders in sustainable procurement across EU member states by 2009'[2]. To this end, the Government established the Sustainable Procurement Task Force under the leadership of Sir Neville Simms. The Task Force was charged with creating a National Action Plan to embed sustainability within UK public sector procurement . The Task Force identified what sustainable procurement entails and proposed a comprehensive set of measures to address shortcomings in public sector procurement.

In January 2007 the Treasury published *Transforming Government Procurement* which was followed by the UK Government *Sustainable Procurement Action Plan* (SPAP) in March 2007. These two documents responded to the work of the National Task Force and detailed how the SOGE targets would be achieved.

Central to both documents was the revised role of the Office of Government Commerce (OGC). The OGC was created in response to the 1999 report, *Review of Civil Procurement in Central Government* and was initially tasked with working in partnership with all government departments to improve all aspects of procurement, including sustainability. However, in what can be seen as a direct response to the Sustainable Procurement Task Force's criticisms over a lack of clearly defined leadership and ownership of sustainability within public sector procurement, the recent review of OGC's remit **(see Box 5.1)**, included it becoming 'accountable for embedding agreed [sustainable] procurement policies' [3].

Box 5.1 The redefined role of the OGC:

- To set the procurement policy and best practice framework, standards and performance measures against which all departments will be judged;
- To audit those standards through procurement capability reviews of departments' procurement functions, ensuring that departments meet the required standards, helping to build and increase professional procurement capacity where necessary;
- To ensure that the right incentives are in place to attract and retain those with the relevant procurement skills in the public sector, able to lead on projects appropriate to their abilities regardless of institutional boundaries;
- To set standard terms and conditions for procurement wherever possible, based on contracts that have already worked well for buyers and suppliers;
- To require departments to take up centrally negotiated deals for certain goods and services to use the Government's collective buying power to get better value for money on a whole-life costing basis, or agree any alternative only where justified; and
- To require departments to collaborate in their dealings with key suppliers and markets to drive performance improvements from its most critical markets.

2 Securing the Future (2005) p.54

3 Sustainable Procurement Action Plan (2007) p.4

In addition, the Chief Executive of the OGC was given the role of the professional head of the Government Procurement Service (GPS). The GPS is responsible for attracting and retaining high quality procurement staff, in addition to training and upskilling existing procurement staff. The change in leadership of the GPS is representative of a wider Government commitment to raise the profile of procurement within the civil service.

The third key initiative to arise from the SPAP and *Transforming Government Procurement* was the establishment of a Major Projects Review Group (MPRG). The MPRG was mandated to oversee particularly important and complex procurement projects through all stages from inception to completion. As part of this responsibility the MPRG has been equipped with a range of powers, including the ability to halt a project that is not progressing to its satisfaction.

Most recently, the Government announced the creation of a Centre of Excellence for Sustainable Procurement (CESP) **(see Box 5.2)**. The CESP will be administered by the OGC, and is designed to strengthen integration of government sustainability targets within individual departments.

Box 5.2 Responsibilities of the Centre of Excellence for Sustainable Procurement (CESP):

- To provide stronger central coordination of performance management, and to provide guidance and support to help departments rapidly develop the capability and capacity to deliver our commitments;
- To work with departments to draw up a delivery plan with milestones and a trajectory for the delivery of the government's SOGE targets and SPAP commitment, to be published in summer 2008;
- To take account of all the recommendations of the SDC report and, in the delivery plan, lay out timescales for their delivery;
- To set out the actions required to counter the barriers that stand in the way of further progress in government and to raise government's capability and leadership in sustainable procurement and operations.

The National Procurement Task Force published its findings in June 2006 and in response the Government set new Sustainable Operations on the Government Estate (SOGE) targets **(see Box 5.3)**. The cumulative effect of achieving these targets is estimated to deliver savings of approximately a million tonnes of carbon emissions by 2020.

Box 5.3 Sustainable Operations on the Government Estate (SOGE) targets:

- Reduce carbon emissions by 12.5% by 2010-11, relative to their 1999/2000 levels.
- Reduce carbon emissions by 30% by 2020, relative to their 1999/2000 levels.
- Achieve carbon neutrality for the central government estate by 2012.
- Departments to increase energy efficiency per m^2 by 15% by 2010 and 30% by 2020, relative to 1999/2000 levels.
- The above targets are in addition to pre-existing targets for departments to source at least 10% of electricity from renewables by April 2008 and 15% from combined heat and power by 2010.

In March 2008 the Sustainable Development Commission (SDC) released its annual report *Sustainable Development in Government* (SDiG) for 2006-07. While noting that carbon emissions on the government estate have undergone a 4% reduction when compared with 1999/2000 baseline levels, the report revealed that the majority of individual departments are not on course to meet their SOGE targets.

The report also commented that the 4% reduction in carbon emissions is a misleading figure for two reasons:

i. the results are distorted by the Ministry of Defence (MOD) which, when excluded from calculations, shows a 22% increase in carbon emissions against the 1999/00 baseline level.

ii. the MOD baseline figure includes emissions from QinetiQ, an MOD body that has since been privatised and, as such, is no longer included in the Government estate. If QinetiQ is excluded from baseline calculations, total emissions from the Government estate have only fallen by 0.7%.

One concerning indication of limited progress generally (not just in relation to the Government estate) was the report's conclusion that there had been a relatively low pick-up of the policy of Quick Wins by departments, despite this being mandatory since 2003.

The report also found that overall progress towards sustainable procurement has been minimal, commenting that 'many sustainable development practitioners still see sustainable procurement as simply purchasing from lists of recommended goods and services.'[4]

4 Sustainable Development in Government (SDC, 2007), p.39

6. Defining Sustainable Procurement

Sustainability is the principle that, in the long-term, the economic interests of an individual or organisation are best served by acting with sensitivity to the environmental, social and economic interests of wider society. The Sustainable Procurement Task Force defined sustainable procurement as 'that process whereby organisations meet their needs for goods, services, works and utilities in a way that achieves value for money on a whole-life basis in terms of generating benefits not only to the organisation, but also to society and the economy whilst minimising damage to the environment.'

Sustainable procurement in public sector construction is therefore dependent on incorporating an appreciation of the wider goals of society into all stages of a building's life, from the feasibility and design stages through to the operation and eventual decommissioning stage.

This appreciation can be expressed through a wide variety of methods. These can range from the adoption of a more energy efficient design to minimise environmental impact, to the inclusion of social clauses within the construction contract that requires a percentage of labour to be filled by apprentices. Designing public buildings and public services to meet the needs of all community groups also contributes towards the social inclusion dimension of sustainability.

Sustainable procurement is not an abstract, idealistic goal, but a practical and achievable objective for government. By using procurement to promote the goals of sustainability – economic efficiency, environmental sensitivity and social justice – government helps to foster a better society, composed of sustainable communities, more able to respond to the global economic market.

