



Australian Government

Department of Climate Change, Energy,
the Environment and Water

Impact Analysis

Environmentally Sustainable Procurement Policy



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Executive Summary

Production and consumption can deliver benefits to society, but the current linear economy model (take, make, waste) impacts the environment. As a major purchaser of goods and services, the Australian Government's procurement decisions can contribute to these negative environmental impacts. Through its leadership, and the power of its substantial procurement spend, the Australian Government has an opportunity to drive change toward a net zero and circular economy.

An Environmentally Sustainable Procurement Policy (ESP Policy), as a Procurement Connected Policy (PCP), is proposed to enable this transition.

The Australian Government already recognises the importance of sustainability in public procurement and has included sustainability provisions in the Commonwealth Procurement Rules (CPRs). In 2022, the government made an election commitment to strengthen the environmental sustainability provisions of the CPRs to drive demand for recycled content. The ESP Policy is designed to meet this election commitment.

The ESP Policy is aligned with, and supports, other Australian Government action to reduce environmental impacts, reduce greenhouse gas emissions and increase material circularity, specifically the:

- Net Zero in Government Operations Strategy
- Buy Australian Plan
- Nature positive agenda
- National Waste Policy Action Plan
- Environment Ministers' commitment to transition to a Circular Economy by 2030.

The ESP Policy aims to send a clear market signal by mandating the procurement of environmentally sustainable goods and services in four target categories: construction services; ICT goods; textiles; and furniture, fittings and equipment (FFE). It will guide action by setting the principles that must be met by suppliers of goods or services in these categories.

Success will be measured against the objectives under 3 goals of the proposed policy:

1. Measure and improve the environmental sustainability of Australian Government procurement.
2. Increase procurement and contracting opportunities for suppliers offering environmentally sustainable products and services.
3. Enable Australia's transition to a net zero and circular economy, through government procurement.

Introducing a PCP was assessed as being more likely to achieve these goals, compared with the status quo of relying on the provisions of the CPRs and existing education program.

The Department of Climate Change, Energy, the Environment and Water (DCCEEW) commissioned a materiality assessment, market readiness review and an environmental economic analysis to inform the impact assessment and policy design. It was found that the ICT sector was well positioned to supply environmentally sustainable procurement goods and services followed by the construction

services sector. The lack of data on environmental sustainability in Australian Government procurement hindered both the materiality assessment and the environmental economic analysis. Improvements in reporting arrangements were highly recommended.

The ESP Policy development has also been informed by extensive consultation across impacted parties, including Australian Government agencies, suppliers, and industry representatives. Overall, stakeholders supported the policy. Suppliers generally agreed the policy would provide industry with the certainty to invest in sustainability. Some stakeholders were concerned about the cost to implement the policy. Australian Government agencies emphasised the need to build capability and knowledge in environmentally sustainable procurement to reduce this burden. The main costs of introducing the ESP Policy compared with the status quo were identified as:

- business compliance costs (to suppliers)
- administration costs (to Australian Government agencies)
- support costs (to DCCEEW).

Some of the benefits of the proposed ESP Policy could be evaluated. These were reduced operating costs and reduced greenhouse gas emissions. Other benefits were not able to be evaluated due to lack of data. These include reduced environmental harm, support for government commitments to increase circularity of materials and capability uplift of suppliers and Australian Government agencies.

The cost benefit analysis found that the evaluated benefits exceed the costs. When the additional benefits which were not evaluated are included, implementing the ESP Policy is preferred over the status quo.

1 Problem statement

1.1 The problem

Production and consumption can deliver benefits to society, but the current linear economy model (take, make, waste) causes impacts on the environment. These impacts include¹:

- greenhouse gas emissions
- air and water pollutant emissions
- resource depletion
- waste generation
- biodiversity loss, deforestation, land degradation
- disruption of planetary water cycles.

Many of the impacts occur before a good or service is procured, for example, during resource extraction, manufacturing and transport. Other impacts occur during use, for example, the water and energy consumed and resultant greenhouse gas emissions and pollutants. Inadequate disposal also leads to environmental harm. For example, failure to actively recover and recycle plastic can lead to dispersal throughout the aquatic environment, harming marine life.

As a major purchaser of goods and services, the Australian Government's procurement decisions can contribute to these negative environmental impacts. The extent of this impact is unknown as the Australian Government does not monitor application of environmental sustainability in procurement decisions or measure outcomes.

1.2 The context

The problem and possible opportunities are set in a context that recognises that:

- Australia has committed to reach net zero by 2050 and transition to a circular economy by 2030.
- Broad action is required to create that transition.
- Public procurement is a powerful tool to achieve positive environmental outcomes.

These are discussed below.

1.2.1 Australian commitments

The Australian Government has made international and national commitments to reach net zero and transition to a circular economy.

A net zero economy is one which aims to combat climate change by reducing greenhouse gas emissions by achieving an overall balance between greenhouse gas emissions and removals. The Australian Government committed to the United Nations to reduce its greenhouse gas emissions to net zero by 2050². The *Climate Change Act 2022* enshrines this commitment in legislation. Australia

¹PwC, [Building a More Circular Australia](#) 2021, accessed 19/1/24

² [AUSTRALIA'S NATIONALLY DETERMINED CONTRIBUTION \(unfccc.int\)](#) accessed 5/2/24

also committed to reduce the emissions of Australian Government agencies to net zero by 2030 (excluding defence and security agencies). The *Net Zero in Government Operations Strategy*³ describes the approach to reach that target.

A circular economy is a way of achieving sustainable consumption and production, as well as nature positive outcomes. In a circular economy, products are either recycled, remanufactured or re-used after they have served their initial purpose. This minimises pressure on the environment, and helps tackle global challenges like climate change, biodiversity loss, waste, and pollution.

All of Australia's environment ministers have agreed to work with the private sector to achieve a circular economy by 2030⁴.

Net zero and circular economy	
The Australian Government has committed to transition Australia to a net zero and circular economy.	
Net Zero:	Net zero broadly refers to an overall balance between greenhouse gas emissions and removals.
Circular:	In a circular economy, products are either recycled, remanufactured or re-used after they have served their initial purpose. This minimises pressure on the environment, and helps tackle global challenges like climate change, biodiversity loss, waste, and pollution.

1.2.2 Creating a net zero and circular economy

Transitioning to a net zero and circular economy is more than improving waste diversion rates or using renewable energy. It requires a systemic shift across the full supply chain where at each stage there is consideration of opportunities to improve, such as reducing embodied carbon, incorporating recycled content, and designing for reuse.

The transition to a net zero and circular economy will have financial benefits and be positive for Australia's economy. For example, more sustainable products are usually energy efficient and more durable, leading to reduced operational and maintenance costs. Reducing the cost of waste disposal is another opportunity for financial benefit.

A report by PwC⁵ in early 2021, estimates that the circular economy could contribute \$2 trillion over the next 20 years to the Australian economy and could abate 165 million tonnes of greenhouse gas emissions each year. KPMG has determined that improving the way we use materials in the food, transport and built sectors alone could generate an additional 17,000 jobs.⁶

³ [DoF Net Zero in Government Operations Strategy 2023](#)

⁴ [Transitioning to a more circular economy - DCCEEW](#). Accessed 5/2/24

⁵ PwC [Building a more circular Australia](#), 2021

⁶ KPMG [Potential economic pay-off of a circular economy 2020](#)

Australia has yet to demonstrate a significant shift in sustainable production. The OECD⁷ found that in 2019, Australia generated almost twice as many greenhouse gases per unit of GDP as the OECD average and generated less than half the OECD average for economic output per kilogram of materials consumed. CSIRO found that Australia's circularity rate is only 5.4 per cent.⁸ Therefore, there is substantial scope for improving the sustainability of the Australian economy.

Australia's transition to a net zero and circular economy requires action by consumers, suppliers and governments.

Australian industry will need to adapt their business models to incorporate circularity and increase the supply and value-for-money of their products. This might include developing products that consume less carbon or natural resources; offering product lifetime repair services and takeback schemes; using recycled materials; or embedding durability and recyclability into product design⁹. This requires technological innovations as well as business innovations.

Industry has indicated that a more stable demand, at scale, would incentivise the required investment in innovation to transition to more sustainable manufacturing.

The United Nations Environment Programme (UNEP) acknowledge that governments, as the largest consumers in each economy, are uniquely positioned to incorporate sustainability criteria into purchasing decisions at a scale that can be transformative¹⁰.

Significant changes are also required in consumer behaviour to achieve a successful transition to a circular economy¹¹. Consumers, including business, individuals and governments, will need to actively reduce resource use and waste, as well as participate in sharing models, repair schemes, and product return schemes offered by suppliers.

Asset owners need to incorporate circular thinking into asset operation, maintenance and disposal to improve both the circularity of materials and whole-of-life reduction in greenhouse gas emissions¹². As consumers and asset owners, governments also need to change the way they procure and use products.

