

# GUIDE TO SUSTAINABLE PROCUREMENT

Assisting health services in developing sustainability practices into the procurement process

<b>What is Sustainable Procurement?</b> .....	<b>2</b>	<b>References</b> .....	<b>12</b>
<b>Key Sustainable Procurement Principles</b> .....	<b>2</b>	<b>More information</b> .....	<b>12</b>
<b>Incorporating Sustainability into Procurements</b> .....	<b>3</b>	<b>Appendix 1: Key stakeholders and their roles</b> .....	<b>13</b>
Demand analysis .....	3	<b>Appendix 2: Demand analysis questions</b> .....	<b>14</b>
Sustainability impact assessment .....	3	<b>Appendix 3: Key sustainability impacts</b> .....	<b>15</b>
Supply market analysis .....	3	<b>Appendix 4: Assessing supplier sustainability credentials</b> .....	<b>16</b>
<b>Capability and Performance</b> .....	<b>4</b>	<b>Appendix 5: Sustainability impact analysis scoring chart</b> .....	<b>18</b>
<b>Degree of influence</b> .....	<b>4</b>	<b>Appendix 6: Sustainability approaches for supply categories</b> .....	<b>19</b>
<b>Plan for Sustainability in Procurement</b> .....	<b>5</b>	<b>Appendix 7: Evaluation methods – rewarding more sustainable performance</b> ...	<b>20</b>
<b>The Plan</b> .....	<b>5</b>		
Getting Started .....	5		
Integrating and prioritising significant procurement .....	6		
Determining stage in which sustainability impacts will be managed .....	6		
Identifying the overall sustainability approach for the category .....	7		
Developing sustainability requirements .....	7		
Specifications .....	7		
Going to Market .....	9		
Evaluation and selection .....	9		
Negotiating agreements.....	11		

# GUIDE TO SUSTAINABLE PROCUREMENT

Assisting health services in developing sustainability practices into the procurement process

## What is Sustainable Procurement?

There are numerous definitions and interpretations of 'sustainability' in general and 'sustainable procurement' in particular.

The three pillars of sustainability include Environmental, Social and Economic impact.

For the purpose of these guidelines, a working definition for moving towards sustainability in procurement is defined as:

*"A process whereby organisations meet their needs for goods, services, works and utilities in a way that achieves value for money on a whole-of-life basis in terms of generating benefits not only for the organisation, but also to society and the economy, whilst minimising damage to the environment."*<sup>1</sup>

It is also helpful to think about sustainability within organisations, on four levels:

1. Compliance with legal requirements, or government policy (e.g. Health Purchasing Policy)
2. Cost and waste reduction
3. Mitigation of risk, protection of brand and reputation
4. Demonstrating corporate social responsibility.

## Key Sustainable Procurement Principles

At a high level, the Australian Procurement and Construction Council (APCC) framework is built around four broad principles of sustainable procurement. The framework recommends that these principles should underpin the development and implementation of sustainable procurement strategies, policies, guidelines and tools.

The following are the four key principles:

1. Adopt strategies to avoid unnecessary consumption and manage demand
2. Select products and services which have lower environmental impacts across their whole of life cycle compared with competing products and services
3. Foster a viable Australian market for sustainable products and services by supporting businesses and industry groups that demonstrate innovation in sustainability; and provide local industries and communities with tailored support and advice on how they can best manage sustainable products
4. Support suppliers to government who are socially responsible and who adopt ethical practices.

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<sup>1</sup> This definition was developed by the United Kingdom Government's commissioned Sustainable Procurement Taskforce in 2006 and has been adopted by CIPS (Chartered Institute of Purchasing and Supply) and the Australasian Procurement and Construction Council framework for Sustainable Procurement (APCC).

# GUIDE TO SUSTAINABLE PROCUREMENT

Assisting health services in developing sustainability practices into the procurement process

## Incorporating Sustainability into Procurements

Sustainable procurement should be integrated into the overall procurement planning process.

It is essential that sustainability is considered early in the procurement process, as later in the procurement cycle there is progressively less scope to add value through improved sustainability outcomes.

These guidelines focus on incorporating three strategic areas into the procurement planning process. The three areas include:

- Demand analysis
- Sustainability impact assessment
- Supply market analysis.

### Demand analysis

During the demand (needs) analysis, consideration should be given to the required outcome sought from the procurement and whether 'the need' can be met by a more sustainable alternative. This consideration may identify opportunities to:

- Avoid or reduce consumption, by finding other alternatives
- Identify whether there is a more sustainable alternative already available
- Rethink and revise specifications in order to improve sustainability outcomes.

During demand analysis key stakeholders should be identified and sustainability issues introduced into discussions regarding the particular procurement arrangement and its objectives.

This approach will facilitate an understanding of the potential for sustainability to be incorporated into the requirements specifications. Users, business analysts and technical officers are important stakeholders in this process, as they may be responsible for or have key influence over developing the specifications.

The template shown in *Appendix 1* may be used to identify key stakeholders and their roles. *Appendix 2* also provides a list of questions to consider when completing demand analysis.

### Sustainability impact assessment

The sustainability impact assessment seeks to build an understanding of the whole-of-life environmental and social impacts associated with the good or service being procured. This will assist in determining the specific sustainability issues, risk and opportunities that the procurement will address and support.

The table in *Appendix 3* outlines the key sustainability impacts to consider.

Once sustainability impacts have been identified they should be analysed as to the opportunity for improvement.