Each year the UK public sector spends roughly £150 billion, accounting for over 40% of the economy. Of this £150 billion, construction represents the largest portion.[5] This level of spending presents government with both the opportunity and the obligation to promote economic, environmental and social sustainability. It can do this through raising social and environmental standards, encouraging innovation, stimulating the market and promoting new technological solutions for the advancement of sustainable development in the UK.

6.1 Altering perceptions

While sustainable procurement policy has been developing for some time, it is still subject to confusion and misconceptions, particularly about what is permissible within value for money policy and EU procurement rules.

5 Procuring the Future (Sustainable Procurement Task Force, 2006) p.10

The first common misunderstanding is that EU procurement rules provide very limited scope to pursue sustainability objectives. In reality, substantial opportunities exist, though it is crucial to pursue them through legally compliant processes. Relevant social, economic and environmental requirements can be included within the contract specification. Proposals for meeting these requirements can be evaluated as award criteria in selecting the best value for money or most economically advantageous bid. It is also possible to include contract condition clauses to require the contractor to deliver the contract in a particular way. John Stewart, Director of Policy and Planning at the OGC, commented this mix of provisions provides ample scope to minimise climate change or, for example, "to address issues such as social cohesion and the development of people's skills."

Recommendation 1

Government must strengthen the message that the promotion of social and environmental sustainability through public sector procurement is compatible with EU law.

The second misconception about the application of sustainability within public sector procurement is that it will inevitably be abused to promote 'buying local'. Discrimination in favour of local suppliers is prohibited by EU procurement law. However, sustainability should not be confused with protectionism.

"The only right level for SME participation in public procurement is the level that gives best value for money in procurement."
John Stewart, OGC

Some suppliers would like sustainability to justify a protectionist approach, while some procurers are nervous about pursuing sustainability for fear of inadvertently breaking EU rules on fair competition. Both attitudes obscure the genuine case for sustainable procurement.

Recommendation 2

Government must promote an awareness that sustainability is not about protectionism, but achieving social and environmental goals whilst still maintaining the best value for money.

6.2 Balancing social, economic and environmental factors

One of the problems that the inquiry has found in the pursuit of sustainability in public sector procurement is the tendency to simplify the concept so that one element – whether social, economic or environmental – is prioritised over the others. However, to achieve the full benefits of sustainability it is essential that all its constituent components be represented.

This over-emphasis of one of the component parts of sustainability has been notable in much of central government's recent work in this area. Much of this work has focused heavily on the environmental side, in particular carbon emissions. This approach has neglected the importance of achieving social sustainability and is evident in the Government's recent establishment of the Centre of Expertise for Sustainable Procurement (CESP). The CESP was established to provide leadership and guidance on sustainability in central government procurement. However, rather than focus on sustainability as a whole, the CESP will focus exclusively on environmental sustainability. Limiting the scope of the CESP in this manner limits the potential benefits of sustainable procurement and sends the message to procurers and the supply chain that social sustainability is not a priority.

At local government level, the inquiry has found the opposite to be true to some extent. Here, the origins of the sustainability debate lay in a concern to 'build sustainable communities' creating a focus on social issues such as cohesion and inclusion. The Lyons Inquiry of 2007 noted that the primary role of local government is 'place shaping – the creative use of powers and influence to promote the general well-being of a community and its citizens' **(see Box 6.1)**. This inquiry encourages councils to fulfil this role so as to pursue economic, social and environmental sustainability.

Box 6.1 The role of government in delivering outcomes

The Lyons Inquiry identified four key areas where local government has a significant role to play in delivering outcomes:

- providing safe and secure places to live in, where communities are cohesive and integrated;
- helping to foster the greater prosperity which benefits individuals and allows us to fund public services, including engaging with the challenges and opportunities posed by globalisation;
- addressing the impact we are having on the environment by taking steps to make our lifestyles more sustainable through engagement with citizens and through the performance of its statutory functions;
- improving the level of engagement with, and trust in, our system of government, at both local and national levels.

It is essential that government at all levels pays full heed to all aspects of sustainability in procurement. The strength of sustainability as a concept within procurement is that it offers a full appreciation of the environmental, social and economic aspects of any procurement, and in doing so it offers the possibility of establishing what course of action offers the best value for money.

Recommendation 3

Government must ensure that all aspects of sustainability – economic, social and environmental – are promoted through public sector procurement.

Box 6.2 Getting the story straight in Northern Ireland

In May 2008, just over a year after devolution was restored, the Northern Ireland Department of Finance and Personnel and the Equality Commission of Northern Ireland jointly published groundbreaking guidance, Equality of Opportunity and Sustainable Development in Public Sector Procurement.

Both bodies had agreed with the Northern Ireland Procurement Board on the need for guidance to reinforce that it is not only legal but desirable to incorporate equality and sustainability objectives into public procurement. The impetus strengthened following the publication of the devolved Programme for Government and Investment Strategy for Northern Ireland. These place equality of opportunity and sustainable development – encompassing economic, social and environmental goals – at the heart of the drive to build a better future for Northern Ireland.

The decision to work together on a single guidance document from both bodies was a response to calls from business, trade unions and community representatives for a single, clear consistent message. Wide stakeholder engagement was key to ensuring the content addressed the issues that policy makers and practitioners needed to understand. The final report explains how good results only come through expert handling of every stage of the planning, procurement and contract management process. More fundamentally, it demonstrates that pursuing equality and sustainability typically goes hand-in-hand with delivering best value for money which means achieving the outcomes that matter to current and future generations in Northern Ireland.

7. Whole-Life Costing: Justifying Sustainable Procurement

7.1 Introduction

One of the most consistently cited reasons for not opting for more sustainable construction in public sector procurement is perceived tension between value for money and sustainability. This inquiry recognises that government policy consistently states that value for money does not mean cheapest price. However, the inquiry also found widespread concerns that cost pressures do get in the way of choosing the sustainable option. The provision of a sufficient budget is therefore equally crucial to achieving sustainability. Whole-life costing then provides the opportunity to appreciate the value of sustainable procurement and demonstrate that sustainability can offer the best value for money.

This chapter will examine the conditions that affect whether whole-life costing is implemented in public sector procurement. It will then analyse conflicts between affordability and value for money and the problems created by the division of capital and revenue budgets.

7.2 Ensuring the implementation of whole-life costing

The benefits of whole-life costing have been recognised and endorsed by the National Audit Office (NAO) and the National Sustainable Procurement Task Force (NSPTF). The Treasury has also made the application of whole-life costing an explicit requirement in the procurement Green Book. However, in spite of this, the inquiry's findings suggest that the application of whole-life costing is still, at best, sporadic. Furthermore, it appears that when whole-life costing is used, its application is far from rigorous.