Studies have found that while there is interest from both public and private consumers to buy more sustainably, there are barriers including concern over higher prices, risk of unproven technology, availability of products and capacity to identify sustainability¹³. An Infrastructure Australia 2024 report¹⁴ found that Australia's decarbonisation efforts are detrimentally impacted by low levels of climate and carbon literacy amongst industry professionals, trades and consumers; myths about low carbon materials; and a lack of detailed and actionable learnings.

⁷ [OECD iLibrary Environment at a Glance Indicators](#). Accessed 19/1/24

⁸ [Building a circular economy - CSIRO](#)

⁹ Circle Economy Foundation, [The Circularity Gap Report 2023](#)

¹⁰ UNEP, 2022 Global Review of Sustainable Public Procurement

¹¹ [Consumer Behaviour is Key to Developing a Circular Economy \(circularinnovationlab.com\)](#) Accessed 12/2/24

¹² KPMG [Potential economic pay-off of a circular economy 2020](#)

¹³ *ibid*

¹⁴ Infrastructure Australia, *Embodied Carbon Projections for Australian Infrastructure and Buildings 2024* (yet to be publicly released)

The recycling industry has been a strong advocate for creating demand for more sustainable products, particularly those made with recycled content. Australians have demonstrated a strong capacity for sending used products to be recycled, however without a demand for the recycled material the industry is not sustainable. The Australian Council of Recycling¹⁵ identified that ‘procurement needs to be significantly scaled up, in order to properly kickstart supply chain integration of recycled products and materials and establish robust and resilient end markets.’

Growing our recycling industry

Clean Up Australia: ‘To truly close the loop, we need to grow the demand for recycled materials.’

Australian Council of Recycling: ‘Procurement needs to be significantly scaled up, in order to properly kickstart supply chain integration of recycled products and materials and establish robust and resilient end markets.’

Waste Management and Resource Recovery Association: ‘To grow demand for the recyclate that we produce as a country, we need a strong local market to buy these materials back.’

Australian Circular Economy Hub: ‘A circular economy future requires a complete shift in both what we buy and the way we buy; it requires circular procurement. In this future we will need procurement to go beyond purchasing quality goods and services at low cost, as these goods and services must also avoid social and environmental harms.’

1.2.3 The power of public procurement

Reducing the environmental impacts of public procurement is a significant component of the net zero and circular economy transition. UNEP recognises that ‘public procurement, representing on average 13% to 20% of GDP can make a critical contribution to the resolution of the current climate, nature, and pollution planetary crises. By favouring the purchase of greener products e.g. those that are recycled or low carbon, public authorities can significantly reduce their environmental footprints’¹⁶. The World Economic Forum¹⁷ has found that procurement by governments is responsible for 15% of global greenhouse gas emissions, and that these could be reduced for less than \$15 per tonne of CO₂e.

Through commissioned studies^{18 19}, the Department of Finance’s Commonwealth Procurement and Contract Management Capability Self-Assessment survey²⁰, consultation with government agencies, and a literature review, DCCEEW has identified the status of government procurement with respect to environmental sustainability. It found that the Australian Government is lagging on environmentally sustainable procurement implementation in comparison to its global peers. Some of the reasons identified for this lag were:

- Most Australian Government agencies are not considering environmental sustainability.

¹⁵ACOR [Gearing Up For a Circular Economy](#), Policy Platform 2022

¹⁶ UNEP 2021, Sustainable Public Procurement: How to Wake the Sleeping Giant!, 2021.

¹⁷ World Economic Forum [Green public procurement: Catalysing the net-zero economy](#), 2022.

¹⁸ Aurecon *Status Assessment and Draft Metrics Selection* August 2023, report for DCCEEW

¹⁹ ICN Industry Capability Mapping and Gap Analysis, April 2023, report to Aurecon

²⁰ 2021/22 APS Procurement Capability Survey and internal

- Procurement officials are unclear when environmental sustainability is relevant and feel they lack the capability to assess environmental sustainability.
- The lack of a centralised reporting system, resourcing constraints and a perceived lack of supporting tools and resources.
- The need for a coordinated and consistent tool for collecting data related to the sustainability of Australian Government procurements.

Without a process for collecting data, there is a lack of information to determine the extent to which Australian Government procurement is contributing to, or undermining, its net zero and circular economy goals.

The UNEP²¹ has developed an indicator to measure the implementation of sustainable public procurement. Using the indicator, Australia would currently rate as 'non-compliant' due to a lack of sustainable procurement policy. This misalignment between the government's procurement practices and policy objectives poses a political risk to government and fails to send the necessary market signals.

A 2023 report by the Materials and Embodied Carbon Leaders Association ²²(MECLA), recommended government action to support industry decarbonise the built environment by:

- using government buying power to stimulate use of low-carbon building materials
- using government projects as the exemplar for low-carbon construction
- setting minimum standards for government buildings
- writing carbon reduction into contracts.

1.3 The opportunity

Leveraging its purchasing power, the Australian Government has the opportunity to:

- measure and improve the sustainability of its own procurement
- generate demand for more environmentally sustainable products
- enable the transition to a net zero and circular economy.

Governments have a necessary role to enable the net zero and circular transition, by demonstrating leadership through regulation, policy statements, economic incentives and facilitating collaboration across the supply chains²³. UNEP found that introducing a government procurement policy is a significant lever in driving sustainable procurement²⁴.

In 2022-23, Australian Government procurement was around \$75 billion, equivalent to 17% of Gross Domestic Product. As a significant consumer, the Australian Government has the potential to effect change in the transition to a net zero and circular economy by measuring and improving the impact of its own procurement. It can also stimulate industry by embedding environmental sustainability

²¹ [SDG.pdf \(unep.org\)](#) accessed 1/2/24

²² MECLA [Upfront Carbon in the Built Environment Discussion Paper](#) 2023.

²³ Ellen MacArthur Foundation [Universal circular economy policy goals: Examples \(ellenmacarthurfoundation.org\)](#) Accessed 5/2/24

²⁴ UNEP *Sustainable Public Procurement 2022 Global Review*.

requirements in its procurements, providing the scale and stability of demand needed for industry investment and innovation.

There is significant opportunity to improve the environmental footprint of the Australian Government's procurement spend. For example, through substitution of sustainable alternatives, extending product service life and maintaining value through take-back programs that repair, refurbish, reuse and recycle materials. Using green procurement criteria in product specifications, tenders and evaluation criteria is a practical way of putting circular economy principles into action²⁵.

Case study

The Great Barrier Reef Marine Park Authority has demonstrated how changing specifications to expect more environmentally sustainable goods and services can result in reduced environmental harm. Actively requesting environmentally sustainable solutions in a refurbishment of the Reef HQ Aquarium led to:

- using wood from sustainable forestry and sustainable wood alternatives
- reducing the use of virgin materials by using recycled magnesium board instead of fibre-cement sheeting
- reducing greenhouse gas emissions by 40% by using concrete made with fly ash
- installing water filtration systems that use 100% recycled glass instead of sand
- choosing carpets made from 100% recycled fishing nets
- improving energy use and circularity by installing solar panel and battery systems with an end-of-life plan for recycling.

Government demand can trigger investment as well as consumer confidence in new technologies. For example, since the Indigenous Procurement Policy began in 2015, more than 3,600 First Nations businesses have won more than \$9.3 billion of Australian Government contracts²⁶.

The Australian Government already requires consideration of environmental sustainability as part of value for money but does not have a clear policy to inform the market of its expectations.

The collection of relevant data on sustainability in procurement would allow the government to establish a baseline and set targets for environmentally sustainable procurement.

Figure 1 demonstrates how the problem and opportunities fit within the context.

²⁵ [How procurement can accelerate the shift to a circular economy \(acehub.org.au\)](https://www.acehub.org.au) Accessed 5/2/24

²⁶ [National Indigenous Australians Agency \(niaa.gov.au\)](https://www.niaa.gov.au) Accessed 5/2/24