### Supply market analysis

The purpose of conducting a supply market analysis in regards to sustainable procurement is to:

- Develop an understanding of the current level of capability and performance in the market with regard to sustainability, and the capacity and potential of the supply base to move towards, and advance, best practice
- Determine the degree of influence the organisation has within the supply market to drive sustainable procurement objectives.

# GUIDE TO SUSTAINABLE PROCUREMENT

Assisting health services in developing sustainability practices into the procurement process

## Capability and Performance

Appendix 4 provides guidance on how a procurement officer might assess the level of capability and performance of a supplier in relation to environmental and social sustainability.

Ongoing market awareness and constructive relationships with suppliers will assist organisations to remain informed about goods and services with improved sustainability outcomes: for example: new product models or innovative technology that delivers improved sustainability outcomes.

## Degree of influence

This analysis considers the degree of influence the organisation has over the supply market in relation to driving sustainability performance.

The supplier performance tool shown in Figure 1 will assist with this process.

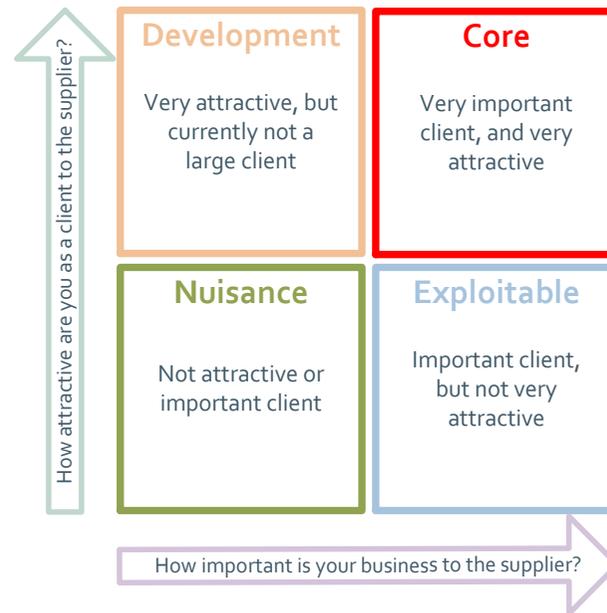


Figure 1. Supplier Preferencing

The summary below provides a high level overview of the likely potential for progressing sustainable procurement seen in Figure 1. *Supplier Preferencing*.

Influence	Details
Development	<ul style="list-style-type: none"> <li>Supplier seeking to grow their business with the agency/Government so they will be more receptive to sustainability request</li> <li>Good opportunity for supplier development in terms of progressing sustainability and innovation</li> </ul>
Core	<ul style="list-style-type: none"> <li>Very open to change and to sustainability requests</li> <li>Focus on driving sustainability objectives and influencing the supply market</li> </ul>
Nuisance	<ul style="list-style-type: none"> <li>Low potential to drive sustainability issues</li> <li>If possible consider changing the supply base</li> </ul>
Exploitable	<ul style="list-style-type: none"> <li>Potential exits to increase in pushing sustainability requests</li> <li>Focus on improving your relationship with the supplier</li> </ul>

Table 1. Degree of Influence

# GUIDE TO SUSTAINABLE PROCUREMENT

Assisting health services in developing sustainability practices into the procurement process

An equivalent diagram can be reviewed from a procurer's point of view:

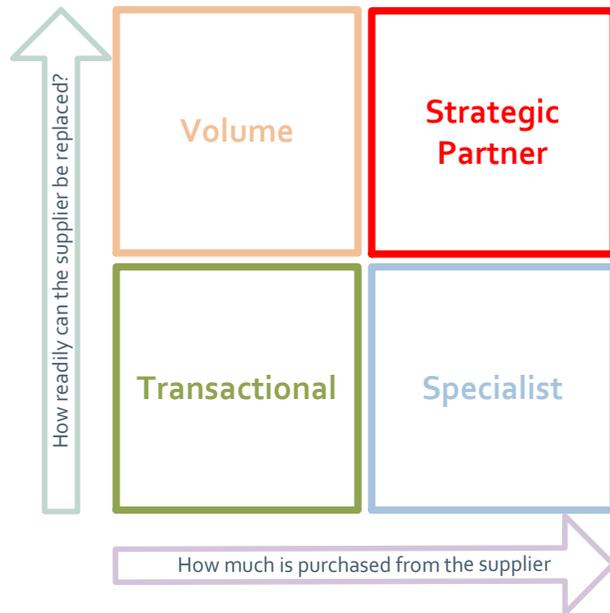


Figure 2. Procurement Preferencing

## Plan for Sustainability in Procurement

Although much procurement can benefit from being identified for further sustainability consideration, health services should identify and prioritise those particular procurements that require more detailed consideration. For the purpose of this guideline, these are referred to as 'significant' procurements.

The plan for significant procurement should document each element of the procurement planning process, including the demand and supply market analysis and the likely impact of the supply market as outlined earlier. An evaluation of potential sustainability options and the preferred strategy should be incorporated into the plan.

### Pre-qualified suppliers

Organisations may want to introduce the process of pre-qualification of suppliers where suppliers need to satisfy a set of sustainability criteria in order to successfully supply the goods/services to the organisation. This will provide the organisation with an enhanced confidence in the ability of the suppliers to deliver more sustainable goods/services and ensure the organisation sets clear minimum standards for sustainability performance and these must be documented in the plan.

## The Plan

### Getting Started

It is assumed that the procurement officer has already completed the initial set of analysis including demand analysis, supply market assessment, supply market analysis and established criteria for pre-qualifying suppliers.