> *"The only time we would advocate lowest price is where lowest price coincides with value for money."*
> John Stewart, OGC

7.2.1 Providing leadership and guidance

One of the key obstacles that the inquiry found to the application of whole-life costing is the lack of explicit leadership from the Treasury and the OGC. The Treasury Procurement Green Book cites the need for whole-life costing to be applied in public sector procurement projects, but fails to provide a detailed guidance on how this process should occur and what factors should be considered.

This tension between competing pressures is acknowledged by the statement in the Treasury report *Transforming Government Procurement* that 'the procurer has to select on the basis of whole-life value for money, but in setting budgets for individual projects, departments also need to make decisions about relative policy priorities and needs. If more is spent on one project than originally allocated, that will mean less is available for others.'[6] While the Treasury has expressly called for the implementation of whole-life costing, there is clearly ambiguity as to whether whole-life value is preferable to upfront affordability.

Recommendation 4

The Treasury must provide clear leadership on sustainable procurement and ensure that whole-life costing is applied in all public sector procurement.

7.2.2. Finance models

The most reliable method the inquiry found for ensuring the utilisation of whole-life costing in public procurement is the use of the Private Finance Initiatives (PFIs). Our evidence suggests that PFI projects are significantly more likely to engage in whole-life costing than conventional public procurement. This is because in entering into a single contractual obligation to construct and maintain a building and provide associated services for a set period, usually in the region of 30 years, the need to whole-life cost becomes a financial imperative.

While this inquiry makes no claim as to the overall potential costs or benefits associated with PFIs, government should identify what factors from the model can be applied to the public sector as a means of ensuring the application of whole-life costing in procurement.

7.3 The tension between value for money and affordability

This inquiry recognises that effort has gone into technical explanations which convey that the requirements to achieve value for money and to meet efficiency targets do not mean that the public sector should choose the cheapest option. For instance, the Regional Centres of Excellence website defines efficiency as:

'More for the same
Much more for a little more
More for less
The same for less
A service cut is NOT an efficiency gain'[7]

This position is shared by OGC at central government level. This inquiry commends the Department for Communities and Local Government and the OGC for this explicit rebuttal of short-term procurement policies.

5 Transforming Government Procurement (HMT, January 2007), p.5

6 http://www.rce.gov.uk/rce/core/page.do?pageId=10106

However, in the wake of the Comprehensive Spending Review 2007(CSR '07), there is considerable pressure on both central and local government to make significant efficiency savings – and to do so swiftly. This pressure, combined with a lack of benchmark data to accurately depict the cost of sustainability, is resulting in unrealistic budgets for sustainable construction. Therefore, despite the growing realisation that the cheapest option does not equate to the most efficient option, sustainability within public sector construction is still being limited by short term affordability constraints.

"There's intense pressure to make cashable savings, there are cost pressures building up on local authorities, and the message about being more sustainable is going into a mix where we are getting a really heavy signal about becoming more efficient and saving money."
Lee Digings, IDeA

Recommendation 5
Government must establish realistic budgets for sustainable construction and deliver on its commitment to sustainable procurement by providing the necessary funding to achieve it.

7.4 The division of capital and revenue budgets

One of the most frequently cited barriers to the meaningful application of whole-life costing within public sector procurement is the division of capital and revenue budgets within public sector finance. While whole-life costing often advocates a higher capital expenditure to reduce operational costs, the division in budgets prevents the manipulation of funds to finance such a decision. Merging the two budgets has therefore been suggested so as to allow organisations to select a more sustainable option. An example of how sustainable construction would have reduced whole-life costs but was rejected because of affordability constraints can be found in **Table 7.1**.

However, this inquiry recognises that while the system of budget division can prove to be an obstacle to sustainable procurement, the principle of ring-fencing capital budgets as a means of guaranteeing investment is commensurable with sustainable procurement. The Government has responded to concerns on this issue to some degree with the move to three year departmental budgets that permit funds to be transferred from resource to capital budgets over this period. However, opting for a more sustainable construction can often have a substantial payback period associated with it.

Recommendation 6
Government must investigate introducing a mechanism to allow organisations to borrow from future resource budgets to fund more sustainable construction.

The problem of the division in capital and revenue budgets is exacerbated when they are held by different bodies. Steps have been made to address this problem with the introduction of cross-cutting Public Service Agreements (PSAs), the achievement of which require departments to work together. This inquiry commends the Government for taking this step but emphasises the need for regular health checks to ensure that targets are set appropriately and achieved.

Recommendation 7

Parliamentary select committees should conduct regular health checks of crosscutting Public Service Agreements.

The division in allocation of capital and revenue budgets is particularly problematic in education. Revenue budgets for schools are allocated through the Dedicated Schools Grant on the basis of the type of school and the number of children attending at any given time. As such there is no scope for an individual school to transfer money from its future revenue budget to fund a more sustainable construction. Furthermore, local authorities can only construct schools based on capacity requirements in the immediate future. This inability to plan for future demand often results in schools having to be repeatedly refurbished and extended.

Recommendation 8

Government must alter budget regulations to permit local authorities to plan further ahead in the construction of schools.

Table 7.1 Affordability and whole-life cost of biomass boilers in schools

A company was selected to construct eight schools for a local authority. Biomass boilers, expected to deliver annual net savings of £100,000 in energy cost and carbon emissions reductions of 296 tonnes, were initially considered but abandoned due to the short-term affordability constraints posed by the higher installation costs.

Affordability and whole-life cost of biomass boilers in schools

Annual Energy Consumption	**10,000,000 Kwh**
Plant installation costs:	
Natural Gas	£ 507,024
Biomass	£ 1,312,790
Premium for installation of Biomass plants	**£ 805,766**
Plant running cost (30 years):	
Natural Gas	£ 20,192,620
Biomass	£ 12,702,958
Saving on running cost of Biomass plants (30 years)	**£ 7,489,661**
Total net savings from biomass plants (30 years)	**£ 6,683,895**

Notes:

1. Assumes natural gas costs increase by 5% above RPI per annum over a ten year period.
2. Assumes natural gas costs increase at RPI per annum from year 11 to 30.
3. Assumes annual RPI inflation level to remain at approximately 3%.
4. Biomass boilers are used to cover 95% of the heating load.

8. Whole-Life Costing: Valuing Sustainable Procurement

Whole-life costing provides a method of justifying sustainable procurement. However, it is important to emphasise that whole-life costing is primarily an economic tool and that, while it may have positive implications for sustainable procurement, it is not a panacea. As such the application of whole-life costing methodology is necessary but not sufficient to guarantee sustainable procurement.

"The cheapest whole-life cost does not necessarily equate to the most environmentally sustainable option"
John Stewart, OGC

Whole-life costing is a contested term and there is considerable debate over which factors should be included in applying the methodology. The decision over which factors are included has a significant impact on whole-life cost and its implications. This chapter will analyse the application of whole-life costing. In doing so it will first examine issues related to benchmarking and discounting. It will then discuss how whole-life costing can be used to address the issues of environmental and social sustainability.