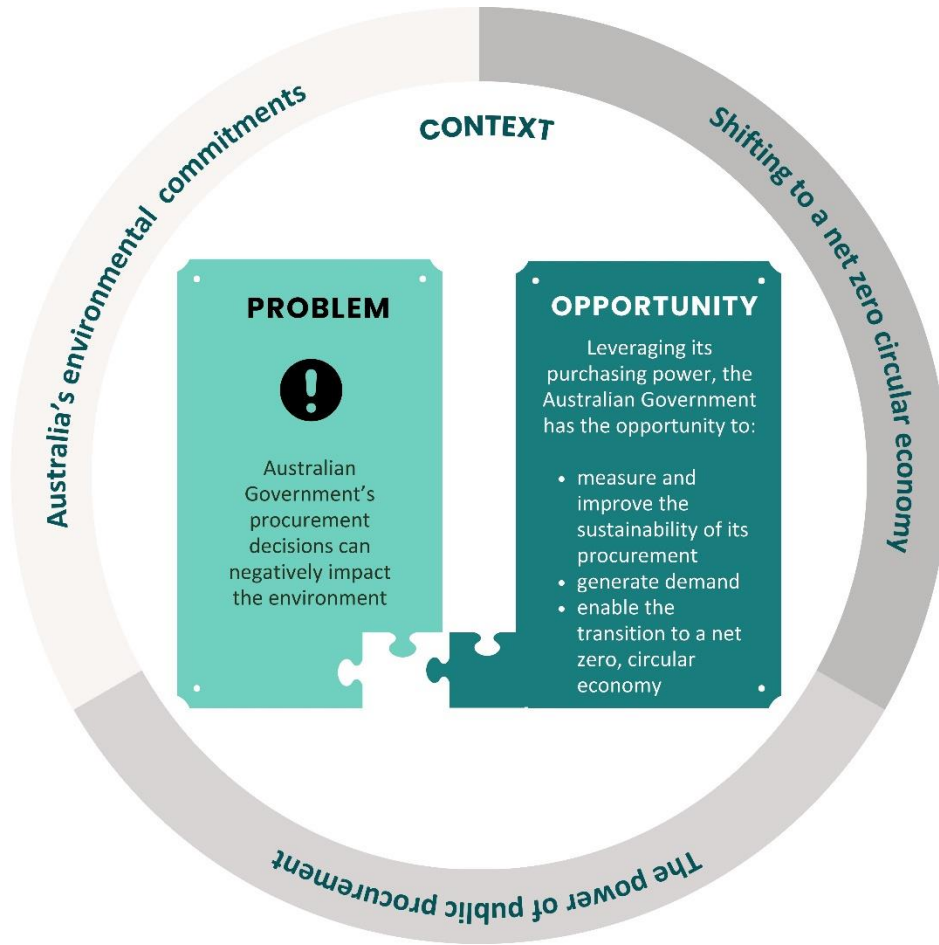


Figure 1 The Problem, context and opportunities

2 Why is government action needed?

2.1 Rationale for government intervention

In Section 1 it was identified that the Australian Government has an opportunity to improve its procurement decisions and use its purchasing power to generate demand for more sustainable products and enable the transition to a net zero and circular economy.

The tools available to the government to effect change in procurement are:

- amendments to the CPRs
- advocacy, education and capacity building
- implementing an ESP Policy as a PCP.

The Australian Government has already undertaken these first two, as discussed below. The outcome of these indicates further intervention is needed to effectively and efficiently reduce the environmental footprint of Australian Government procurement.

2.1.1 Commonwealth Procurement Rules

The CPRs govern how Australian Government entities buy goods and services and are designed to ensure the Government and taxpayers get value for money. The CPRs require Australian Government officials to consider the relevant financial and non-financial costs, including environmental sustainability, when assessing value-for-money. This includes climate change and environmental impacts, energy efficiency and the use of recycled products.

While the CPRs require consideration of environmental sustainability, there is no visibility as to whether, or how, sustainability is incorporated in procurement decisions, or any reporting on the outcomes. As a result, there is no data available across Australian Government agencies to track progress and measure outcomes of environmentally sustainable procurement.

Commonwealth Procurement Rules Extract

4.5 Price is not the sole factor when assessing value for money. When conducting a procurement, an official must consider the relevant financial and non-financial costs and benefits of each submission including, but not limited to the:

- a) quality of the goods and services;*
- b) fitness for purpose of the proposal;*
- c) potential supplier's relevant experience and performance history;*
- d) flexibility of the proposal (including innovation and adaptability over the lifecycle of the procurement);*
- e) **environmental sustainability of the proposed goods and services** (such as energy efficiency, environmental and climate change impact and the use of recycled products)

 - i. recognising the Australian Government's commitment to sustainable procurement practices, entities are required to consider the Australian Government's Sustainable Procurement Guide where there is opportunity for sustainability or use of recycled content;*
 - ii. the Sustainable Procurement Guide is available from the Department of Climate Change, Energy, the Environment and Water's website; and**
- f) whole-of-life costs.*

[Emphasis added]

To identify the extent to which recycled content was being considered in procurement, DCCEEW trialled reporting on recycled content with five Government agencies in 2022. In the absence of mandatory reporting requirements, both the extent of participation and quality of data was limited. DCCEEW was unable to determine the current use of recycled content in Australian Government projects or establish a baseline of recycled content procurement.

From these efforts DCCEEW has determined that to be successful in driving adoption of environmental sustainability in procurement, the CPRs need to be supported by a mandatory reporting framework, with clearly defined metrics, and incorporate aggregated public reporting to improve transparency.

The Commonwealth Procurement and Contract Management Capability Self-Assessment Survey results indicate that the application of environmental sustainability to Australian Government procurements is limited.

2.1.2 Advocacy and education

The Commonwealth Sustainable Procurement Advocacy and Resource Centre (C-SPARC) in DCCEEW was established in 2020 to raise awareness and support Government agencies with sustainable procurement.

The [Sustainable Procurement Guide](#) is the primary reference document on how to implement environmental sustainability in Australian Government procurement. The Guide contains tools including model clauses for use in procurements.

Additional resources and advocacy provided by DCCEEW include:

- a masterclass series (quarterly webinars – recordings are available on the DCCEEW website)
- case studies demonstrating environmentally sustainable procurement practices in government
- video series showcasing Australian suppliers of goods using recycled materials
- a communications digikit provided to all Non-corporate Commonwealth entities with articles and images to support internal promotion of recycled content procurement
- a sustainable procurement sub-community of practice as part of the Department of Finance's Procurement and Contract Management Community of Practice (GovTeams)
- regular articles in the Department of Finance's Procurement Bulletin
- a help desk through the sustainable.procurement@dcceew.gov.au mailbox.

C-SPARC's education and advocacy program has a broad reach, for example over 60 Government agencies have attended at least one webinar in the sustainable procurement masterclass series. The value of the current education program was recognised in the 2022 Commonwealth Procurement Awards for Excellence with an honourable mention in the building capability category. Despite this support to the Australian Public Service, uptake remains limited without the driver of a dedicated policy.

2.1.3 Procurement Connected Policy

PCPs are a whole-of-government mechanism for achieving broader policy objectives from procurement. A PCP could provide clear directions for government procurers to request

environmentally sustainable alternatives, support consideration of environmental sustainability in value for money assessments, and report on the environmental outcomes (climate, environment and circularity) of procurements. This would provide the government with data to facilitate whole-of-government reporting, establish a baseline and targets for environmentally sustainable procurement, and track progress over time.

2.2 Additional benefits of a PCP

In addition to providing the tool to improve government procurement, generate demand and leverage government purchasing power to facilitate the transition to a net zero and circular economy, a well-designed PCP could:

- deliver on the government’s election commitment to drive demand for recycled content
- support the delivery of other government initiatives
- position the Australian Government as an international leader in sustainable public procurement.

These are discussed below.

2.2.1 Election commitment

In 2022, the government made an election commitment to drive demand for recycled content by strengthening the existing environmental sustainability provisions in the CPRs (C-G47-002629):

While this election commitment focuses on recycled content, a holistic approach to environmental sustainability can meet the election commitment and contribute to the Australian Government’s climate, environment and circular economy agenda.

Government Election Commitment - C-G47-002629

In 2022 the government made an election commitment to ‘strengthen the existing environmental sustainability provision in the government’s purchasing and contracting rules (the Commonwealth Procurement Rules), with a view to increasing the use of recycled content and supporting industry to increase the use of recycled content in government projects.’

2.2.2 Australian Government initiatives

The Australian Government is acting to reduce environmental impacts, reduce greenhouse gas emissions and increase material circularity through a range of initiatives, including the:

- Net Zero in Government Operations Strategy²⁷
- Buy Australian Plan²⁸ which seeks to use government spending power to act on climate change
- Nature positive agenda
- Environment Ministers’ commitment to transition to a Circular Economy by 2030

²⁷ [DoF Net Zero in Government Operations Strategy 2023](#)

- The National Waste Policy Action Plan²⁹ targets, including those related to:
 - reducing waste generation
 - increasing resource recovery
 - increasing use of recycled content by governments and industry
 - providing data to facilitate informed decisions.

The Net Zero in Government Operations Strategy³⁰ has been designed to integrate with the Commonwealth Procurement Framework and includes the procurement as a mechanism for achieving net zero outcomes.

The Circular Economy Ministerial Advisory Group³¹ has identified several opportunities for government action to support Australian industry's transition to a circular economy. These include:

- set the national direction with regulation and policy, including identifying priorities and the most effective interventions to drive an integrated transition
- use government purchasing power to create and support emerging markets, which provides industry with the stable market conditions they need to innovate at the edge of what's possible
- establish targets and goals for Australia's transition.

2.2.3 International leadership

The introduction of an Environmentally Sustainable PCP will contribute to international commitments such as targets under the Paris Agreement, the United Nations Sustainable Development Goals (SDG) and contributions to OECD reports (such as the annual Good Practice Report on Green Public Procurement).