The Sustainable Procurement Plan for significant procurement should address in detail the following questions:

- How can we integrate and prioritise significant procurement?
- At which stage of the procurement process should we identify sustainability impacts?
- What is the overall sustainability approach for the category including development of sustainability requirements?
- How will we manage supply arrangements?

# GUIDE TO SUSTAINABLE PROCUREMENT

Assisting health services in developing sustainability practices into the procurement process

## Integrating and prioritising significant procurement

One of the practical methods for integrating sustainability considerations into 'significant' procurement and purchasing decisions is to include scoring or weighting to the sustainability criteria or to establish a set of sustainability assessment questions during the Invitation to Tender Supply and contract management processes.

For the purpose of these guidelines, we recommend that each sustainability criteria be assigned a score as indicated in *Appendix 5: Sustainability Impact Analysis Scoring Chart*.

It is likely that in the first instance, significant procurements will be fewer in number and will demonstrate a high level of rating for all or most criteria. With time, this list may expand as the organisation gains more sustainability experience and capability, and supplier markets develop more capacity to provide the sustainable features as determined through procurement specifications.

## Determining stage in which sustainability impacts will be managed

When determining the possible procurement responses to the identified sustainability objectives, a decision should be made as to the stage of the procurement process at which the specific sustainability impacts may best be addressed. Thorough consideration must be given to which stage is most appropriate as there are a number of options, each of which achieves different outcomes.

Sustainability responses can be incorporated in one or more of the following procurement stages: prequalification, specification, evaluation, negotiation, and contract management:

- **Prequalification stage** Invite only those suppliers to offer who meet a specific sustainability requirement: e.g. supplier must have an Environmental Management System with CO<sub>2</sub> reduction targets
- **Specification (mandatory requirement)** Suppliers must be able to meet the sustainability requirement specification contained in the Invitation to Supply. If this is not met – for example – if all offered goods must be Energy Star rated – then non-complying products will not be included in the evaluation. Desirable sustainability requirements must also be included in the specification so supplier's responses can be evaluated

- **Evaluation** Suppliers should be informed of the sustainability criteria for evaluation and must respond to the desirable sustainability requirements. Responses contained in the offers will be considered in evaluating and selecting the successful supplier - for example – ask suppliers to identify objective attributes such as the energy consumption of products within their offer and these will be scored as part of the evaluation process
- **Negotiation** During negotiation, discuss how the arrangements can move to the provision of more sustainable goods over time – for example – suppliers must gradually increase the proportion of "sustainable" packaging used for goods supplied under the arrangement
- **Contract management** Utilise contract clauses to ensure a specified level of sustainability performance. Alternatively, work with suppliers during the term of the contract to cooperatively and progressively improve the sustainability performance of goods/services by establishing Key Performance Indicators (KPIs) in the plan. Measures for assessing compliance with the KPIs and consequences for not meeting the set KPIs should be specified. These will be included in the Contract Management Plan once agreed to by both parties.

# GUIDE TO SUSTAINABLE PROCUREMENT

Assisting health services in developing sustainability practices into the procurement process

## Identifying the overall sustainability approach for the category

The results of the supply positioning analysis will assist in determining the overall sustainable procurement approach for the category.

*Appendix 6* provides some procurement approaches for addressing sustainability impacts for goods or services in terms of the four supply categories.

## Developing sustainability requirements

The key steps in the procurement process for consideration when developing sustainability criteria are as follows:

- Specifications
- Going to Market
- Evaluation and selection
- Negotiating agreements.

## Specifications

The use of specifications within the Invitation to supply (ITS) process is an important avenue for defining sustainability requirements and sends a clear message that sustainability is important in the procurement process.

This involves translating the identified sustainability objectives and responses into specifications and developing evaluation criteria to assess supplier compliance with the sustainability specifications. The sustainability specifications will be informed by the key sustainability objectives and procurement responses that were determined during the development of the sustainability plan. The sustainability criteria will address the prioritised impacts and transform them into specific requirements that can be asked of the supplier.

Specifications must state exactly what sustainability aspects are required from the supplier and how performance against these requirements and how they will be assessed.

Specifications can be categorised as follows:

### Mandatory

The supplier must comply with the specified requirements or will be excluded for further consideration.

### Preferred

Preferred specifications can be used if there is uncertainty as to how the market or suppliers are able to respond to the sustainability requirements. Before any preferred criteria are set, it is essential to determine how suppliers who meet these criteria will be evaluated.

In certain situations it may be preferable to ask the suppliers to propose more sustainable goods or services than those detailed in the specifications – thus encouraging innovation. However, this approach should only be taken when the organisation is open to accepting an alternative solution.

# GUIDE TO SUSTAINABLE PROCUREMENT

Assisting health services in developing sustainability practices into the procurement process

## Technical, functional and performance specifications

Some specifications do not adequately consider the intended function of the product and could unintentionally discriminate against sustainably preferable products. Specifications may require a move away from a strict technical specification towards the use of a functional or performance specification.

For example, recycled content products are sometimes judged to have an inferior appearance, although the appearance of the product may not be material to its performance: for example, recycled paper products. Therefore when developing a specification it is essential to ensure that these emphasise performance over design or appearance. Existing specifications and Invitation to Supply documents should be reviewed to ensure that they do not contain unnecessary obstacles to sustainable procurement, such as:

“no recycled material”, or phrases such as “virgin paper only” (Virgin Paper is paper made from fresh wood or cotton pulp instead of recycled paper that has most likely been printed on), requiring a certain colour, awarding bids on an all-or-none basis, unreasonable quantity requests, unrealistic response and delivery times.

