# **Environmental impact in procurement – Goods and services procurement guide**

## Procurement and the environment

All procurement has some level of impact on the environment that needs to be minimised to ensure sustainable procurement practices.

Many environmental impacts occur before a good or service is procured, for example, resource extraction, design development, manufacturing, transportation and storage, etc.

As a large purchasing body, government can minimise the environmental impacts of these front‑end procurement activities by influencing supply market practices. Embedded impacts can be included as a criterion in the supplier selection process at the market analysis and market approach stage.

The greatest opportunity to influence environmental outcomes is by selecting products and services with the least ongoing environmental impacts, such as use of water, electricity and fuel, waste/disposal management, and impact on human health over the life of the product or service.

Lifecycle stages that impact on the environment:



The figure shows lifecycle stages that impact on the environment. The figure shows the following stages:

* Raw materials – packaging and distribution
* Manufacture – transportation
* Operation and maintenance – monitoring and evaluation recycle / reuse
* Use – change management
* Disposal – transportation

The stages form a cycle. The ability to influence increases between the operation and maintenance and disposal stages.

## Reducing your environmental impact

To reduce your environmental impact, focus on:

* managing unnecessary consumption to reduce waste;
* taking a whole‑of‑life approach to assessing the extent of environmental impacts;
* building environmental considerations into the value‑for‑money assessment of a procurement activity; and
* where appropriate, engaging with suppliers who are committed to better environmental performance.

## Integrating environmental impact into the procurement process

You need to consider environmental impacts at the front end of the procurement process if you are to position environmental impact across the latter stages of the procurement process.

Environmental impact is part of the assessment of complexity. It also features in the contract management stage with maintenance of environmental standards and taking advantage of improvements during the period of the contract.

Environmental impact appears in the complexity assessment template under the question: Does the good/service align with other objectives of the organisation and/or broader Victorian Government objectives, for example environmental, social and/or economic considerations?

However, a key area for defining and addressing environmental impacts is at the market analysis and review and the market approach stages of the procurement process. This is the focus of this process note.

There will be situations where environmental performance requirements are mandated by regulation and/or legislation. In such cases, the market sector able to satisfy the mandated standards will be clearly defined at the outset. Where there are no definable environmental standards, you will rely on how the market demonstrates commitment to environmental performance.

The following steps indicate which environmental factors are relevant to the procurement activity and the associated level of risk. This information should be taken into account in the scope and structure of the market analysis. Together with the outcome of the market analysis, it will be possible to detail the minimum performance requirements when conducting an approach to market.

There are three steps to guide you when conducting a market analysis and approach to market:

* Is there an environmental impact associated with the good or service?
* What is the estimated level or extent of risk associated with the environmental impact?
* What are the minimum performance requirements of the market?

## Environmental impact and market analysis

The market analysis stage should aim to answer the following questions:

### Step 1: Is there an environmental impact associated with the good or service?

Most goods and services will have an element of environment impact in a number of areas. The five main impact areas are listed in the following table.

Environmental impact areas

|  |  |
| --- | --- |
| Impact area | Details |
| Greenhouse emissions | * Does the product/activity consume electricity, natural gas, diesel, LPG, oil or any other fossil fuels? * Is the delivery of the service likely to result in the use of electricity, natural gas, diesel, LPG, oil or any other fossil fuels? |
| Water | * Will normal use of the product result in the use of potable water? * Is the delivery of the services likely to result in the use of potable water? |
| Waste | * Does the product include non‑recyclable components (including packaging) that are expected to be committed to landfill at the end of its useful life? * Will purchase/use of the product/service result in waste to landfill? |
| Air | * Will normal use of the product result in the release of air pollutants? * Is the delivery of the services likely to result in the release of air pollutants? |
| Biodiversity | * Will purchase of the product/service result in an impact on native flora or fauna? |

If the response is ‘yes’ to any of the above questions, proceed to Step 2 to identify the level or extent of the environmental impact.

### Step 2: What is the estimated level or extent of risk associated with the environmental impact?

Understanding the potential level of environmental impact risk will influence the scope and depth of your market research and analysis. Critically, it will help you target the most appropriate market sector for further investigation.