The United Nations Sustainable Development Goals (SDGs)³², to which Australia has committed, recognises the strong link between environmental protection, sustainable development, and public procurement. The ESP Policy would address the SDG indicator 12.7.1 which assesses whether countries are implementing sustainable public procurement policies and action plans.

United Nations Sustainability Development Goals (SDG):

Goal 12: Responsible Consumption and Production

SDG Target 12.7: Promote public procurement practices that are sustainable, in accordance with national policies and priorities

SDG Indicator 12.7.1: Number of countries implementing sustainable public procurement policies and action plans

²⁹ Australian Government [National Waste Policy Action Plan 2019](#) Accessed 19/1/24

³⁰ DoF *Net Zero in Government Operations Strategy, 2023*

³¹ DCCEEW [Circular Economy Ministerial Advisory Group - DCCEEW](#) Accessed 19/1/24

³² United Nations [THE 17 GOALS | Sustainable Development](#) Accessed 19/1/24

The World Economic Forum³³ found that one of the key requirements to transition to low carbon materials is for governments to ‘enact policies that accelerate progress and address economic gaps where needed, and update government codes and standards to support use of low-carbon solutions’.

Around the world, governments are using public procurement policies or legislation to achieve environmental outcomes. For example:

- The Canadian Government has a Green Procurement Policy that requires the integration of environmental considerations including planning, acquisition, use and disposal³⁴.
- Certain New Zealand Government agencies are expected to deliver minimum requirements in some contract and procurement categories to reduce waste and emissions³⁵.
- Starting in 2026, all public procurement in France will have to include at least one environmental consideration (e.g. energy efficiency measures, greenhouse gas emissions, resource use, certain pollutants)³⁶.
- In Scotland, public sector procurement is expected to contribute to climate change targets, and public bodies are required to report annually on how their procurement policies and activity have contributed to climate change adaption, reducing emissions, and sustainability³⁷.
- Japan introduced the *Promoting Green Procurement Act* in 2000³⁸. The Act requires each government agency to make an annual sustainable public procurement plan with voluntary targets and annual reporting.
- Since 2005, Korea has required government agencies to submit an annual Green Public Procurement Plan which includes voluntary targets.³⁹

The UNEP 2022 *Global Review of Sustainable Public Procurement*⁴⁰ concluded that to be successful, sustainable public procurement practices require ‘a solid policy foundation’. The *Global Review* shows a growing trend for countries to embrace sustainability in procurement. A reporting framework to measure environmental outcomes, not just outputs, distinguished the leading countries. An ESP Policy would establish a reporting framework and position Australia among global leaders in environmentally sustainable procurement.

³³ WEF [Scaling Low Carbon Design and Construction with Concrete 2023](#) Accessed 19/1/24

³⁴ [Greening Government Strategy: A Government of Canada Directive - Canada.ca](#)

³⁵ [Transitioning to a net zero emissions economy and designing waste out of the system | New Zealand Government Procurement](#)

³⁶ [Decarbonizing the EU’s Road and Construction Sectors Through Green Public Procurement: The Case of France and Germany \(sei.org\)](#)

³⁷ [Scottish Procurement Policy Notes \(SPPNs\) - gov.scot \(www.gov.scot\)](#) accessed 5/2/24

³⁸ Japan Ministry of Environment [Act on Promoting Green Procurement](#) 2000

³⁹ UNEP *Green Public Procurement in The Republic Of Korea* 2019 [GPPK.pdf \(unep.org\)](#)

⁴⁰ UNEP *Sustainable Public Procurement 2022 Global Review*.

2.3 Objectives of the proposed government action

2.3.1 Goals

The goals of the government action are:

- Goal 1: Measure and improve the environmental sustainability of Australian Government procurement
- Goal 2: Generate demand for environmentally sustainable products
- Goal 3: Enable Australia's transition to a net zero and circular economy through government procurement.

2.3.2 Objectives

The objectives against the goals are shown in Figure 2. Table 1 details how progress towards each objective will be measured and when they will be delivered.

2.4 Alternatives to the proposed government action

An alternative to introducing a PCP is to maintain the status quo, relying on the provisions of the CPRs and DCCEEW's education and advocacy program for procurement officials, identified in section 2.1.2. This option is explored in more detail in this Impact Analysis, in particular in *Section 4 Cost benefit analysis*.

2.5 Barriers to government action

Any government action has costs as well as benefits. It is important that the outcomes can be achieved without creating unnecessary burden on government agencies, industry or the community. Any government action therefore needs to target efforts to minimise cost burden while optimising outcomes. The cost benefit analysis of the proposed government action is addressed in Section 4.

Lack of data was a significant challenge in undertaking this impact analysis. This is also a barrier to measuring outcomes and evaluating the ESP Policy's success. Establishing a reporting framework to gather baseline data and set targets is a key objective of government action. Collection of data can be time-consuming and potentially unreliable. Any government action needs to ensure there are appropriate tools in place to allow easier collection of data with controls to ensure its integrity.

When consumers, whether government, business or individuals, attempt to consider sustainability, there are often concerns about the validity of the sustainability claims and the risk of being 'greenwashed'. There are also concerns that 'green' solutions may be more expensive, or that the increased capital cost does not translate to a whole-of-life benefit. DCCEEW will provide guidance for procurers to assess sustainability claims to prevent greenwashing. Cost impacts will be monitored and assessed as part of the 5-year evaluation.