## Eco-labels in specifications

Eco-label criteria can be useful when researching and developing specifications. However generally, wherever the holding of an eco-label is included as a requirement, the words ‘or equivalent’ should be added. This will ensure that products that possess the relevant sustainability requirements (but that do not have the specific eco-label) are able to be considered. An alternative approach is for the specification to request that the product meets the underlying criteria contained within the eco-label – in which case the eco-label may be accepted as a non-exclusive proof of compliance.

Thus, an eco-label certificate can be used as proof of compliance with specific sustainability criteria, although other means of proof should be accepted, such as documentation and alternative evidence.

## Specifications for a service

Sustainability criteria must also be included into specifications for service arrangements.

Considerations:

- Related Victorian Government legislation ( e.g.: Sustainability Victoria Act 2005, and the EPA Act 1970) that may affect the service requirements
- Social issues that may affect the service provider’s employees and any subcontractors
- Being unaware of the organisation’s sustainability targets, objectives and policies
- Volume of consumable items, and measures that will be used to manage the sustainability impacts
- Adequate training on sustainability issues for service provider staff working on site.

# GUIDE TO SUSTAINABLE PROCUREMENT

Assisting health services in developing sustainability practices into the procurement process

## Going to Market

When going to market, procurement officers should review the Conditions of the Contract or Standing Offer Arrangements to ensure that they include the required sustainability requirements.

Additional clauses may need to be added. These can be used to make supplier commitments binding within the contract or to detail penalties and consequences incurred by suppliers who fail to meet these sustainability requirements.

Contract clauses can be used to manage risks by requiring the supplier to commit to sustainability requirements over the term of the contract arrangements, such as:

- Preventing suppliers from making changes to their products or service without consultation with the organisation
- Requiring that the supplier take back all transport packaging
- Requiring that the supplier take back end-of-life equipment
- Requiring that products be delivered in bulk and/or outside of peak traffic times to reduce the contribution of deliveries to traffic congestion and air pollutant emissions.

## Evaluation and selection

### Developing evaluation criteria

From a sustainability perspective, evaluation allows the selection of the offers that achieve the best sustainability performance.

Evaluation criteria does not have to be developed for the mandatory requirements because those offers which do not comply with the mandatory requirements, including mandatory sustainability requirements, will be excluded for further consideration. Evaluation criteria should be determined prior to going to the market and included in the Evaluation Plan – as the evaluation of supplier responses against the specification will need to be conducted by applying these criteria.

### Determining sustainability weighting

The overall weighting allocated to sustainability criteria in the evaluation should reflect sustainability's contribution to value for money, and will also reflect the scope for improvement and potential to influence the market (for example for procurements with high sustainability risk or opportunity, and with high scope for improvement, consider assigning a higher overall sustainability weighting).

Once having decided on the overall sustainability weighting relative to other key evaluation criteria such as price and quality, a decision should be made as to the relative weightings of the individual sustainability criteria. Sustainability criteria that have been identified as high priority may be assigned a greater weight. Alternative, if it is not possible to determine which criteria are more important or relevant then equal points could be allocated to each of the criteria.

One approach to the evaluation may be to set a minimum overall sustainability score (a sustainability threshold) that a supplier is required to achieve in order to win the ITS. Where a supplier falls below the set required sustainability score, they would automatically be disqualified, regardless of their performance in other criteria such as price competitiveness or quality.

Alternatively, sustainability factors can be included as a score alongside all the other criteria (such as price, service levels or quality), with the supplier who scores the highest overall score being awarded the tender.

HPV now evaluates respondents based on a set of environmental assessment questions during the ITS process. These relate to the environmental management process of suppliers, and identifiable environment aspects of the products & packaging of goods sourced.

The relative weighting of environmental management credentials within the calculation of best value is set by its internal Product Reference Group for each tender.

# GUIDE TO SUSTAINABLE PROCUREMENT

Assisting health services in developing sustainability practices into the procurement process

## Evaluation methods

The evaluation method used will depend upon the level of risk and the organisation's approach to the value for money evaluation. Development of an Evaluation Plan will provide detail on all aspects of the evaluation process.

The following stages are ways that can support sustainable procurement at the ITS evaluation stage.

## Rewarding more sustainable performance

For example, procurers are aware that one or more suppliers in the market have available a logistics solution that delivers to the service points using lightweight but fully reusable and returnable crates that eliminate a whole level of cardboard packaging that needs to be disposed of (removing several tons of cardboard from the supply chain over each year). Perhaps furthermore, a particularly innovative supplier might have invested in delivery trucks that are also electric or hybrid vehicles charged from solar photovoltaic back at base, therefore significantly reducing associated greenhouse gas emissions, plus reducing the impact on public health related to local particulate air pollution from the standard diesel truck.

In this case, the Evaluation Plan could choose to evaluate each supplier against the relative environmental benefits of their logistics component, as estimated by the procuring organisation. The scoring of this section would be against information, evidence and method statements provided by the suppliers. A fair scoring system could use a scorecard/checklist against known criteria (if the individual

elements of the preferred system are well understood), or be scored as an open question on a scale against apparent benefits and likelihood that proposed benefits would be realised, assessed as outline in *Appendix 7*.