8.1 Benchmark data

The inquiry has found that one of the most common problems in implementing whole-life costing is the absence of benchmark data. The importance of reliable benchmark data in implementing whole-life costing is two-fold. Firstly, accurately whole-life costing a whole project without being able to make assumptions based on pre-existing data is a complex and expensive assignment. The inquiry has been informed by procurers that they could not afford to whole-life cost all projects without some existing benchmark data upon which to base assumptions. Secondly, benchmark data is also vital in improving the accuracy of results yielded by whole-life costing. Whole-life costing is not an exact science and therefore the most accurate way to ascribe cost to something is through reference to previous experience, rather than predictions about future use.

This lack of benchmark data can be attributed to two main factors. Firstly, despite frequent calls for the implementation of whole-life costing within public sector procurement, there is a lack of a common understanding as to what exactly whole-life costing entails. Wanda Rossiter of the Audit Commission commented that varying interpretations of whole-life costing differ over whether or not the process of decommissioning should be included in calculations. Kathryn Bourke of Faithful & Gould commented that as a result of inconsistencies such as these in the understanding and application of whole-life costing, procurers have been left in a position of "trying to compare apples with pears".

The second obstacle to the accumulation of benchmark data is a lack of rigorous post-occupancy reviews in public sector construction. The NAO comments that 'post-occupancy evaluation of construction and refurbishment projects is a well recognised and powerful tool for bringing about improvement in building design and operation'.[8] Yet the inquiry has been informed that political and budgetary pressures are such that there are insufficient resources to undertake rigorous post-occupancy reviews. Without post-occupancy reviews it is difficult to assess the accuracy of whole-life costing and from this derive accurate benchmark data.

8 Building for the Future (NAO, 2007) p.25

Recommendation 9

Government must seize the opportunity presented by the publication of the British Standards Institution whole-life costing standard and begin a programme of rigorous post-occupancy reviews to assemble benchmark data to assist procurers in the implementation of whole-life costing.

"We found that the application of whole-life costing was very patchy indeed across Whitehall in the departments we looked at. Partly because of the lack of clarity and understanding about what it is, and an absence of suitable tools and guidance"
Joe Cavanagh, NAO

Recommendation 10

Government must assemble benchmark data to show the true capital cost of sustainable construction to facilitate the creation of realistic budgets for sustainable procurement.

8.2 Discounting

One of the complicating factors involved in whole-life costing is that of discounting. Discounting is used to calculate net present value (NPV) so as to be able to ascribe current worth to a future holding. It is based on the premise that a certain amount of money now is worth more than the same amount of money guaranteed to you in the future. This presumption stems from both the investment opportunities associated with immediately available capital, and the interest paid on borrowed money. The public sector therefore employs a 3.5% discount rate to compensate for the depreciation in future returns on an investment. However, based on a less favourable borrowing position, the private sector must discount at a substantially higher rate of roughly 6%. The implications of this can be seen in Appendix I. While discounting does affect the implications of whole-life costing, this should not deter procurers from utilising it.

8.3 Whole-life costing and environmental sustainability

This inquiry notes that, particularly once discounting has been taken into account, whole-life costing can imply a substantial payback period for some aspects of sustainable construction. However, there are a number of factors to consider in whole-life costing that can affect this process. Before examining these it is important to emphasise that many techniques associated with sustainable construction are cost neutral in terms of capital expenditure and will still yield savings as a result of energy efficiency. This includes techniques such as orientating a building to maximise the use of natural light.

8.3.1 Energy prices

Maximising the benefits of whole-life costing requires accurate predictions about the future. Many of the benefits associated with the application of whole-life costing with regard to construction are related to energy efficiency. As such it is necessary to make predictions about future energy prices but there is a conspicuous lack of guidance as to how this should be attempted. This in turn can lead to the assumption that energy prices will rise in accordance with the rest of the market.

Natural gas prices for UK power producers increased by 77 percent in real terms between 2002 and 2007.
BERR

However, the Department for Business, Enterprise and Regulatory Reform's website shows that energy prices have risen well above the rate of inflation for the last five years. For instance, natural gas prices for UK power producers increased by 77 percent in real terms between 2002 and 2007. During the same period the UK manufacturing industry experienced price rises of 60% for electricity and 64% for gas in real terms. These price rises have considerable implications for whole-life costing, particularly in relation to micro-generation features that typically show relatively small financial returns.

Recommendation 11

The Department for Business, Enterprise and Regulatory Reform must commission long-term forecasts for future energy prices that may then be used by procurers as a standard when calculating whole-life cost.

Table 8.1 Energy and carbon price effects on whole-life costs

This table shows how the inclusion of a substantial carbon price and revised assumptions about future energy prices affects the payback period for sustainable construction. The example is based on a case the inquiry found of a hospital that had various energy saving features removed from its design. The environmentally sustainable features were predicted to save £64,930 annually, in addition to reducing carbon emissions by 528 tonnes per year. The reduction in up-front capital costs from removing these features was £944,709.

By revising assumptions about future energy prices, and including a substantial carbon price, whole-life costing shows a payback period of 11 years, after which the features would represent a net saving for the public purse. Without factoring in these considerations a whole-life cost calculation would show a 43 year payback period.

Year	Accumulated Energy Savings (£)	Accumulated Carbon Cost Savings (NPV)	Total Accumulated Savings (NPV)
1	£64,930	£32,261	£97,191
2	£129,860	£62,586	£192,446
3	£194,790	£91,092	£285,882
4	£259,720	£117,887	£377,607
5	£324,650	£143,074	£467,724
6	£389,580	£166,751	£556,331
7	£454,510	£189,007	£643,517
8	£519,440	£209,927	£729,367
9	£584,370	£229,592	£813,962
10	£649,300	£248,077	£897,377
11	£714,230	£265,454	£979,684
12	£779,160	£281,787	£1,060,947

Notes

1. The table assumes rises in energy prices would negate the effect of discounting for the first twelve years of the buildings life.

2. The table factors in a saving of £65 for every tonne of carbon emissions saved, applying a 6% discount rate to the accumulated savings.

8.3.2 Carbon Price

> *"It is absolutely clear that net-present value is the criterion and everything should be done to put everything to a price to take account of externalities, whether they be positive or negative"*
> James Robertson, NAO

Another means of affecting the outcome and implications of whole-life costing is through the inclusion of a carbon price in calculating whole-life cost. Currently HMT instructs that a shadow price of carbon (SPC) "be used in all policy and project appraisals across government with significant effects on carbon emissions"[9]. HMT has ascribed the shadow price of carbon a value of £26.50 per tonne of CO_2 emissions in 2008. This figure will rise each year to account for inflation and a 2% annual rise in the damage of greenhouse gas concentrations. However, the inquiry found no indication that the SPC is being considered when calculating whole-life cost in public sector procurement. If a more substantial figure was attributed to the SPC and applied in whole-life costing calculations, this would have a significant affect on the outcomes of whole-life costing in sustainable construction. Please see Table 8.1 for an example of how modifying energy price assumptions and including a carbon price would affect payback periods.