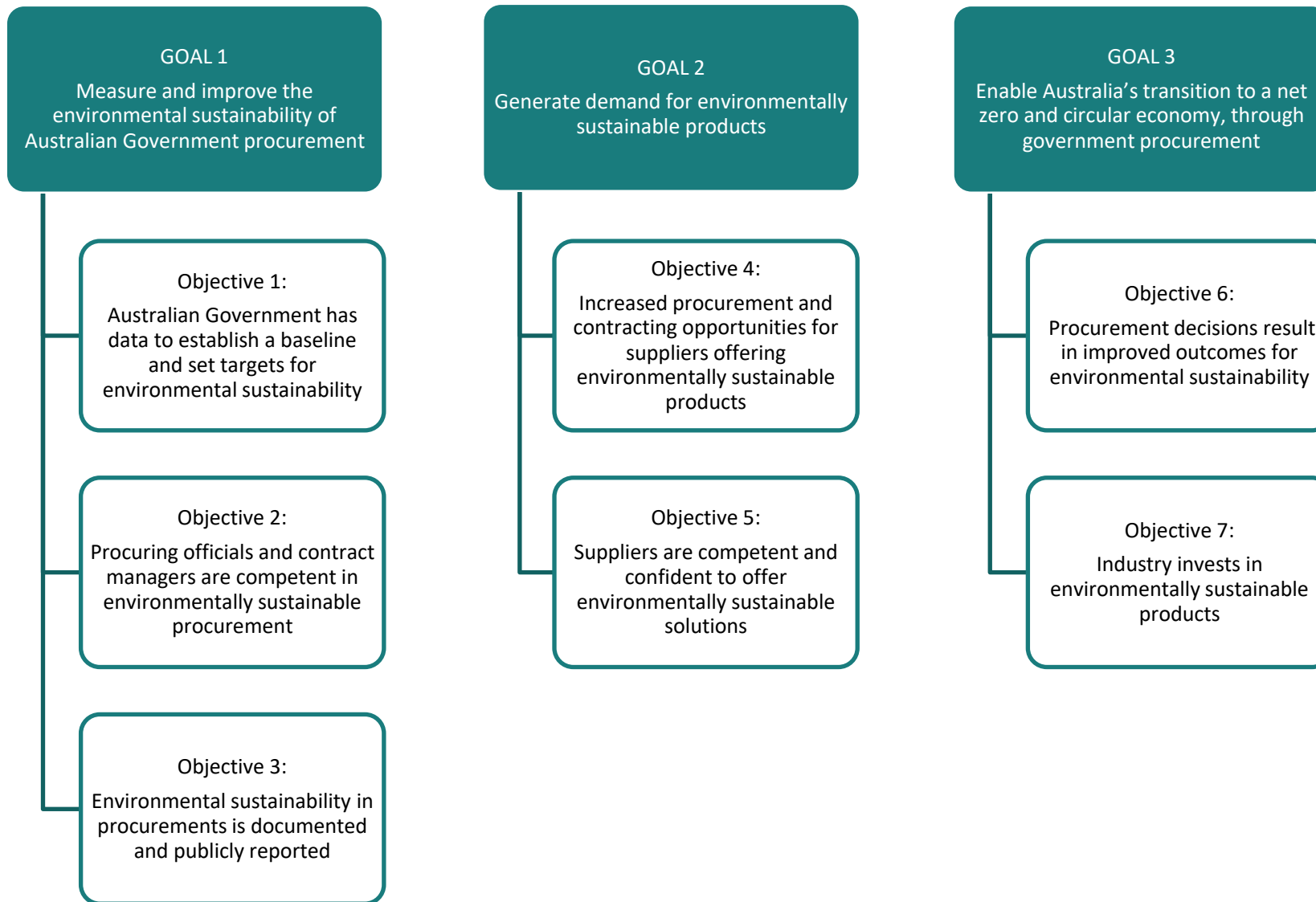


Figure 2 Objectives of government action

Table 1 Objectives and measures of government action

Objective	Measure	Data Source	Timing
GOAL 1: Measure and improve the environmental sustainability of Australian Government procurement			
1. Australian Government has data to establish a baseline and set targets for environmental sustainability	<ol style="list-style-type: none"> 1. A reporting framework is established for the policy 2. Government agencies are reporting against relevant metrics 	<ul style="list-style-type: none"> • Data reporting N.B. It will take 4 to 5 years to collect adequate data to establish a baseline to inform target setting 	By 31 Dec 2028
2. Procuring officials and contract managers are competent in environmentally sustainable procurement	<ol style="list-style-type: none"> 3. Increase in reported maturity of officials over time 4. Increase in complexity of APS enquiries received by DCCEEW 	<ul style="list-style-type: none"> • Department of Finance’s Commonwealth Procurement Capability Self-Assessment Survey • Training and masterclass attendance records • Helpdesk enquiries 	1 July 2026
3. Environmental sustainability in procurements is documented and publicly reported	<ol style="list-style-type: none"> 5. Increase in the number of contracts with Supplier Environmental Sustainability Plans (SESPs) 6. Reporting on environmentally sustainable procurement metrics 	<ul style="list-style-type: none"> • Data reporting 	Annually from 1 July 2025
GOAL 2: Generate demand for environmentally sustainable products			
4. Increased procurement and contracting opportunities for suppliers offering environmentally sustainable products	<ol style="list-style-type: none"> 7. Increase in contracts with SESP 	<ul style="list-style-type: none"> • Data reporting 	From 1 July 2026
5. Suppliers are competent and confident to offer environmentally sustainable solutions	<ol style="list-style-type: none"> 8. Businesses reporting improved awareness of Australian Government environmental sustainability procurement requirements 	<ul style="list-style-type: none"> • Selling to Government Web Form • Feedback forms on supplier webinars • Supplier Environmental Sustainability Plans 	1 July 2025

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Objective	Measure	Data Source	Timing
GOAL 3: Enable Australia's transition to a net zero and circular economy, through government procurement			
6. Procurement decisions result in improved outcomes for environmental sustainability	9. The extent to which GHG emissions are minimised through Australian Government procurements 10. The extent to which there is an increase in the use of circular economy principles	<ul style="list-style-type: none"> Reporting on policy metrics 	From 1 July 2025
7. Industry invests in environmentally sustainable products	11. Increase of environmentally sustainable products in Australian markets (for policy categories)	<ul style="list-style-type: none"> Industry, ABS data reporting Circularity in Australian Business 2023: Perceptions, Knowledge and Actions Beyond Recycling 	From 1 July 2028

3 Options

Under advice from the Office of Impact Analysis, election commitments can consider fewer than three options in the Impact Analysis.

The ESP Policy is being proposed in response to an election commitment (Section 2.2.1), therefore, only two options will be considered in the Impact Analysis. These are:

- Option 1: The status quo
- Option 2: An ESP Policy as a PCP.

3.1 Option 1: Status quo

The status quo relies on the existing provisions in the CPRs to embed environmental sustainability in Australian Government procurements through value for money assessment.

Under the status quo, DCCEEW will continue to provide the resources and advocacy to support increased environmentally sustainable public procurement. This support is documented in Section 2.1.2. These activities will, in future, also include a supplier education program.

3.2 Option 2: Procurement Connected Policy

Option 2 is to deliver an ESP Policy as a PCP. PCPs are specific whole-of-government policies of the Commonwealth for which procurement has been identified as a means of delivering government policy objectives. Entity staff must consider PCPs during a procurement process.

The proposed ESP Policy, as a PCP, will require government agencies undertaking an in-scope procurement activity to:

- require tenders to submit a Supplier Environmental Sustainability Plan (SESP) with their tender submission
- consider the SESP in the tender evaluation
- collect data from suppliers on the relevant sustainability metrics during the contract delivery
- monitor the supplier's performance in relation to the SESP.

Suppliers will be required to demonstrate how they will optimise environmental sustainability in delivery of the goods or service, identify opportunities for innovation and a commitment to environmental sustainability in their own organisation. The ESP Policy will set an expectation that goods and services that meet circular economy, climate and environmental principles will be valued and actively considered in the value for money assessment.

3.2.1 Categories, thresholds and phasing

As raised in Section **Error! Reference source not found.**, an optimal government policy reduces the administrative and financial impacts while increasing the positive outcomes. The consultation and preliminary analyses for the ESP Policy determined that focussing on particular procurement categories is effective at optimising outcomes. This is consistent with international trends. The UNEP

2022 Global Review of Sustainable Public Procurement⁴¹ found that 69% of countries with sustainable procurement policies prioritised categories of procurement.

There was variation in industry sectors' capacity to provide more sustainable alternatives and the ability to verify sustainability claims, such as through certification schemes or ecolabels.

The ESP Policy will target categories which are most likely to materially impact environmental outcomes at lower cost due to:

- sufficient market readiness and industry capacity to supply environmentally sustainable options
- existing ecolabels, environmental sustainability standards, certification or product stewardship schemes
- alignment with other government environmental policies or strategies.

The value of the procurement will also affect the relative costs and benefits in applying a policy, as low value procurements will require similar administrative burden as high value procurements with much less benefits. The ESP Policy will therefore adopt value thresholds; any procurements at or above the threshold will be in scope.

To allow adequate time for industry and Australian Government agencies to respond to the ESP Policy requirements, and for DCCEEW to prepare supporting material, a phased approach to implementation will be adopted. Construction services was identified as preferable to introduce in the first phase as it impacts the fewest number of agencies and the largest procurer, Defence, has existing sustainability requirements which can be adapted to the ESP Policy requirements.

The proposed categories, thresholds and phasing are shown in Table 2.

Table 2 In-Scope categories, threshold and timing

Category	Threshold	Phasing
Construction services	\$7.5 million	Year 1
Furniture, fittings and equipment	\$1 million	Year 2
ICT goods	\$1 million	Year 2
Textiles	\$1 million	Year 2

The relevant opportunities for sustainability improvements and available ratings tools are discussed in more detail in *Section 4 Cost Benefit Analysis*.

These thresholds were established in consultation with the Department of Finance, other agencies and industry stakeholders, and are consistent with the contract threshold brackets used in AusTender. The proposed threshold for Construction Services of \$7.5 million aligns with the relevant procurement thresholds in the CPRs.

⁴¹ [UNEP Sustainable Public Procurement 2022 Global Review](#).

3.3 The proposed policy – how it works

The ESP Policy would require action at each of the key stages of procurement as discussed below.

3.3.1 Planning the procurement

- Before approaching the market, procuring officials need to determine if the ESP Policy applies. It is recommended that government agencies undertake research to determine environmentally sustainable options available in the market.

3.3.2 Request for quote/tender

- Tenderers are required to complete a SESP detailing environmental outcomes that will be achieved throughout the delivery of the goods and/or services. These outcomes must align with the ESP Policy principles.
- The Approach to Market must include the sustainability metrics against which the successful tenderer will report throughout the contract term.
 - The construction services metrics are included in the ESP Policy Reporting Framework. DCCEEW will supply metrics for year two categories following further consultation with government agencies and suppliers.

3.3.3 Acceptance of tender

- Entities must consider the tenderer's SESP as part of the tender evaluation process.
- The entity will consider the tenderers' proposed approach to optimising environmental sustainability outcomes in the delivery of the potential contract. This includes how the:
 - tenderer proposes to substantiate environmental sustainability claims
 - environmental outcomes in the SESP align with the ESP Policy principles.

3.3.4 Creation of contract relationship

- The SESP will form part of the contract as a schedule.
- The contract will include provisions for reporting against relevant metrics.
- Suppliers will be required to report against relevant metrics periodically throughout the contract term to evaluate the progress of environmental sustainability outcomes.

3.3.5 Performance under the contract

- The supplier is responsible for meeting their commitments in the SESP.
- The contract manager will be responsible for monitoring and managing performance of suppliers in relation to the ESP Policy.
- The government agency and the supplier will review the SESP at agreed intervals to determine any perceived risks to the delivery of the SESP or opportunities for improvement.
- Should a variation to the SESP be required during the term of the contract, the government agency and the supplier may agree to changes to the commitments. Any changes must align to the ESP Policy focus areas and principles.

3.3.6 Reporting

- Suppliers will report against the relevant metrics, using the reporting template included in the Approach to Market documentation.
- Suppliers must also record and track this information on behalf of their subcontractors and ensure data is received from subcontractors in an accurate and timely manner to meet reporting obligations.
- For the purposes of transparency, reporting and policy reviews, suppliers will be required to also provide the SESP to DCCEEW upon request.
- Government agencies are responsible for undertaking appropriate assurance activities to ensure that the data provided by the supplier in their reports is complete and accurate, and ensure data is collected and shared responsibly.
- Government agencies are required to submit suppliers' reports to DCCEEW every 6 months (February and August) to facilitate whole-of-government reporting.