## Whole-of-life costing

This approach recognises that procurement decisions should not be based on purchase price alone, but should consider whole-of-life costs. As part of whole-of-life costing it is important to consider that the duration of the costing model should reflect the life of the product being compared: for example disposable items versus reusable items which are guaranteed for a longer life span. It is also essential to incorporate the likelihood of rapidly changing technology into the asset life calculations.

In some situations, the sustainably preferred goods/service may be more expensive to purchase, but will generate more savings in the longer term and through their life through reduced requirement for maintenance/repair, reduced running or energy costs, improved end-of-life value or reduced social costs (for example - In Dialysis centres, the additional expenditure incurred on recovering a large amount of Reuse Opportunity reject water, which is of more than sufficient quality for supply for purposes such as steam sterilizers, toilet flushing, ground maintenance etc. is worth it.

Whole-of-life costing can be applied to demonstrate value for money outcomes where the:

- Product with lower sustainability impact costs the same as, or less than, the original product that was bought
- Lower impact product costs more than the original but results in savings over time which could offset the higher upfront cost (often the case for energy-saving devices such as low energy light bulbs or more efficient refrigerators)
- Lower impact product costs more, but the cost can be offset from savings made elsewhere within the business unit.

In addition, value for money includes consideration of the benefits to be derived from the procurement, relative to the whole-of-life costs. Thus when evaluating the procurement, it is important to consider other (non-financial) whole-of-life benefits, such as contribution to government priorities. These may be assessed as offsetting the extra cost of the product.

# GUIDE TO SUSTAINABLE PROCUREMENT

Assisting health services in developing sustainability practices into the procurement process

## Qualitative assessments

It may be appropriate to use this method where suppliers are asked to detail or demonstrate their organisational sustainability performance. Those suppliers that identify the main social and environmental impacts associated with their businesses and who identify adequate KPIs to manage these impacts could be allocated a higher score. Similarly, suppliers should be rewarded where they are initiatives and programs that support wider social or environmental objectives.

## Negotiating agreements

Where a specific sustainability requirement cannot be sourced through the ITS process, additional sustainability outcomes may be negotiated: for example, improvements in sustainability performance that are to be achieved progressively during the term of the arrangement. The sustainability performance can then be monitored over the term of the arrangement against the nominated KPIs.

As indicated earlier, targets and KPIs should be established during the implementation of the contract and prior to the commencement of delivery under the contract. Any proposals to improve sustainability performance which occur during the term of the contract may need to be formally agreed as amendments under the contract conditions.

## Managing supply arrangements

The key stages in managing supply arrangements that are used to ensure that a supplier meets the agreed sustainability commitments and also provides further opportunities to improve sustainability performance are:

- Performance monitoring
- Reviewing a contract.

### Performance monitoring

Performance monitoring is essential throughout the life of the contract to ensure that the suppliers fulfils all terms and conditions of the contract, including the targets and KPIs.

Considerations:

Potential approaches to addressing sustainability through KPIs may include:

- Set specific targets that the supplier is required to meet
- Review with the supplier the opportunity to progressively increase the sustainability performance of their products – for example, increase the number of products that meet strict criteria or an econ-label standard
- Encourage the supplier to identify sustainability and innovation improvements throughout the term of the contract.

Establishing a good buyer-supplier relationship can facilitate sustainability improvements during the term of the arrangement and assists in correction of shortcomings before the relationship is adversely affected. With this in place, the supplier is likely to approach the contract manager and inform them about new or more sustainable products as they become available.

Regular feedback from the end user is necessary to ensure that the goods or service quality remains adequate and that there are not changes to design or specifications.

## Reporting and measurement

Reporting and measurement should be considered at an early stage in the procurement. Reporting requirements should be built into the specifications and contract conditions. This will ensure that information is available to measure the benefits associated with sustainable procurement.

# GUIDE TO SUSTAINABLE PROCUREMENT

Assisting health services in developing sustainability practices into the procurement process

## Reviewing the contract

Towards the end of the contract including the consideration of awarding option periods, sustainability performance should be included as part of the overall review process. This information will assist in identifying areas for improvement and will form the basis for the decision to renew or extend the contract.

Considerations:

- Review performance against the agreed sustainability KPIs
- Determine whether the desired sustainability objectives have been met
- Find out whether the organisation's sustainable procurement focus has changed
- Carry out analysis to assess whether there are any new suppliers on the market, or new more sustainable products on the market
- Document findings and lessons learned, as this information will be used in the planning stage for a future contract for the product or service.

## References

The guidance material is modelled on the documents listed below (all resources available online):

1. Queensland Government: Integrating sustainability into the procurement process, November 2009
2. <http://www.hpw.qld.gov.au/SiteCollectionDocuments/ProcurementGuideIntegratingSustainability.pdf>
3. Government of South Australia: Sustainable Procurement Guide, August 2012
4. Australian Government, Sustainable Procurement Guide, 2013
5. Australasian Procurement Construction Council (APCC): Australian and New Zealand Government Framework for Sustainable Procurement, 2007
6. Chartered Institute of Purchasing & Supply (CIPS): Sustainable Procurement, May 2009

## More information

Related documents and templates are available on the HPV website.

For access contact the HPV Process Improvement team at [processimprovement@hpv.org.au](mailto:processimprovement@hpv.org.au).