Recommendation 12

The Treasury must revise the shadow price of carbon and ensure that it is included in whole-life cost calculations in public sector procurement.

8.3.3 Water scarcity

Rainwater harvesting is a well established example of sustainable construction, but, as with energy efficiency construction techniques, current water prices mean that payback periods for rainwater harvesters are substantial and are not always advocated by whole-life costing. However, water is expected to become increasingly scarce over the next twenty years and it is expected this will see a corresponding rise in price. This inquiry predicts that factoring in this rise in price would see whole-life costing advocate rainwater harvesters.

Recommendation 13

The Government should commission a long-term forecast of future water scarcity and water prices that can be applied to whole-life costing.

9 *Parliamentary Question (HMT) Ref: 3227W 07/08*

8.4 Social value in whole-life costing

The inquiry has witnessed how the implications of whole-life costing on environmentally sustainable procurement can be affected by the inclusion of various factors. However, whole-life costing can also be used to justify socially sustainable procurement. This section examines how this can be done and identifies potential obstacles to the inclusion of certain factors in whole-life costing calculations.

One way in which whole-life costing can affect the manner in which the public sector procures is through a deeper consideration of the purpose of a building. An example of this can be found with hospitals. There are indications that the design of hospitals can reduce the patients' period of convalescence by creating spaces where patients feel more comfortable and as such are more conducive to speedy recuperation. Currently there is limited data available on this subject. However, accommodating recovering patients represents a significant cost for the NHS. Similar studies also suggest the potential for reducing sick-leave through workplace design. This inquiry therefore urges the Government to conduct further research into this field. The potential benefits for reducing this cost through better design would therefore be significant and as such we recommend that the Government commission further research into this field as a means of quantifying the value of such construction.

Recommendation 14

Government must conduct research to establish how building design can achieve better outcomes for service users and the workforce.

The inquiry found that opportunities are often missed through a lack of vision about the outcomes that could be achieved through procurement. A narrow attitude fails to recognise the subtle affects that a building can have and the capacity of procurement to drive social change. Liam Brady of Manchester City Council commented that creating a sense of place through good construction has the ability to reinvigorate a community. However, it is currently challenging to apply these values in a whole-life cost calculation because of a lack of metrics for measuring effects such as community regeneration. For instance, if the purpose of a school building is to create the ideal practical learning environment, rather than simply to house teachers and pupils, then broader proposals become relevant. The educational contribution of small wind turbines could be evaluated alongside the environmental gains and more basic whole-life costing methodology, to assess the business case for installing them.

Recommendation 15

Government must investigate creating metrics to assess the ability of factors such as good construction to affect community regeneration and in doing so ascribe value to it.

Box 8.1

Tomorrow's People is a charity that helps to break the cycle of unemployment for the hardest to help groups. It evaluates its performance rigorously and has a track record in innovation, including in co-locating with other public services to offer a personalised approach:

- An independent evaluation in 2004 found that, over 20 years, Tomorrow's People had helped more than 400,000 people towards employment, with 165,000 (43%) finding work and 50,000 others being helped into further education, training or voluntary work. Of those who achieved employment, 90% were still employed after three months.
- Access to Work & Success for lone parents is a specialist two-week motivational course, run currently in conjunction with Children's Centres in the most disadvantaged wards in Lambeth. It is the most successful lone parent contract in the country, getting 39% of lone parent leavers into work.
- Health Centres Outreach entails locating in GP surgeries and integrating employability training with health improvements, especially for those with mental health issues. An independent evaluation found that GPs reported a 20% reduction in GP consultations, a 74% reduction in referrals to practice counsellors and a 19% reduction in anti-depressant prescriptions.

While public procurers must take a lead in identifying the sustainability outcomes they require from their procurements, there is also an onus on contractors and providers to come forward with innovation. By providing quantitative and qualitative evaluations of their track record, they can help the public sector to conduct cost benefit analyses that take full account of what is achievable.

Recommendation 16

Private and voluntary sector contractors and service providers should respond innovatively to opportunities for promoting sustainability and invest in techniques for evaluating the outcomes they achieve for their clients.

8.5 The importance of immediate action

"Don't wait until you can measure it perfectly before you do it, if common sense and every other instinct tells you it's right, then do it"
Amanda McIntyre, NLGN

While whole-life costing clearly offers the possibility of providing a compelling financial model for sustainable construction, some of the aspects of its application will take time to develop. However, this should not inhibit public authorities from acting now. Amanda McIntyre from the NLGN commented that, if a procurer is sure what they are doing is right, they should be self confident and act now. Government leaders must work to promote this level of self-confidence across the public sector to encourage innovation and drive sustainable procurement.

Recommendation 17

Procurers must realise the importance of immediate action on sustainable procurement.

9. Securing Leadership and Providing Guidance

9.1 Securing Leadership

Possibly the most crucial aspect that the inquiry identified in making public sector procurement sustainable was that of good leadership. The inquiry found that under the right leadership, sustainability would cascade through the system achieving widespread buy-in. One of the most important factors in good leadership is the development of a strategic approach to procurement. This entails identifying the key objectives of the local authority or department and ensuring that all procurement contributes towards these objectives.

Recommendation 18

Government must work to ensure that good leadership is promoted through all levels of government if sustainability is to be successfully embedded in the procurement process.

9.1.1 Mainstreaming

One of the problems in making public sector procurement sustainable is that it is often not fully integrated into people's approach to their jobs. Achieving sustainability in procurement, particularly in construction, requires sustainability to be considered from the earliest possible stage. To address this, the Sustainable Procurement Task Force recommended the inclusion of a Gateway – 1 stage in all major projects. This would ensure that sustainability issues are built in from the earliest stages of major projects. Addressing sustainability at the earliest possible stage is crucial because the later sustainability is considered, the more constrained and expensive the options will be and the less will be achieved. Mainstreaming counters this by ensuring that sustainability permeates all levels of an organisation. In this sense mainstreaming prevents sustainability from being an exercise in box-ticking and helps to attain buy-in through all levels of public sector procurement.

> *"If you embed procurement and all aspects of it in the strategy of a local authority, then by dint of that the whole council or organisation owns it, and feeds it through how it operates, so it becomes a strategic issue rather than a departmental one"*
> John Finlay, Manchester City Council

Recommendation 19

Government must ensure that sustainability permeates all aspects of procurement, rather than being seen as a freestanding component.

Recommendation 20

Government must implement the Sustainable Procurement Task Force's recommendation that a 'Gateway – 1 process'[10] be implemented for all major projects to ensure that sustainability is considered at the earliest opportunity.