3.3.7 Review and evaluation

- DCCEEW will aggregate the reporting from all Australian Government agencies to create a whole-of-government report against the ESP Policy. The whole-of-government report will be published on the DCCEEW website annually, detailing results against the ESP Policy key performance indicators. These results will be calculated using the data from relevant metrics included in reports provided by government agencies.

3.3.8 Implementation support

The ESP Policy's success will require Australian Government officials and suppliers to be supported with education and guidance. The proposed support to be provided by DCCEEW is detailed in Table 3. Many of the resources for the Australian Government procurers and contract managers already exist, these will be supplemented with policy-specific guidance.

3.4 Assessing options against objectives

This impact analysis considers each option with respect to:

- their ability to meet the objectives of the required government intervention
- their costs and benefits.

The cost benefit analysis is addressed in Section 4. This section compares the two options against the objectives of the policy referenced in Section 3. Option 1 is the status quo. Option 2 is the introduction of an ESP Policy.

The ability to meet each of the objectives is assessed as either:

- Low
- Low-moderate
- Moderate
- Moderate-high
- High.

Table 3 Policy implementation support

Product or Activity	Description	Release
<i>Australian Government Procurers and Contract Managers</i>		
Sustainable Procurement Guide	Step-by-step guidance on how to integrate environmental sustainability into Australian Government procurements.	March 2024
Case studies	Case studies of environmentally sustainable procurement in practice, for an example refer to Reef HQ Aquarium	March 2024
Training	Online training delivered through Learnhub: <ul style="list-style-type: none"> The Circular economy and the benefits of sustainable procurement Environmentally sustainable procurement in the APS Planning for environmentally sustainable procurement Environmentally sustainable procurement in action In person training delivered through the APS Academy. <ul style="list-style-type: none"> Participants will apply environmental sustainability to their own procurement for practical learning. 	June 2024 June 2025
Guidance and templates	<ul style="list-style-type: none"> ESP Policy Frequently Asked Questions How to evaluate a Supplier Environmental Sustainability Plan Guidance on metrics (including reporting) Value for Money assessment of environmental sustainability Practice notes Monitoring and assessing supplier performance against the ESP Policy Model clauses for use in approach to market documents and contracts Standard operating procedures for ESP policy reporting 	March - July 2024
Commonwealth Contracting Suite (CCS)	The CCS is used by APS officials to create standardised Commonwealth contracts for procurements under \$1 million. The environmental sustainability content will be updated to align with the ESP Policy.	June 2024
Community of Practice	Part of the DoF's Procurement and Contract Management Community of Practice. The Sustainable Procurement sub-community (est. May 23) has 500+ members.	Ongoing
Helpdesk	Dedicated email inbox for APS procurement officials' enquiries on sustainable procurement.	Ongoing
Masterclasses	Webinar series promoting environmentally sustainable procurement practices and industry innovation. Presentations are posted on the DCCEEW website.	Quarterly
Procurement Bulletin	Regular sustainable procurement articles in Department of Finance's bi-monthly newsletter emailed to more than 2200 APS procurement officials.	Ongoing
<i>Suppliers</i>		
Templates	<ul style="list-style-type: none"> SESP template with embedded guidance to ensure the plan meets the policy requirements Reporting template 	April 2024
Webinar series	Topics will include: <ul style="list-style-type: none"> ESP Policy 101 for suppliers Completing the SESP for Tenderers Reporting requirements for suppliers 	March to June 2024
Selling to Government web content	The ESP policy templates and guidance will be available on the DCCEEW website and accessible, via a link, from the Department of Finance's Selling to Government website. This will include webinar recordings, case studies and other collateral.	Ongoing from March 2024
<i>All</i>		
DCCEEW website	The ESP Policy and supporting materials will be available on the DCCEEW website.	Ongoing

Objective 1: Australian Government has data to establish a baseline and set targets for environmental sustainability

Under the status quo, the Australian Government has no data to track sustainability of procurements and therefore is unable to establish a baseline or set informed targets.

Under the ESP Policy, government agencies will be required to report against specific environmental sustainability metrics. The metrics data will be used to track environmental outcomes against the ESP Policy. This data can be used to establish a baseline and set future targets for the in-scope procurement categories of construction services, textiles, ICT goods, and furniture, fittings and equipment.

- Option 1: Low
- Option 2: High

Objective 2: Procuring officials and contract managers are competent in environmentally sustainable procurement

As discussed in section 2.1.2 the value of the existing DCCEEW advocacy and education program was recognised in the 2022 Commonwealth Procurement Awards for Excellence with an honourable mention for building capability and changing the cultural mindset of sustainability across government procurement. The cultural shift has been gradual, and uptake remains limited without the driver of a dedicated policy. Procurement officials have reported being uncertain when environmental sustainability is relevant and feel they do not have the capability to assess environmental sustainability.

The ESP Policy will require procuring officials to request and consider sustainability outcomes in in-scope procurements. This is expected to drive an increase in government staff seeking support from DCCEEW and other sources. This in turn is anticipated to drive a subsequent capability uplift in government agencies. The phased introduction of the in-scope procurements over two years will give agencies time to build their knowledge and access resources such as online training.

- Option 1: Low-moderate
- Option 2: Moderate-high

Objective 3: Environmental sustainability in procurements is documented and publicly reported

Currently there is limited whole-of-government evidence of environmental sustainability considerations in Australian Government procurements.

The ESP Policy will establish a reporting framework. Australian Government agencies will be required report on standardised metrics for each of the in-scope procurement categories to DCCEEW. The aggregated data will be reported annually on the DCCEEW website, increasing transparency of the government's environmentally sustainable procurement practices.

- Option 1: Low-moderate
- Option 2: Moderate-high

Objective 4: Increased procurement and contracting opportunities for suppliers offering environmentally sustainable products

The status quo has not demonstrated much stimulation of the market toward sustainable outcomes.

The ESP Policy will set an expectation for certain procurements to consider, document and report on environmental sustainability considerations within the procurement selection and delivery process. This will apply to over \$4 billion of Australian Government procurements (see section 4.4 for more detail). Enacting a clear policy position that establishes a demand for environmentally sustainable products is expected to drive industry investment and innovation in the in-scope categories.

- Option 1: Low
- Option 2: Moderate

Objective 5: Suppliers are competent and confident to offer environmentally sustainable solutions

There is indication that some industries are developing sustainable solutions, such as low carbon cement, certified organic cotton, chairs with recycled content or goods in compostable packaging. However, many of these goods may be more expensive as an upfront cost. If suppliers believe that price is the primary assessment criteria and environmental sustainability requirements aren't set in approaches to market, they are less likely to offer these to government procurements.

The ESP Policy will demonstrate to suppliers that the Australian Government prioritises environmentally sustainable procurement. It will set focus areas and principles to provide clarity on the environmental sustainability attributes the Australian Government expects in the goods and services it procures. This is expected to be reflected in suppliers investing more time and effort in developing sustainable alternatives, and the confidence to offer them to government agencies.

- Option 1: Moderate
- Option 2: Moderate-high

Objective 6: Procurement decisions result in improved outcomes for environmental sustainability

Under the status quo, the requirement remains for procuring officials to consider environmental sustainability in the value for money assessment, in accordance with the CPRs. To date, this has had a low level of demonstrated outcome due to the lack of reporting requirements, though is expected to mildly increase with the introduction of the *Net Zero in Government Operations Strategy*.

The ESP Policy will mandate environmental sustainability requirements for the in-scope procurement categories. Tenderers will be required to demonstrate how their goods or services meet the policy principles. This is documented in a SESP. The successful supplier must deliver on the SESP and report on the relevant metrics. These metrics are linked to the ESP Policy KPIs which include minimising greenhouse gas emissions and increasing the use of circular economy principles. While this will not guarantee the more sustainable option will be selected, it is likely to significantly increase the consideration of environmental sustainability in tender evaluation. Setting the expectation will also drive procuring officials to seek out education which will result in an uplift in confidence to apply sustainability principles, which may then be transferred to other procurements out of policy scope.

- Option 1: Low-moderate
- Option 2: Moderate-high

Objective 7: Industry invests in environmentally sustainable products

As discussed above in objective 5, in some cases industry is developing more sustainable products and services under the status quo. This is expected to increase under the ESP Policy as environmental sustainability will be mandatory for over \$4 billion per year of Australian Government procurement. This is expected to generate stable demand at scale to drive industry investment and innovation.

- Option 1: Moderate
- Option 2: Moderate-high

3.4.1 Summary of how options meet objectives

Table 4 summarises the capacity of each identified option to meet the objectives. The shading is a visual representation where dark is high, and light is low. This shows that Option 2 is more likely to deliver on the objectives of government action. On average, the status quo has a ‘low-moderate’ likelihood of meeting the objectives, compared to ‘moderate-high’ for the proposed ESP Policy as a PCP.