Use the environmental impact rating tool to assess environmental impact.

### Step 3: What are the minimum performance requirements of the market?

Taking into account the level of environmental impact, what are the minimum standards of environmental performance required from the market? Is there:

* a government (policy/statement) or organisational policy requirement relating to a minimum standard for the procurement category/requirement; and/or
* an industry standard or level of best practice relevant to the procurement category/requirement?

Be careful when adopting and/or attributing importance to an industry standard where there is concern regarding the independence of the party providing the certification. For example:

* As a general rule, an eco‑label, ‘green label’ or star rating awarded by an impartial third party body is considered to demonstrate a higher degree of environmental assurance to that of other claims developed by manufacturers and service providers.
* Alternatively, adopt a benchmark based on actual data held by the organisation to calculate the average usage over a period consistent with the intended usage of the good or service. Where possible, the benchmark or standard developed should be compared with any available industry/business information.

If there is no applicable standard, the market analysis may need to focus on market sectors that:

* operate in an area of business related to the area of environmental impact;
* purport to have environmental credential/experience; or
* are associated with associations or organisations with an interest in environmental issues.

## Environmental impact—market approach

Environmental performance is continuously evolving throughout industry and business. Given these dynamics, consideration should be given to driving environmental improvement throughout the period of the contract. Suppliers who are moving towards minimum standards should not be excluded when carrying out market analysis.

The following table details some environmental performance requirements to consider when making a formal approach to the market:

Environmental performance requirements to consider

| Document section | Details to include |
| --- | --- |
| Evaluation criteria | **1. Supplier’s commitment to environmental sustainability**  Relate to the internal processes and policies of the supplier.  **2. Environmental impact of the product/service**  If the market analysis identifies that the product/service has an environmental impact, it may be appropriate to include a separate evaluation criteria to preference products/services with lower impact. |
| Specification | Include any minimum environmental standards that are required either known or determined during the market analysis. When developing targeted specifications maximise the use of performance‑based standards where applicable. |
| Contract | Any minimum environmental standards that are considered highly important may also be included in a contract.  E.g. When leasing an office tenancy, it is government policy to include a ‘green lease schedule’ obligating the landlord to manage the energy and water use of the base building. |
| Supplier’s response | **1. Supplier’s commitment to environmental sustainability**  As per the evaluation criteria, seek details relating to the supplier’s commitment to environmental sustainability. Does the supplier:   * have an environmental management system (EMS); * carry out any actions to improve environmental credentials; * have an environment policy; and/or * undertaken any activities to manage its environmental impact.   **2. Environmental impact of the product/service**  If an industry standard exists, assess suppliers against that. It can be hard to assess suppliers against one another given the many different approaches to environmental management. You will need to make a balanced judgement against multiple competing standards. |

The difficulty is to develop a justifiable framework whereby suppliers can be evaluated in a consistent manner based on differences in their environmental performance. You will need to consider whether the relative environmental performance of goods/services of different suppliers can be compared. If so, can the benefits of an improved environmental performance be quantified?

Specifying a minimum standard allows you to monitor compliance and encourage improvement of performance.

Another approach is to develop a series of standard questions and instructions that require a response from the supplier. The scope of questions and the level of response sought from suppliers should reflect the environmental impact rating from Step 2.

It is also possible to devise a range of generic environmental performance questions that can be integrated into evaluation criteria to indicate a supplier’s general commitment to environmental performance and continuous improvement. Some generic questions can be framed around whether the supplier applies an environmental performance management framework in their workplace. You might also ask whether:

* the framework is aligned with the business plan of the organisation;
* there is a program of framework review, promotion, training and discussion to drive continuous improvement; and
* the organisation records performance against yearly benchmarks.

## Using this guide

This guide accompanies the goods and services supply policies. There are 5 supply policies:

* Governance policy
* Complexity and capability assessment policy
* Market analysis and review policy
* Market approach policy
* Contract management and disclosure policy

This guide supports the [Governance](https://buyingfor.vic.gov.au/governance-goods-and-services-policy-and-guides) and [Market analysis and review](https://buyingfor.vic.gov.au/market-analysis-and-review-goods-and-services-procurement-guide) policies.

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