9.1.2 Incentives

The inquiry found that capability amongst procurement staff was frequently cited as a barrier to sustainable procurement. However, good leadership and introducing a strategic approach to procurement help to mitigate this problem. The inquiry found that providing the correct incentives for procurement staff was more important than individual capability. Traditionally, risk aversion in public sector procurement stifles the kind of innovation that addresses sustainability. However, strong leadership and the development of a clear strategy counters this problem by demonstrating that sustainability is a priority. Furthermore, a well developed strategy aids procurers in choosing sustainability by increasing their awareness of the overall strategic objectives of the organisation. The inquiry therefore commends the Government for including sustainability as one of the corporate objectives that permanent secretaries are judged upon.

9.2 Providing streamlined guidance for local government

The inquiry's examination of procurement in local government found substantial evidence of best practice. However, this evidence was far from uniform **(see Box 9.2)**. The inquiry believes one of the key reasons for this is the nature of guidance and assistance available to local procurement personnel. For local government procurers there is a plethora of unrationalised guidance available on a huge range of issues giving, at times, contradictory advice. As a result this guidance is often of little assistance to the procurer.

Box 9.1 Manchester City Council

"We have transformed in the last five years, moving procurement away from a purely transactional based approach to buying goods and services into a strategic approach that embeds right across the Council and is driven from the Leader and the Chief Executive. As a result, we have reorganised ourselves so that we actually are reporting through the Capital Programme Director, who then reports to the City Treasurer. So we have a direct link back and every decision we make goes into the corporate aims and objectives of the whole city council. That was very important for us to be able to do and it enabled us to make the change." Terry Burke, Manchester City Council.

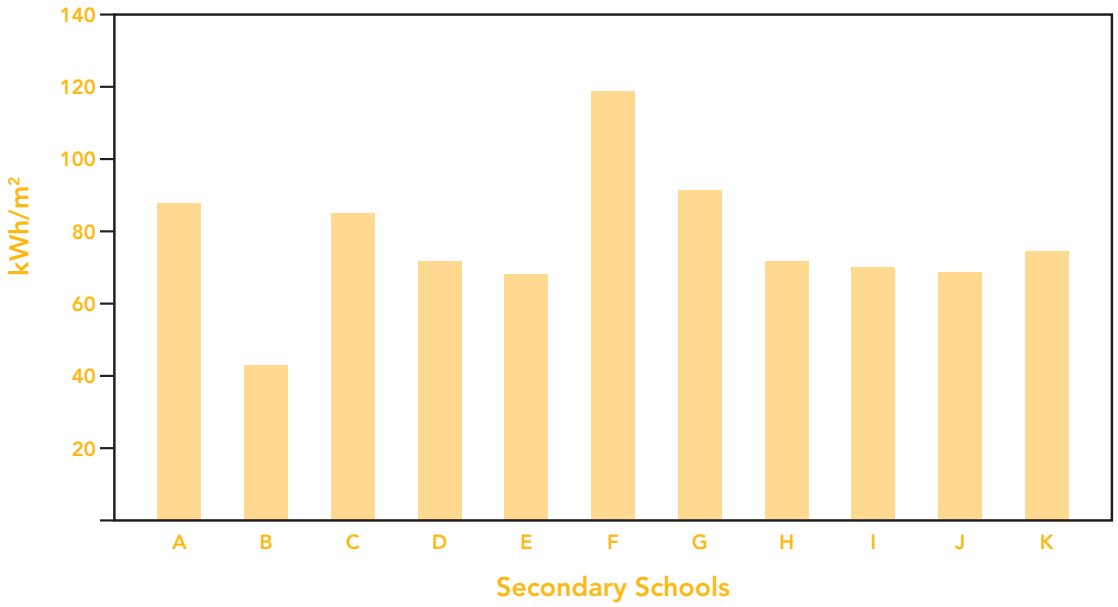
"Procurement has recently been restructured and centralised. The old procurement system was of people all over the Council buying stuff from all over the place, two years ago a new electronic system was introduced and it is providing some brilliant management information because we know exactly who's buying what and where." John Finlay, Manchester City Council.

10 Procuring the Future (Sustainable Procurement Task Force, 2006) p.39

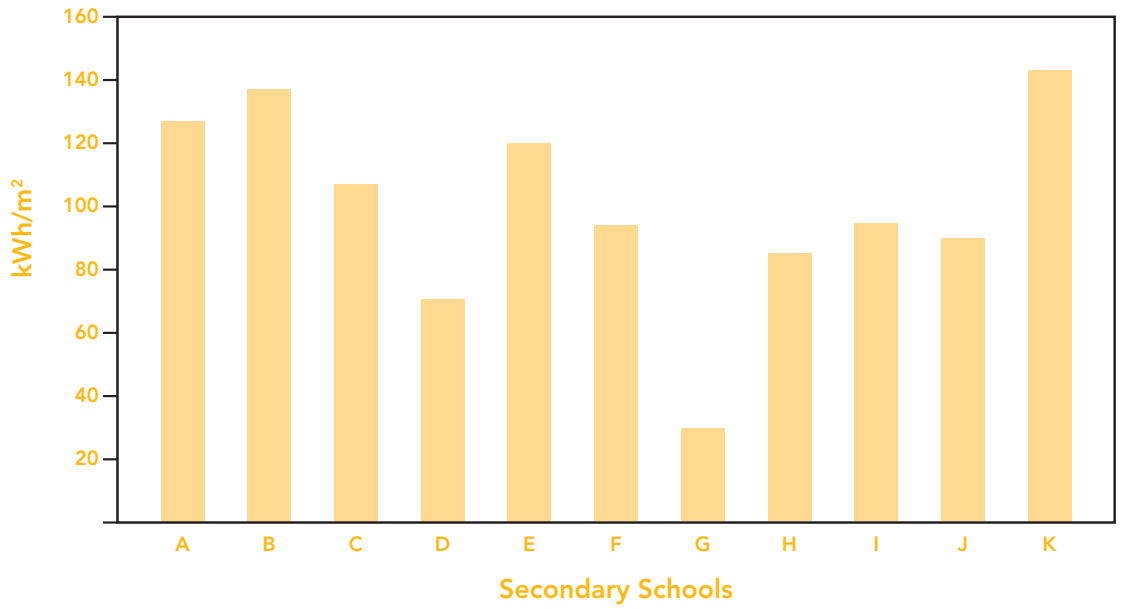
Box 9.2 Variance in energy in usage between schools

These tables summarise the electricity and gas usage per square metre of 10 different schools. Both electricity and gas usage exhibit a variance in excess of 100% between the 10 schools.

12 Month 'Rolling' Electric DfES kWh/m² – Secondary Schools



12 Month 'Rolling' Gas DfES kWh/m² – Secondary Schools



Note: This data is from schools that have opened since 2001. The data is not from schools that form part of the Building Schools for the Future Programme.

Recommendation 21

Government must produce and promote clear, rationalised and targeted guidance for public sector procurers.