# GUIDE TO SUSTAINABLE PROCUREMENT

Assisting health services in developing sustainability practices into the procurement process

## Appendix 1: Key stakeholders and their roles

Stakeholder Name	Role	Likely support Y/N	Key Issues	Influence/ Impact	Suggested action
Xxx	End user	Y	<ul style="list-style-type: none"> <li>Unaware of available options and alternatives for more sustainable products</li> <li>Buys/requests items based on previous or past behaviour</li> <li>Unaware of how usage of the product may affect sustainability outcomes</li> </ul>	<ul style="list-style-type: none"> <li>Moderate to high (through user behaviour)</li> </ul>	<ul style="list-style-type: none"> <li>Communicate with focus on providing information about alternative options that relate to sustainable products</li> <li>Consult to fully understand 'needs' and 'usage' impacts</li> <li>Educate and raise awareness regarding usage behaviours</li> </ul>
XXY	Manager	N	<ul style="list-style-type: none"> <li>Lack of understanding of sustainability impacts and issues</li> <li>Unaware of available options and alternatives for more sustainable products</li> <li>Buys/requests items based on past behaviour</li> <li>Unaware of how usage of product may affect sustainability outcomes</li> </ul>	<ul style="list-style-type: none"> <li>Significant influence: responsible for expenditure approval</li> </ul>	<ul style="list-style-type: none"> <li>Consult with the stakeholder at the early stage of the procurement process to explain how sustainability may be incorporated into the requirements</li> </ul>
XYX	Business Analyst	N	<ul style="list-style-type: none"> <li>May have focus on issues other than sustainability</li> <li>Unaware of sustainable procurement priorities</li> </ul>	<ul style="list-style-type: none"> <li>Significant influence through interpreting business requirements and developing specifications</li> <li>Substantial influence on 'value for money' outcomes</li> </ul>	<ul style="list-style-type: none"> <li>Consult with the stakeholder to ensure ongoing and early consultation at the early stages of business requirements analysis</li> <li>Build strong working relationships with the incumbent</li> </ul>

Table 2. Key stakeholders and their roles

# GUIDE TO SUSTAINABLE PROCUREMENT

Assisting health services in developing sustainability practices into the procurement process

## Appendix 2: Demand analysis questions

1. Do we really need to purchase this good or service, or can the need be met in another way?
  - a. Is it a suitable good/service already available within the organisation?
  - b. Can existing assets be refurbished, repaired or upgraded to meet the need?
  - c. Are there other options for meeting this need? E.g. reuse, borrow, and swap?
  - d. Can the need be met in partnership with other organisations?
  - e. What would avoid the need for this good/service?
2. Can we reduce the quality or scale of the goods/service while still achieving the same service delivery?
  - a. How do the goods or services contribute to service quality? Are we automatically replacing the good/service based on past procurement patterns?
  - b. Are specifications based on actual requirements, ensuring that they are not over-specified?
  - c. Are improved technology options available?
  - d. Are there options for behaviour change in relation to consumption of this good or service?
3. Can alternative goods or service be used to meet this need?
  - a. Is there another more suitable good or service available that can serve the same purpose? Have there been any technology improvements?
  - b. Could a service be used to meet the need instead of a good?
4. Can the goods/service be specified to have improved sustainability outcomes, including being able to serve a useful purpose after its initial use?
  - a. Can the goods or its key components be reused, refurbished, repaired, recycled or composted?
  - b. What specifications could be included to reduce the use of resources (such as energy, water or consumables) during the useful life of the goods?
5. What information is available regarding sustainably-preferable options for this purchasing requirement? Where can more information be obtained about suitable alternatives?
  - a. Is there a sustainable procurement officer within the organisation?
  - b. What information is provided by suppliers?
  - c. What external sources of information are available, e.g.: other government bodies, other organisations?

# GUIDE TO SUSTAINABLE PROCUREMENT

Assisting health services in developing sustainability practices into the procurement process

## Appendix 3: Key sustainability impacts

Many issues in sustainability are inter-related. The following breakdown, while not exhaustive, can help focus stakeholders on which issues they may wish to prioritize, and whether some issues are more relevant to a particular procurement activity.

Sustainability Issue	Measures / Indicators or Impact or Risk	Comments
Climate Change	Greenhouse gas emissions, Carbon Footprint	Climate change affects most elements of environmental sustainability, plus health impacts of extreme climate change will be significant
Biodiversity	Land use changes, e.g. from de-afforestation	Both risks of negative impacts on biodiversity and ecosystem risks from reduced biodiversity
Solid wastes	Waste to landfill, % recycling from waste, litter	Direct impacts from disposal, plus potential to avoid environmental impacts and improved economic sustainability from waste reduction, recycling etc.
Environmental pollution to water or air, e.g. heavy metals, endocrine disruptor chemicals, persistent organic pollutants, smog precursors etc.	Use of substances of concern in manufacturing processes, or contained in product Effects on Indoor Air Quality Emissions to air	Health impacts of pollutants, risk avoidance through green chemistry, environmental product design
Non-renewable resource depletion	Resource consumption across product/service life cycle	Resource constraints in some non-renewable resources may cause economic or social impacts
Energy supply	Energy efficiency, renewable energy generation	As energy supply is still mostly based on fossil fuels, energy use is strongly correlated with climate change and non-renewable resource depletion
Water	Water footprint of products, water efficiency of plant or equipment	Potential for social impacts from water constraints due to fresh water
Ethical treatment of employees and communities in upstream supply chains	Risk assessments, adherence to codes of conduct, Fair Trade or other governance principles	Corporate Social Responsibility of purchasing and producing organizations

Table 3. Key sustainability impacts

# GUIDE TO SUSTAINABLE PROCUREMENT

Assisting health services in developing sustainability practices into the procurement process

## Appendix 4: Assessing supplier sustainability credentials

The following criteria has been established to provide guidance to a procurement officer to assist with assessing the suppliers level of commitment and performance in relation to environmental and social responsibility

The procurement officer needs to review in terms of applicability. The intention is that officers select only those criteria or questions most appropriate for their procurement requirements.

