

# ***SHAP WMHOG TASK AND FINISH GROUP***

## **Delivering Smart and Sustainable Procurement Discussion Paper**

### **Introduction**

The purpose of this paper is to gain confirmation from the Steering Group on key principles for the research programme, to set out a plan for the next stages of work, and to raise some options and issues for debate.

This starting point for the paper are the outputs from the inaugural meeting of the Task and Finish Group on 5 July 2017 and subsequent input from its members.

The paper seeks to:

- 1) Gain consensus/confirmation on the remit of the Task Group; and the outputs expected from the work
- 2) To bring together existing research and current thinking and to use this to establish the framework for development of the Guidance.

### **Remit of Task and Finish Group**

To direct and lead Action Research designed to identify and analyse/test relevant data which can be used to establish clear guidance for West Midlands Local Authorities and their strategic partners on the routes to achieving best practice in procurement based on:

- whole life costing
- creating long term positive impact and outcomes for the business/organisation, the wider local economy, residents (whether employees, neighbours or consumers), and the environment
- demonstrating clear value for money (VFM) to a definition of '*the optimum combination of cost and quality over the lifetime of the investment (whether for infrastructure, product or service)*'.

### ***Expected Outputs***

A Guidance document which could be available to SHAP members and a wider public procurement network which recognises that:

- Procurement may be managed within specialist departments or within the functional areas
- Procurement and/or functional specialists may not have expertise in sustainable development

- Sustainability may be featured in CSR policy but may not take account of the principles of sustainable development – the balance of economic, environmental and social impacts

The ultimate goal is to support members and partners systemic change leading to procurement processes that have an effective role in ensuring triple bottom line benefits and impacts as outcomes from investment in housing and housing improvement as part of the economic (financial), social and environmental infrastructure.

The guidance should:

- Determine the relevant structures and parameters to be applied to the development of the guidance and its subsequent use
- Set out any corporate (leadership) or policy requirements
- Clarify what products and services fall into the scope (at least initially) to achieve maximum benefit
- Identify tested measures/KPIs to be achieved (based on experience)
- Set out a common definition of affordability, recognise issues relating to delivery, and consider different mechanisms for viewing/implementing this.

For SHAP members, the guidance will be relevant to investment in construction, maintenance and management in all tenures of housing and will relate to the Public Services (Social Value) Act 2012.

The ultimate aim would be to address a wider range of procurement requirements across all forms of supply contract.

## Proposed Research Methodology

The research will be undertaken in **three** stages:

1. Desk research which will:

- Examine the relevant challenges, initially those specific to the construction sector
- Recognise the most effective corporate structures and environment to employ sustainable procurement techniques
- Bring together the opportunities presented by:
  - Current legislation
  - Published guidance international, national and local
  - Specific tried and tested corporate policy such as that adopted by ODA/LoCOG for the London Olympic Park
- Identify Best practice and lessons learned from relevant case studies, including those identified by the Social Value Awards and the Report on the Social Value Act published in 2016

2. Learning from elsewhere through direct discussion with practitioners, including the ICLEI Procura Network, and in specific workshops and events to be organised as part of the programme
3. Testing the outputs through practical application – through a project to be agreed with WHG.

## Challenges for the Construction Sector

*Based on Latham, Egan, Wolstenholme and Farmer Reports and summarised as:*

- Traditional adversarial approach to procurement principles and contracting
- Price (low) outweighs quality and wider social, environmental and economic value
- Lack of collaboration – within client organisations; with suppliers; between suppliers (long supply chains)<sup>1</sup>
- High entry thresholds for SMEs
- Limited incentive for investment in innovation, new sustainable techniques and technologies
- Skills shortages, low skills and polarised training

## What is Smart Sustainable Procurement?

### Sustainable Procurement

The most commonly used definition is:

*A 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.*

*“on a whole life basis sustainable procurement should consider the environmental, social and economic consequences of design; non-renewable material use; manufacture and production methods; logistics; service delivery; use; operation; maintenance; reuse; recycling options; disposal; and suppliers’ capabilities to address these consequences throughout the supply chain”<sup>2</sup>.*