Table 4 Likelihood of meeting objectives

Objective	Option 1 – Status Quo	Option 2 – ESP Policy
Objective 1: Australian Government has data to establish a baseline and set targets for environmental sustainability	Low	High
Objective 2: Procuring officials and contract managers are competent in environmentally sustainable procurement	Low-moderate	Moderate-high
Objective 3: Environmental sustainability in procurements is documented and publicly reported	Low-moderate	Moderate-high
Objective 4: Increased procurement and contracting opportunities for suppliers offering environmentally sustainable products	Low	Moderate
Objective 5: Suppliers are competent and confident to offer environmentally sustainable solutions	Moderate	Moderate-high
Objective 6: Decisions result in improved outcomes for environment sustainability	Low-moderate	Moderate-high
Objective 7: Industry invests in environmentally sustainable products	Moderate	Moderate-high
Overall	Low-moderate	Moderate-high

4 Cost Benefit Analysis

4.1 Introduction

4.1.1 Aim

This cost benefit analysis is intended to demonstrate if the proposed ESP Policy is preferred over the status quo when considering impacts to stakeholders.

4.1.2 Options

As discussed in section 2.2.1, as the ESP Policy is delivering on an election commitment, only two options were considered.

These options are:

- Option 1: Status quo
- Option 2: ESP Policy as a PCP, with relevant thresholds.

This cost benefit analysis considered Option 2 ESP Policy as a PCP in comparison with Option 1: Status quo as the base case.

All the costs and benefits are therefore with respect to the status quo.

4.2 Impact identification

4.2.1 Types of impacts

The impacts associated with implementation of the ESP Policy (option 2) have been identified and summarised in Table 6.

The impacts vary by:

- affected party
- ability to be monetised
- timing
- availability and certainty of data.

Affected parties

The main affected parties are:

- Suppliers to the Australian Government
- Australian Government agencies procuring in in-scope categories
- DCCEEW in providing policy support
- Industry, economy and environment.

Ability to be monetised

Financial impacts include time and effort to respond to the ESP Policy requirements, or the operational energy savings. Some non-financial impacts can be monetised, such as greenhouse gas

emissions. A third group of non-financial impacts are difficult to monetise, such as reduction in environmental harm.

Timing

All costs associated with the policy were found to be borne as a one-off cost at the time of procurement. Some of the benefits (e.g. reduction in embodied carbon) were also considered to be experienced once, at the time of procurement. Other benefits would be ongoing after procurement (e.g. reduction in operational energy use) or delivered as a discrete benefit at end of life (e.g. reduction in disposal costs).

Availability and certainty of data

Limited data was available to assess some impacts such as a reduction in environmental harm. In some instances, such as implementation costs, there was good data availability.

4.2.2 Costs

The main cost impacts were identified as:

- business compliance costs (to suppliers)
- administration costs (to Australian Government agencies)
- support costs (to DCCEEW)
- procurement costs (to Australian Government agencies).

The implementation costs (business compliance, administration and support) are considered mandatory for affected contracts as they will be required to invest the time and effort to comply with the policy requirements.

The procurement costs are considered optional and variable. To meet the policy requirements suppliers are expected to offer more sustainable options, which may be more expensive. However, the extent and price of those offerings would vary with the contract type, value and supplier.

4.2.3 Benefits

The benefits are diverse in type, timing, affected party and level of certainty. For the convenience of this analysis, benefits have been grouped into 3 types depending on their ability to be monetised and the timing of the impact. These are shown in Table 5.

Table 5 Diversity of Benefits

Factor	Benefit Type 1	Benefit Type 2	Benefit Type 3
Type	Market (monetised) Non-market, able to be monetised	Market (monetised) Non-market, able to be monetised	Non-financial - not able to be monetised
Timing	Discrete - experienced as a one-off at time of procurement	Ongoing - experienced for years after the time of procurement	Ongoing - experienced for years after the time of procurement Discrete one-off impact at end-of-life

4.2.4 Impact identification

Table 6 summarises the identified impacts. It provides the description of each type of impact, the affected party, whether the costs and benefits can be evaluated in monetary terms, the level of certainty of the available data and the timing of the expected impact.

4.3 Analysis approach

4.3.1 Type of analysis

To assess the impact of a proposed ESP Policy, each of the impacts outlined in section 4.2 have been analysed. As not all costs and benefits can be monetised, a dual approach has been applied. A cost benefit analysis has been applied to those that can be monetised and a break-even approach has been applied to the non-financial (or non-monetised) benefits. The approach is described visually in Figure 3.

Cost benefit analysis

The cost benefit analysis will initially consider the Type 1 benefits which can be monetised and experienced at the time of procurement. These will be compared against the costs (monetised and experienced at the time of procurement). If the Type 1 benefits outweigh the costs, the cost benefit analysis will conclude that the ESP Policy is preferred over the status quo.

If the costs outweigh the Type 1 benefits, the Type 2 benefits will be evaluated.

Break-Even Analysis

If costs still outweigh the Type 1 plus Type 2 benefits, consideration of the Type 3 benefits will be included. This will involve a break-even analysis. This is an evaluation of the required minimum value of the Type 3 benefits of Option 2 (ESP Policy) for it to break even with Option 1 (status quo).

The benefits of this approach are:

- not all benefits need to be quantified
- it balances the resources required for the analysis to be commensurate with the impact under consideration
- it allows for the lack of data for some impacts
- it allows for the determination of the net benefit of the ESP Policy.

This approach is demonstrated in Figure .

4.3.2 Decision rule

The decision rule for this analysis is that if the evaluated benefits are greater than, or similar to, the evaluated costs, the ESP Policy will be considered the preferred option.

Table 6 Impact identification

	Impact Category	Affected Party	Impact Description	Type	Evaluation data	Time of Impact	Level of uncertainty
Costs	Business compliance costs	Suppliers	‘Regulatory Burden’ Training Time to complete additional requirement for tender submissions	Cost	Monetary	At time of procurement	Low/moderate
	Administrative compliance costs	Government agencies	Training Tender assessment Reporting	Cost	Monetary	At time of procurement	Low/moderate
	Support costs	DCCEEW	Development and provision of training and helpdesk support Guidance and template development Setting up and managing reporting systems Compliance monitoring Reporting – preparation of aggregated results Policy evaluation	Cost	Monetary	Reducing over time	Low
	Procurement (‘Green premium’) costs	Government agencies	Potential higher cost of alternative products/materials Higher costs to design to more sustainable standards	Potential cost*	Monetary	At time of procurement	Low
Benefits	‘Green premium’ revenue	Suppliers	Potential increased revenue to suppliers from supply of more sustainable goods and services	Type 1 benefit	Potential monetary	At time of procurement	Moderate
	Embodied carbon reduction - Construction	Government agencies	Reduced embodied carbon emissions of construction materials production	Type 1 benefit	Potential monetary	At time of procurement	Moderate
	Operational benefits	Government agencies	Operational savings (e.g. reduced energy demand, landfill fees, maintenance over the life of the asset)	Type 2 benefit	Potential monetary	Ongoing	Low
		Government agencies	Reduced operational carbon	Type 2 benefit	Potential monetary	Ongoing	Moderate
Environmental benefits	Government agencies	Other environmental benefits of procurement and operation	Type 3 benefit	Qualitative	Ongoing	Data not available	

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		Government Entities	Reduced embodied carbon (FFE, ICT goods, textiles)	Type 3 benefit	Qualitative	At time of procurement	Data not available
		Government Entities	Increased circularity of materials	Type 3 benefit	Qualitative	Ongoing	Data not available
	Government Commitments	Australian Government	Deliver on government commitments Reputation	Type 3 benefit	Qualitative	Reducing over time	Data not available
	Indirect Impacts	Suppliers	Increased competence and confidence to offer environmentally sustainable solutions for other contracts not captured by policy scope	Type 3 benefit	Qualitative	Ongoing	Data not available
		Australian Government	Australian Government procuring officials are competent in environmentally sustainable procurement Australian Government has data to establish a baseline and set targets for environmental sustainability which improves transparency and drives ambition	Type 3 benefit	Qualitative	Ongoing	Data not available
		Australian Industry	Increased industry investment and innovation in sustainable products, resulting in reduced risks, improved financial return and increased trade opportunities	Type 3 benefit	Qualitative	Ongoing	Data not available
		Australian economy	Improved material circularity of goods Improved output per material usage Increased jobs in circular economy Increased willingness to pay for sustainable goods and services	Type 3 benefit	Qualitative	Ongoing	Data not available
		Australian community	Improved human health and wellbeing	Type 3 benefit	Qualitative	Ongoing	Data not available

*Not all sustainable products will come at an additional cost and some sustainable products may be cheaper than the standard option.

4.3.3 Time period and discounting

If adopted, the ESP Policy would apply for 5 years, unless renewed. These ongoing benefits of the policy are assumed to extend for 10 years beyond the date of procurement. The total period of the cost benefit analysis is therefore 15 years.