The inquiry also found that much of the best work at local government level in this field remains hidden. As a result councils are not learning sufficiently from one another and are often duplicating work. To counter this some local authorities have moved to establish individual learning networks to share best practice information. However, these networks are being driven by individual councils with no assistance from central government. It is important to recognise that moves to prevent the duplication of work between local authorities should not be designed to impress uniformity upon local authorities.

"There is excessive duplication and not sufficient collaboration within local government procurement."
John Stewart, OGC

Recommendation 22

Government must support the expansion of local learning networks to allow knowledge transfer and prevent the duplication of work.

This inquiry commends the creation of the CESP in central government as a focus for guidance and advice. However, the CESP must be expanded both in focus, to include social sustainability issues, and in scope, to provide assistance to local government.

"Initiatives to help councils learn from each other should not drift into pressure for a one-size-fits-all approach to sustainability. With place-shaping now recognised as local government's role, councils should take the lead in achieving what matters and what works locally"
Amanda McIntyre, NLGN

The inquiry was made aware of a large variety of additional funding sources available for sustainable procurement. However, procurers complained that often this assistance was not well advertised and very hard to find. Furthermore, once found it often proved unfeasible to align the funding to a particular project.

"The Centre of Excellence for Sustainable Procurement is a step forward which we welcome. There is a very strong need for that, because I think that people do not know what support there is"
Eric Lewis, NAO

Recommendation 23

Government must better promote additional funding streams for sustainable procurement and explore methods of easing their application to specific projects.

10. Measuring success

In making the public sector procurement of buildings sustainable it is vital that the correct bodies, targets and standards are in place to measure progress and identify opportunities for improvement. This chapter will examine key issues related to targets across government and the bodies responsible for scrutinising.

10.1 Sustainable Operations on the Government Estate (SOGE) targets

While the SOGE targets mark a useful starting place from which to judge progress on sustainability, their application across central government is limited. They do not cover the majority of non-departmental public bodies (NDPBs), hospitals, or even all departments. Furthermore their scope is limited to environmental sustainability.

Recommendation 24

The Government should expand the SOGE targets to include all aspects of sustainability. Furthermore the targets should cover all departments and non-departmental public bodies.

10.2 Scrutiny and measurement in local government

At the local level, the introduction of local area agreements (LAAs) and comprehensive area assessments (CAAs) provide a system of targeting and measuring the progress of local authorities and their partners, while allowing them to be creative in pursuing local priorities. We commend this move for its focus on economic, social and environmental outcomes and for its incentives for joined up working across the public sector.

In central government procurement is overseen and scrutinised by the OGC, the NAO and the SDC. However, at local government level there is considerable pressure on the Audit Commission as the body responsible for measuring all aspects of local authorities' performance. As such it is vital that the Audit Commission be fully attuned to the importance and complexities of sustainability in procurement.

Recommendation 25

The Audit Commission must ensure that those carrying out Comprehensive Area Assessments are fully skilled in assessing all aspects of sustainability.

10.3 Building Research Establishment Environmental Assessment Method (BREEAM)

The inquiry recognises the Building Research Establishment Environmental Assessment Method (BREEAM) as an important tool in assessing construction. However, as the NAO has noted, BREEAM is not a panacea and has a number of crucial weaknesses.[11]

11 Building for the Future (NAO, 2007) p.11

10.3.1 Scoring

BREEAM assessments use a scoring method whereby buildings accumulate points for a wide range of factors. These factors range from carbon footprint and the use of sustainable materials to site location and production of a facility management handbook. Such is the range and diversity of these targets that it becomes possible to play the system and construct a building that achieves a BREEAM "very good" or "excellent" rating and yet is not environmentally sustainable. One example of this is that the location of the building will constitute roughly one third of the building's total score, the same weighting accorded the building's carbon footprint. Thus it is possible to construct a building with a low environmental sustainability performance on brownfield land, and nevertheless achieve a "very good" rating. This problem is exacerbated by the fact that many public sector construction projects have little choice over their location and none in the case of refurbishments. This makes BREEAM a very inaccurate tool for comparing environmental sustainability between buildings.

Recommendation 26

The Building Research Establishment should consider introducing thresholds when calculating ratings that require a building to achieve at least a "very good" rating in each aspect of its design if it is to achieve an "excellent" rating overall.

10.3.2 Cost

Another limiting factor in the application of BREEAM is the price of conducting an assessment. The NAO has estimated that a construction project must cost in excess of £1.5 million to make a BREEAM assessment economically viable[12], thus excluding smaller constructions. Furthermore, the public sector has already constructed the majority of the buildings it will require and therefore one of the crucial challenges in making the government estate more sustainable lies in refurbishing existing buildings. However, the smaller nature of these refurbishment projects will often make the application of BREEAM impossible. The inquiry found that, over the last three years, the NHS has undertaken 20 construction projects with a capital budget of less than £1.5 million that, as such, would not be suitable for the application of BREEAM.

Recommendation 27

Government should consider developing environmental sustainability targets for public sector buildings. These should be tailored to the size, location, frequency of usage and purpose of the particular building.

12 Ibid

10.3.3 Design

A crucial aspect of sustainable construction is the functionality of the design. This inquiry discovered examples of buildings classified as BREEAM "excellent" that, because of an inattention to the mechanics of how the building would operate, are not environmentally sustainable. Design affects a building's sustainability performance in a number of different ways. Firstly, if a building cannot adequately fulfill its primary functions it will ultimately have to be replaced or refurbished. To do so will require more resources, more energy and more money. The second aspect in which design is crucial is ensuring that the sustainability and operational aspects of a building are harmonised. When a building is designed and constructed in an environmentally sustainable manner, it creates the potential for the building's impact over the duration of its existence to be environmentally sustainable. However for these benefits to be realised the building must be operated in the correct manner, with an appreciation of the sustainability aspects in the design. However, if a building is not correctly designed, it is possible that operating the building sustainably will conflict with its primary functions. In cases such as these the primary function will take priority and the environmentally sustainable design of a building will be negated.

Recommendation 28

Government must investigate involving the future user of any construction throughout the procurement process to promote functionality in design.

While this inquiry recognises BREEAM as a useful tool, it is vital that its application is supplemented with other methods and that the public sector does not become over-reliant on it as a measure of sustainability.

Box 10.1 Sustainability and design conflict

The inquiry found evidence of one school, which had been given BREEAM 'Excellent' rating, but was nevertheless hampered in its operations by a series of basic design defects. Among these was the decision to use a sustainably sourced veneer for corridor walls, which was given an 'Excellent' score under BREEAM. The nature of a school is however such that corridor walls become scuffed and dirtied much more quickly than other buildings. Since the veneer of the particular school in question could not be washed, but had to be sanded, which could only be carried out in the holidays, the walls were left dirty during the majority of the school year. BRE rewarded the school for a design which was in theory well intended from an environmental perspective, but failed in its practical use.