No#	Possible consideration of the following questions for suppliers
1	<p>Environmental Policy and Environmental Plans Criteria or questions for the supplier to respond to:</p> <ul style="list-style-type: none"><li>• Does the organization have a publically available policy committing the organization to addressing environmental impacts or risks beyond compliance with laws? [<i>Closed question</i>]</li><li>• Has the organization have any specific plans or activity underway to mitigate environmental impacts or risks [<i>Open question</i>]</li></ul>
2	<p>Systems for environmental management Criteria or questions for the supplier to respond to:</p> <ul style="list-style-type: none"><li>• Does your organization (and key suppliers) have documented environmental management systems to address environmental hazards and risks [Closed Question]?</li><li>• Describe the management system &amp; processes in place that enable your organisation to reduce your environmental impacts, meet your legal environmental requirements and achieve continuous improvement of your environmental performance [Open Question]</li><li>• In the last two years has the organisation been subject to any court proceedings related to breaches of environmental legislation?</li></ul>
3	<p>Commitment to sustainability and demonstrated sustainability improvements Criteria or questions for the supplier to respond to:</p> <ul style="list-style-type: none"><li>• Describe the processes and practices that demonstrate your organisation's commitment to and delivery of sustainability principles, including improving the sustainability performance of your organisation.</li><li>• Describe programs or initiatives that your organisation has implemented across the supply chain that are directed towards becoming aware of and improving the sustainability performance of its products and/or services (including from a whole of life perspective and ethical sourcing)</li></ul>
4	<p>Carbon Footprint Criteria or questions for the supplier to respond to:</p> <ul style="list-style-type: none"><li>• What steps does your organisation take to reduce the greenhouse gas emissions (carbon footprint) associated with its products (or services)?</li></ul>
5	<p>Packaging Criteria or questions for the supplier to respond to:</p> <ul style="list-style-type: none"><li>• Are you a signatory to the Australian Packaging Covenant (APC)?</li><li>• Describe any initiatives that your organisation has in place to minimise/reduce the amount of packaging used &amp; supplied with products, improvements in the recyclability of packaging supplied, or other elements of sustainable packaging guidelines</li></ul>
6	<p>Transport and logistics Criteria or questions for the supplier to respond to:</p> <ul style="list-style-type: none"><li>• Describe initiatives that the organisation has implemented to reduce the environmental impacts directly associated with the transportation of raw materials/component parts and/or finished products</li></ul>

# GUIDE TO SUSTAINABLE PROCUREMENT

Assisting health services in developing sustainability practices into the procurement process

No#	Possible consideration of the following questions for suppliers
7	<p>Environmentally preferable products Criteria or questions for the supplier to respond to:</p> <ul style="list-style-type: none"><li>• Does your organisation provide any products or range of products that are demonstrably environmentally preferable to standard products in their category? If so, please provide evidence confirming that the product can be classified as environmentally preferable. This could include independent certification under an Eco label or an environmental product declaration</li></ul>
8	<p>Corporate social responsibility Criteria or questions for the supplier to respond to:</p> <ul style="list-style-type: none"><li>• Describe the formalised programs or initiatives that the organisation has in place that are directed towards meeting social and ethical responsibilities and objectives</li></ul>
9	<p>Employment practices (Applicable to the supplier's organisation or subcontractors) Criteria or questions for the supplier to respond to:</p> <ul style="list-style-type: none"><li>• What does your organisation do to apply fair employment practices to your workforce, employees and subcontractors beyond legal minimums</li><li>• Has your organisation had any employment related convictions in the past 2 years?</li></ul>

Table 4. Assessing supplier sustainability credentials

# GUIDE TO SUSTAINABLE PROCUREMENT

Assisting health services in developing sustainability practices into the procurement process

## Appendix 5: Sustainability impact analysis scoring chart

In this example, a decision is made to incorporate sustainable features into the top three procurements. See Table for example.

Procurement is ranked according to the total score, calculated against the maximum score possible (i.e. 5 criteria x 3 = 15 maximum). You would also need to determine where the cut-off line is for choosing what is deemed as significant procurement and these will vary in each group.

By ranking procurement according to its total score, a priority list of “sustainable procurements” can be identified.

Upcoming Procurement	Sustainability Impact Score	Ranking
Food	13/15	1
ICT Equipment	13/15	2
Fleet	11/15	3
IV & Dialysis Fluids	10/15	Lower priority
Continance Management Products	8/15	Lower priority
Domestic Paper	7/15	Lower priority
Surgical Implants	3/15	Not significant
Telecommunications	2/15	Not significant

Table 5. Sustainability impact analysis scoring chart

Ability to influence is more subjective, but was estimated based on an assessment of i) availability or potential for product options with lower environmental impact, ii) health sector influence with suppliers, and iii) level of competition.