The key principles of sustainable procurement:<sup>3 4</sup>

- Life cycle approach
- Continuous improvement
- Accountability
- Transparency

---

<sup>1</sup> BIS Research Paper 145: Supply Chain Analysis into the Construction Industry – A Report for the Construction Industrial Strategy. 2013

<sup>2</sup> CIPS Knowledge Works: Sustainable Procurement Summary (based on UK SPTF Procuring for the Future 2006)

<sup>3</sup> ISO20400

<sup>4</sup> IEMA & Action Sustainability: Delivering Sustainable Outcomes Through Supply Chains Using ISO 20400

- Ethical behaviour
- Full and fair opportunity
- Respect for stakeholder interests
- Respect for the rule of law and international norms of behaviour
- Respect for human rights
- Innovative solutions
- Focus on need
- Integration

### ***Smart Procurement***

The most recognisable definition is that used by the MOD which aimed to deliver '*faster, cheaper, better*' procurement systems.

**'Faster'** – shorten procurement time – tendering and contracting process, and reduce supply chain length

Actions to be considered for the Guidance include:

- Framework arrangements
- New forms of contracting
- Client led supply chain and project team selection

### ***'Cheaper'***

Rather than the traditional 'lowest price' model. Considerations could include:

- Efficiency savings in project rather than value engineering
- Open-book design and build projects
- Assess costs over the life of the project or product - whole life costing
- Assessment to include Social Value criteria

### ***'Better' Procurement***

The overall aims could be defined as to:

- Manage and understand need and demand for the product or service before procuring, including any essential parameters as identified by users
- Understand the existing market and market offer
- Identify the most effective product or service to deliver measurable value for money (against the prescribed criteria), including new and innovative product to be developed
- Shorten the contracting or procurement period
- Reduce or streamline supply chains

- Reduce business risk both within the business and amongst suppliers by eliminating over run, late orders
- Build brand (reputational) value or deliver the agreed social value outputs

Therefore adopt the principle of **INTELLIGENT CLIENT**

*An Intelligent Client (IC) is an individual or group within the buying organisation with delegated authority and sufficient technical knowledge of the product or services being provided by a third party to specify requirements for the product or service and manage its delivery. The IC must collect and manage all data connected with the procurement (technical, organisational, financial, asset), understand and validate the need (including strategic alignment and cross-department policy compliance) for the purchase and how it will benefit the business in the future.*

### Reference Materials

BAA Heathrow Terminal; Balfour Beatty: SCI – Network: Procuring innovative and sustainable construction - A guide for European public authorities: Government Construction Strategy Final Report to Government by the Procurement/Lean Client Task Group July 2012

## Understanding Corporate Barriers and Limitations

### Some Relevant Academic Research

*(Extract from Sustainable Procurement – Emerging Issues. Walker & Phillips. International Journal of Procurement Management 2009)*

**Table 2** Sustainable innovation: challenges and how to overcome

<i>Sustainability and innovation</i>		
<i>No. Issue</i>	<i>Challenges</i>	<i>How to overcome</i>
2.1 Culture	Risk averse Blame culture Conservative Silos	Young blood – adapts readily to change? Mixture of cultures/diversity Closer interaction within units Introduce 'churn', job rotation Supportive processes Secondments Maximise potential – pick credible people Sharing of exemplar practices Sustainability – a key goal
2.2 Top level buy-in and training	Through top level buy-in to promote training Clear directions from the bottom level Learning as opposed to teaching Recreate value through innovation	Need senior management commitment Need novel approaches to training – impact of the individual Need to identify ways of engaging the nonconverted Separate budget for sustainability and training Stability – time to work on strategies and policies
2.3 Short-termism	Shareholder value Driven by big suppliers	Sustainability on corporate agenda More ethical shareholders Raised awareness Diversity – different approaches arise Publicise the 'success' stories – cases, how to do it Courage to fail and kill off failing projects
2.4 Resources	Lack of time, budget, resources	Create time and resources Commitment Create expectations Realistic goals Break down subject External pressure

## Importance of Aligning Corporate Activity – ISO: 20400



### Reference Documents

"Strategic Procurement in the Construction Industry": Meeting the Needs of Sustainable Development" : Procurement Objectives": "Supply Chain and Strategic Procurement" – Dell Computers