11. Procurement Best Practice

Having established the factors necessary to facilitate sustainable procurement in public sector construction, the final aspect to consider is what constitutes best practice throughout the procurement and contract management process. This chapter will examine the key factors, particularly the importance of commissioning for outcomes and the need to build a relationship between the client and contractor.

11.1 Commissioning

The most important change in recent procurement practice is the shift from procuring specific outputs to commissioning outcomes. In specifying outcomes the client has more potential to include factors such as social cohesion or community regeneration whilst encouraging innovation to meet these objectives. An example of this would be commissioning a housing-based regeneration scheme as opposed to procuring a narrowly scoped housing repairs contract.

In commissioning outcomes the specification is crucial. This is because, with some small exceptions, once advertised, tenders can only be judged on which is the Most Economically Advantageous Tender (MEAT); essentially that which can best fulfill the specification at the optimum combination of quality and price. Therefore, while a prospective bidder may demonstrate their ability to promote some form of sustainability such as improving community cohesion by tackling unemployment, unless this in some way responds to the specification, it cannot form part of the criteria upon which the bidder is judged.

The procurer can also improve the specification by allowing variants. This means that the procurer can then take account of procurers that exceed minimum requirements necessary to meet the specification.

Recommendation 29

Government must ensure that public sector procurement fully adopt the system of commissioning for outcomes and provide the necessary training for procurement personnel to effectively manage the process.

11.2 Contractor client relationships

Another key factor in the procurement process is the relationship between the client and contractor. It is essential that the client and contractor build a successful working relationship that is cooperative, rather than adversarial. In doing so they foster the conditions necessary to manage the complex risks associated with commissioning for outcomes through creative and committed team working.

"We now have our partners based in our offices which was a massive cultural change. We now see them as colleagues and as a result they have a clear understanding of what our outcomes are and what our objectives are"
Liam Brady, Manchester City Council

In maintaining this close relationship it is possible to ensure that the final construction does not become divorced from the original specification. One aspect of this is the importance of sustaining the sustainability. The inquiry found significant evidence that contracts are often awarded to tenders that address a range of sustainability criteria. However, as the procurement moves from the design to the construction phase, these sustainability features have a tendency to be removed from the contract as issues of affordability become more pressing.

"Again and again I have seen contracts that tick every sustainability box and, as the process goes on, these sustainability features just get chipped away"
Roger MacDonald,
Laing O'Rourke

Recommendation 30

Procurers must ensure that the sustainability aspects of a contract are maintained throughout the procurement process.

11.3 Contract Conditions

Contract conditions can be a useful way for public authorities to stipulate the results they would like to achieve through the delivery of a contract that cannot be deemed directly relevant to the specification. These are often referred to as social clauses because they are typically used to incorporate community benefits such as tackling unemployment or boosting basic skills. One example of this would be for apprentices to make up a specified percentage of labour on a construction project. It should be noted that, if the shift to commissioning for outcomes fully materialises, then authorities might increasingly be able to build employment outcomes into their core specifications. But certainly for now, contract conditions can be a useful facility.

In the past, it has often been assumed that contractors would resist the use of contract conditions, through concerns about additional cost or bureaucracy. The inquiry found that contractors wanted to see contract conditions used wisely. The requirements should be clear and guard against creating scope for unfair competition. The aim should be to achieve a 'win-win' between delivering the core specification and achieving the wider economic, social or environmental benefits. For example, in a housing repairs' contract, it would be inconsistent for a procurer to specify the installation of new kitchens and bathrooms as cheaply and quickly as possible, while also requiring the contractor to employ the long term unemployed or create a number of apprenticeships. However, used creatively within a partnership that is striving for sustainability and value for money, contract conditions can help to generate the maximum value from public spending while providing a route for the contractor to fulfil corporate responsibility objectives.

Recommendation 31

Where public authorities seek to use contract conditions or social clauses, they should ensure fair competition and aim for a 'win-win' between delivering the core contract and achieving wider economic, social or environmental benefits.

Appendix I: Discounting

The table below represents the financial savings based on the increased energy efficiency delivered by a sustainability feature in a hypothetical construction. If we assume that the annual associated saving is £10,000 and that the additional capital cost of including the feature was £100,000, it would take thirteen years before the energy efficiency savings paid back the investment. However, it would take seventeen years for the private sector to achieve cost neutrality. Furthermore we can see that the accumulated saving over a thirty year period in the public sector has a net present value (NPV) of £81,029 as opposed to the private sector saving of £32,186.

YEARS	PUBLIC SECTOR		PRIVATE SECTOR	
	Annual discounted saving	Accumulated savings	Annual discounted saving	Accumulated savings
1	9650	9650	9400	9400
2	9312	18962	8836	18236
3	8986	27948	8305	26541
4	8671	36620	7807	34349
5	8368	44988	7339	41688
6	8075	53064	6898	48587
7	7792	60856	6484	55071
8	7520	68376	6095	61167
9	7256	75633	5729	66897
10	7002	82636	5386	72283
11	6757	89394	5062	77346
12	6521	95915	4759	82105
13	6292	102208	4473	86579
14	6072	108281	4205	90784
15	5860	114141	3952	94737
16	5655	119796	3715	98453
17	5457	125253	3492	101946
18	5266	130519	3283	105229
19	5081	135601	3086	108315
20	4903	140505	2901	112216
21	4732	145237	2726	113943
22	4566	149804	2563	116507
23	4406	154211	2409	118916
24	4252	158463	2265	121181
25	4103	162567	2129	123310
26	3960	166527	2001	125312
27	3821	170349	1881	127193
28	3687	174037	1768	128961
29	3558	177595	1662	130624
30	3434	181029	1562	132186

Appendix II: Acronyms

BERR	Department for Business, Enterprise and Regulatory Reform
BRE	Building Research Establishment
BREEAM	Building Research Establish Environmental Assessment Method
BSF	Building Schools for the Future
CAA	Comprehensive Area Assessment
CESP	Centre of Expertise for Sustainable Procurement
GPS	Government Procurement Service
HMT	Her Majesty's Treasury
IDeA	Improvement and Development Agency for Local Government
LAA	Local Area Agreement
MOD	Ministry of Defence
MP	Member of Parliament
MPRG	Major Projects Review Group
NAO	National Audit Office
NDPB	Non-Departmental Public Body
NLGN	New Local Government Network
NVP	Net Present Value
OGC	Office of Government Commerce
PFI	Private Finance Initiative
PPP	Public Private Partnerships
PSA	Public Service Agreement
SDC	Sustainable Development Commission
SDiG	Sustainable Development in Government
SME	Small and Medium Sized Enterprises
SOGE	Sustainable Operations on the Government Estate
SPC	Shadow Price of Carbon
SPTF	Sustainable Procurement Task Force
WSBF	Westminster Sustainable Business Forum

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