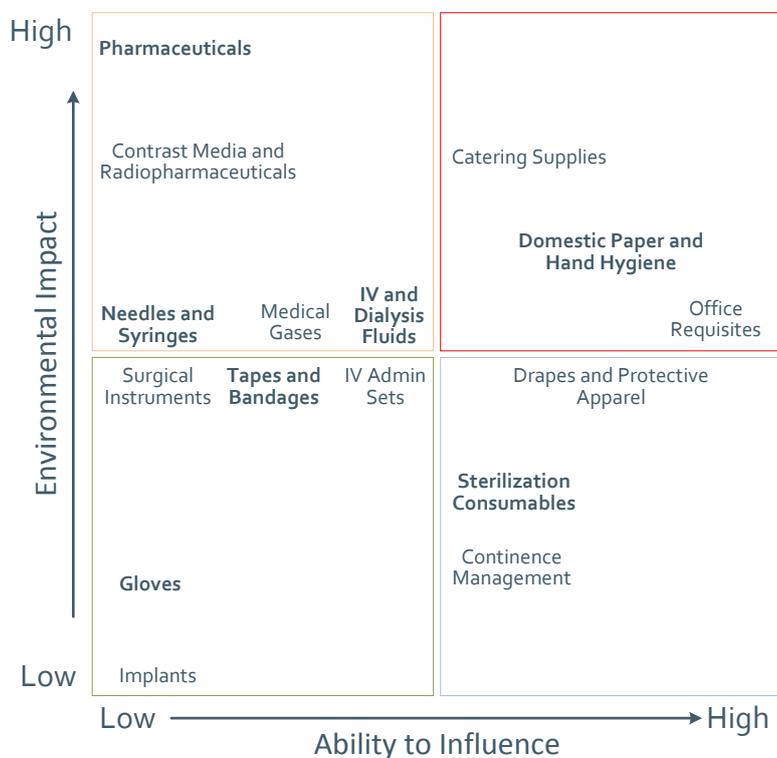


Figure 3. Environment impact and ability to influence matrix

# GUIDE TO SUSTAINABLE PROCUREMENT

Assisting health services in developing sustainability practices into the procurement process

## Appendix 6: Sustainability approaches for supply categories

Categories	Sustainability approaches
<b>Routine category (transactional)</b>	<ul style="list-style-type: none"> <li>• Simple sustainability criteria should be included in the specification</li> <li>• Contract/arrangement term should be shorter and suppliers should be regularly changed to achieve value for money and better sustainability outcomes</li> <li>• A cost premium should not need to be paid for products with improved sustainability performance</li> </ul>
<b>Volume category (leveraged)</b>	<ul style="list-style-type: none"> <li>• Sustainability specifications should be included in the Invitation to Supply documents</li> <li>• As there are a number of suppliers of products/services in this category, suppliers with the best sustainability performance should be selected</li> <li>• Supplier's organisational sustainability performance should be evaluated. In addition to the performance of the goods/service</li> <li>• Focus should be on driving sustainability in addition to cost reduction, and cost premium should not necessarily need to be paid to reduce sustainability risk</li> <li>• Supplier performance should be regularly reviewed and suppliers may need to be changed to achieve value for money and ensure the organisation is up to innovation/improvements</li> </ul>
<b>Specialised category (Focused)</b>	<ul style="list-style-type: none"> <li>• Detailed sustainability specifications should be developed, or alternatively (as there are typically only a few suppliers of this good/service) suppliers may be asked for proposals to improve their sustainability performance</li> <li>• It is important that alternative sources of supply are identified and their sustainability impact assessed</li> <li>• A cost premium may need to be paid to minimise the sustainability risks and ensure that the most sustainable supplier is selected</li> </ul>
<b>Critical category (Strategic)</b>	<ul style="list-style-type: none"> <li>• Some mandatory sustainability criteria should be included in the specification</li> <li>• A close relationship should be developed with the supplier; suppliers must be challenged to improve both sustainability and cost of goods/services</li> <li>• Sustainability objectives should be a point for negotiation</li> <li>• Sustainability Key Performance Indicators should be set and the supplier challenged to gradually improve their sustainability over the term of the contract/arrangement</li> <li>• A cost premium should be paid only if this is necessary to ensure the sustainability risk is reduced and the most sustainable supplier is selected</li> <li>• It is important that alternative sources of supply are identified and their sustainability impact assessed</li> </ul>

**Table 6. Sustainability approaches for supply categories**

### Determining if a cost premium should be paid to achieve a sustainably preferred outcome:

Depending on the sustainability approach chosen, the outcomes of a procurement process may result in a purchase that costs more than less-sustainable goods/services, even when a whole-of-life cost is considered. Cost premiums should be considered for high sustainability risk products/services which have a high focus on risk reduction or which can demonstrate substantial or important sustainability benefits or opportunities.

When deciding if a cost premium should be paid to achieve a sustainability preferred outcome, the decision may be justifiable on sustainability grounds. A justification of higher up-front costs can be made through longer-term paybacks or because of a particular sustainability outcome that is specifically desired: for example reduction of Greenhouse Gas emissions or acquisition of equipment that takes into consideration future expected changes.

# GUIDE TO SUSTAINABLE PROCUREMENT

Assisting health services in developing sustainability practices into the procurement process

## Appendix 7: Evaluation methods – rewarding more sustainable performance

Benefit that could be realised	Offer includes a proposal contingent on actions post-award/only applies to the total supply offer	Solution offered is highly likely to be able to be implemented/applies to a significant part of the supply offer being assessed	Solution offered is fully implemented as standard practice across supply offer being assessed
Only marginally different from standard practice/minimal additional benefit	0	1	2
Better than standard practice/some perceived benefit from offer	1	2	3
Current Best Practice/significant perceived benefit from offer	2	3	4
Leading Practice/high perceived benefit from offer	3	4	5

Table 7. Evaluation methods