## Using Legislation

### *EU Directive 2014/24/EU on Public Procurement*<sup>5</sup>

Some options provided/supported by this legislation:

- Environmental requirements can be included in technical specifications (Article 23(3)b).
- Award decisions and specifications can be based on criteria required by eco-labels (Article 23(6)).
- Social and environmental conditions can be included in performance of contracts (Article 26).
- Bidders and their suppliers have to demonstrate compliance with environmental obligations (Article 27).
- Bidders have to show that they can perform a contract in accordance with environmental management measures (Articles 48(2)f
- Award decisions made on the “most economically advantageous tender” (MEAT). These requirements encourage public procurers and policy-makers to consider the life-cycle costs, or the *total-cost-of-ownership* when planning, designing, structuring, funding and financing public goods, services and assets.
- Emphasis on pre-commercial procurement in the EU public procurement strategy (Early market engagement – EME).
- Increasing access for SMEs

<sup>5</sup> IISD A Step in the Right Direction: The EU’s revised directives on public procurement

## **Public Services (Social Value) Act 2012**

The Social Value Act requires *'commissioners to consider securing economic, social, or environmental benefits when buying services above the OJEU threshold. To comply with the Act, commissioners must think about how what they are going to buy, or how they are going to buy it, could add these benefits, and must also consider whether they should consult on these issues'*.

A review conducted by Lord Young for The Cabinet Office<sup>6</sup> in reported that *'the Social Value Act can be seen as a tool to promote the wider uptake of a particular approach to commissioning for best value, namely social value. At its most useful, the Act can be a tool to save money in the context of severe public procurement cost saving pressures, and a way to think about public services in a more coherent way that plays into the redesign of services starting to emerge as a result of these pressures'*.

This review also identified that good practice included:

- seeing social value in the context of the wider organisational strategy
- the benefits resulted from a strong focus on pre-market engagement
- assisted with securing value for money

However more needed to be done to:

- ensure consistent and rigorous measurement of the impact including the additional monies created
- understand how social value should be included in each stage of the procurement process.

## **ISO 26000:**

Defines the core subjects of sustainability as:

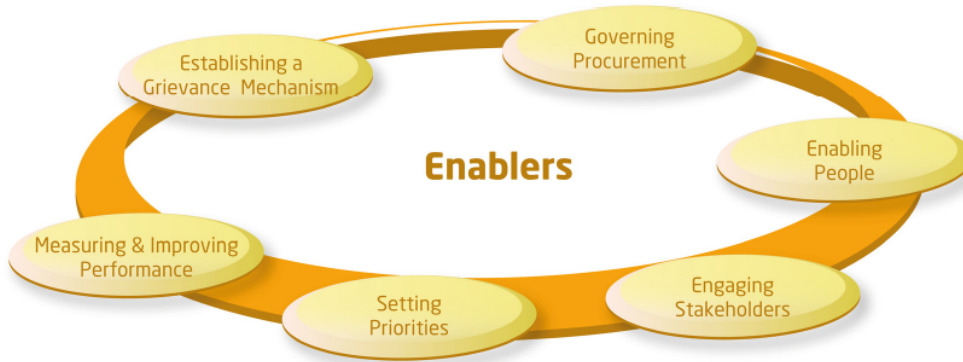
- Organisational governance
- Human rights
- Labour practices
- The environment
- Fair operating practices
- Consumer issues
- Community involvement and development

## **Making the Case for Smart Sustainable Procurement**

ISO:20400 describes a series of ENABLERS required for successful implementation. These are shown below:

---

<sup>6</sup> Cabinet Office: Social Value Act Review. Feb 2015



Extract from IEME Paper

The following are examples of work already undertaken which could be considered in the development of the Guidance:

### Drivers for Sustainable Procurement <sup>3,4</sup>



Extract IEMA



## Value of Sustainable Procurement Practice<sup>7</sup>

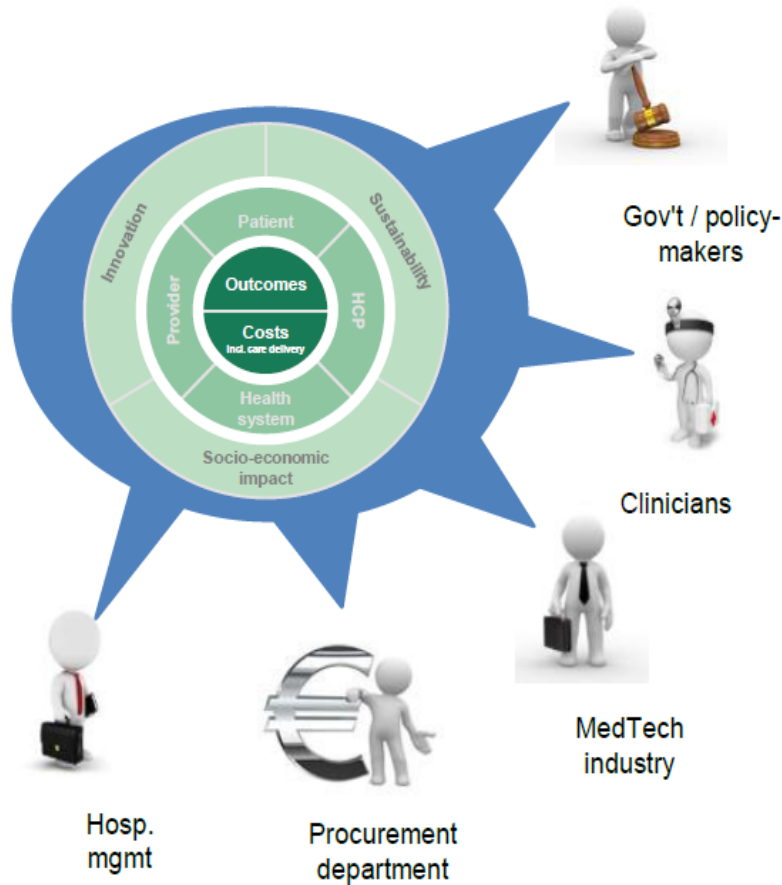
TYPE	DESCRIPTION	AVERAGE RESULTS	COMPARED TO SUSTAINABLE PROCUREMENT PROGRAMME COSTS	IMPLEMENTATION PROBABILITY
1. Cost reduction	Reduction in total cost of ownership linked to reduced energy costs, reduced over-specification, reduced consumption and reduced social and environmental compliance costs	0.05% of total revenue per project <sup>1</sup>	Up to 6 times payback	High
2. Risk reduction	Financial impact on brand value from bad supplier practices (e.g., child labour, local pollution); economic cost of supply chain disruptions (e.g., noncompliance with environmental regulations)	Additional direct costs as a 0.7% of total revenue	Up to 85 times payback	Low
		Decrease of 12% in market cap	NA	Low
3. Revenue growth	Additional revenue through innovation of eco-friendly products/services, price premium or income from recycling programmes	0.5% of total revenue	Up to 58 times payback	Medium

**TABLE 6 - VALUE DRIVERS**

VALUE DRIVER	THEME	COMMENTS
1. Risk reduction	Reduced material costs/ carbon management	E.g., cost increase/decrease related to suppliers having sub-optimal energy/CO2 consumption
	Reduced consumption	Savings due to reduction in consumption of fuel, etc.
	Reduced specifications	Savings due to complying with new specifications
	Reduced compliance costs	Savings due to tax payment optimisation
2. Revenue growth (Improved value)	Direct costs	Economic cost of supply chain disruptions (e.g., product recall, financial penalties)
	Indirect costs	Financial impact on brand value, market share, market cap, boycott from bad suppliers' practices (e.g., child labour, local pollution, waste management)
3. Cost reduction	Eco-Innovation	Additional revenue through innovation with regard to eco-friendly products/services
	Increased sales	Added revenue from increased sales of green products/services
	Income from recycling programmes	Added income through introduction of recycling programmes

<sup>7</sup> PWC, EcoVadis, Insead: Value of Sustainable Procurement Practice. 2010

**MEAT VALUE BASED PROCUREMENT FOR MEDICAL TECHNOLOGY -How to link “Value-based Health Care” and “Public Procurement” in Europe<sup>8</sup>**



Extract from MEDTECH Paper on MEAT

BCG and MEDTECH have already developed an Excel-based spreadsheet to support this proposition

**Collaboration**

Sustainability through collaboration: HEYSHAM TO M6 LINK ROAD IN LANCASHIRE<sup>9</sup>

Costain and Tarmac partnered and adopted an EME approach. *The overall new design produced at Early Contractor Involvement (ECI) stage has reduced the aggregate tonnage by nearly 25%, saving over 200,000 tonnes of raw materials, and enabled a reduction of nearly 9,000m<sup>3</sup> of readymix concrete, just over 26%. This translates into a 21% saving of CO<sub>2</sub>e from the original design, exceeding the 20% KPI.*

<sup>8</sup> BCG and MedTech Europe: MEAT VALUE BASED PROCUREMENT FOR MEDICAL TECHNOLOGY -How to link “Value-based Health Care” and “Public Procurement” in Europe<sup>8</sup>

<sup>9</sup> Costain and Tarmac: Sustainability through collaboration: HEYSHAM TO M6 LINK ROAD IN LANCASHIRE. 2016

## Early Market Engagement (EME)

1. The following criteria have been identified in work undertaken by the ICLEI Procura Network Early Market Engagement Group<sup>10</sup>. The list seeks to summarise the variables which impact on the types of market engagement which might be appropriate:

- How complex is the product/service?
- How complex is the market?
- How mature is the market?
- What is the scope for innovation?
- What is the scope for delivering policy through procurement objectives? E.g. Social Value
- What is the value of the contract – Sufficient to justify resource and time?
- What is balance of knowledge between buyer and supplier?

2. The following is a possible model for a Supplier Engagement Plan:

- *Forward procurement plan*  
Forward procurement plans give suppliers advance notice of what contract opportunities are coming up. It allows them time to adequately plan and prepare to submit good quality responses. It's good practice to publish a rolling list of forecast procurements. This information is most useful to suppliers when published alongside a series of Market Position Statement's for relevant areas.
- *Meet the Buyer / Meet the Supplier (Not contract specific) 1-2-many and many-2-many*  
This is an event where a range of potential buyers get to meet with a range of potential suppliers. It is not about doing a deal or getting a contract. It is an opportunity where:
  - Buyers can discuss their needs
  - Suppliers can provide information about their products and services

Buying organisations have traditionally held 'Meet the Buyer' events, where suppliers are invited to attend an open day and given the opportunity to meet the people responsible for the purchase of specific goods and services. Suppliers are therefore able to find out more information about contract opportunities and develop a better understanding of the buying organisation's procurement policies and procedures.

- *Meet the Buyer / Meet the Supplier (Not contract specific) 1-2-1(individual or panel)*  
Hosting days when suppliers can come in and speak to procurement officers on a 1-2-1 basis can be beneficial when trying to understand the current state of the market,

---

<sup>10</sup> David Morgan. Cornwall Council. Leader ICLEI Procura Network Early Market Engagement Group

particularly where innovation has been taking place. These events can be run on either a 1-2-1 or 1-2-panel basis.

3. The following methods could be adopted as a pre-procurement process:
  - Supplier questionnaires, Market Sounding Questionnaires and Soft Market Tests
  - Expression of Interest (EoI) or Prior Invitation Notice (PIN)
  - Solutions 'Show-and-Tell'
  - Meeting with industry bodies
  - Meeting with groups of key suppliers

## **Showing Results – Measuring Impact**

### ***ISO: 20400***

The following methodologies are identified:

- Process indicators – e.g. how many compliant contracts, how many people trained, how many suppliers engaged
- Output indicators –monitor suppliers' performance on carbon emissions, waste volumes, number of local employees, local spend
- Outcome indicators –the contribution of the supply chain to overall organisational objectives, such as carbon footprint, workforce diversity etc
- Impact indicators – help to understand the wider impact on the environment or society, or “externalities”, e.g. impact on local unemployment figures, fuel poverty, or air quality .