If Option 2 ESP Policy is demonstrated to have a net benefit when only considering the Type 1 benefits that are experienced at time of procurement, then there is no need to determine net present value and apply discount rates.

If evaluation of the continuous Type 2 benefits is required to demonstrate the net benefit of the ESP Policy, then a discount rate of 7% will be applied, in accordance with OIA guidance⁴². A sensitivity analysis with 4% and 10% discount rates is also undertaken.

⁴² A discount rate of seven per cent is specified by the OIA in its cost-benefit analysis guidance note, February 2016 pmc.gov.au/resource-centre/regulation/cost-benefit-analysis-guidance-note.

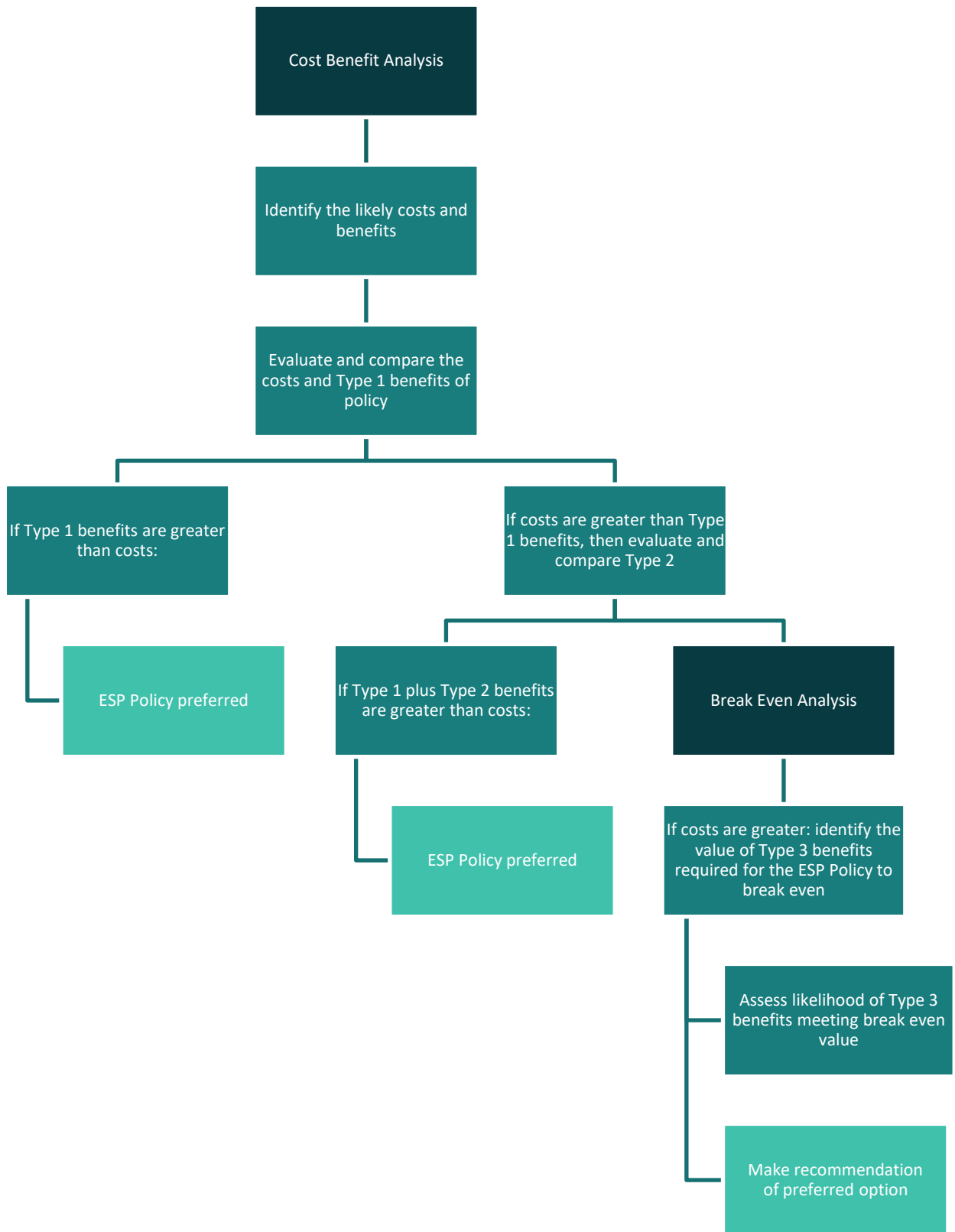


Figure 3 Cost benefit/break-even analysis approach

4.4 Data and assumptions

This section aims to:

- Identify the mechanisms to measure sustainability benefits such as sustainability rating tools.
- Establish the sustainability of procurements under the status quo, to allow for consideration of the improvements resulting from the ESP Policy.
- Determine the relevant data used for the analysis.

4.4.1 General

Several general assumptions are made for this analysis:

- each contract's approach to market receives four tenders
- the hourly labour rate is \$80⁴³
- carbon price of \$60 per tonne of CO₂e (based on the median value used in the current Australian Transport Assessment and Planning Guideline⁴⁴)
- other assumptions as noted within the text.

To assess the impact of the ESP Policy, the number and value of in scope contracts were identified through average of AusTender data for each category for the 5 years to 30 June 2022.

4.4.2 Construction services

Sustainability measures and assumption

The status quo for construction services assumes that for most construction projects the environmental sustainability is at (or below) the industry standard. Option 2 (ESP Policy) assumes that projects would improve to the 'Best Practice' standard upon implementation of the policy.

Specifically, this assumption implies that for the status quo:

- there is a low use of more sustainable products or materials
- buildings are not optimally designed for sustainability such as high energy efficiency
- infrastructure is not designed in accordance with circularity principles such as modularity or reuse.

This assumption is based on:

- Feedback from the Department of Defence's Infrastructure Division that there is limited data collection and reporting on sustainability measures under the existing internal policy, the Smart Infrastructure Handbook.
- A project undertaken by DCCEEW aiming to collect baseline data on recycled content in infrastructure and capital works found recycled content use was limited to a small number of projects.

⁴³ Department of PM&C [Regulatory Burden Measurement Framework](#), 2023 recommends labour costs of \$79.63 per hour be used for impact assessments. This has been rounded to \$80 in this analysis.

⁴⁴ Infrastructure and Transport Ministers [Australian Transport Assessment and Planning Guidelines August 2021](#)

- The results of an Environmental Economic Analysis undertaken by Aurecon on behalf of DCCEEW that considered a selection of Australian Government projects⁴⁵.
- The very low certification against industry rating tools such as Green Star for Australian Government owned or leased buildings.
- Infrastructure Australia's Embodied Carbon Projections for Australian Infrastructure and Buildings which assumes the baseline scenario to be a low level of uptake of decarbonisation strategies.

The Green Building Council of Australia (GBCA) provides an internationally recognised industry standard sustainability rating tool for Australian buildings. The Green Star Rating System *Green Star Building* certifies the design, construction and operation of buildings with ratings from 4 Star (Best Practice) to 6 Star (World Leadership). Similarly, *Green Star Interiors* certifies the internal fit out. While very few Australian Government buildings are certified or benchmarked against the Green Star tool, it is assumed that most would not meet the 4 Star Green Star rating and are designed and built to be less sustainable than Australian best practice.

While the ESP Policy encourages Australian Government agencies to seek Green Star certification the certification level is not specified. It is assumed that under the ESP Policy, Australian Government agencies will opt for the lower 4 Star Green Star rating (Australian best practice). The Department of Defence has indicated certification under the GBCA's Green Star Rating System (or other rating tools) is unlikely to be achieved due to unresolved security risks. For this assessment it is assumed that under Option 2, buildings would be designed in accordance with the Green Star Rating System 4-star criteria, but not target formal certification.

A building designed to a Green Star standard may include:

- reuse of existing structure
- improved airtightness, orientation and shading for better climate control and energy efficiency
- modules that can be built in stages as required
- structural timber rather than steel
- adaptability for future use.

Under Option 2 it is expected that the introduction of the ESP Policy will encourage greater uptake of sustainable construction materials.

These replacement materials have lower life cycle impacts due to a combination of:

- low embodied carbon
- recycled content
- recyclability
- reduced water consumption
- increased durability.

Infrastructure (other than buildings) are also anticipated to include circularity principles such as modular and flexible design, reuse of existing infrastructure, design for end-of-life recovery under

⁴⁵ Aurecon, *Environmental Economic Analysis*, 2023, report for DCCEEW

Option 2. These benefits have not been monetised due to lack of available data and will only be considered as a qualitative benefit.

Data

From AusTender data for relevant categories related to construction services, there are approximately 1600 contracts per year worth \$3.4 billion. Excluding procurements that were under the \$7.5 million threshold or a contract variation gave the following data used in this impact analysis:

- Total value of affected contracts: \$2.7 billion per year
- Number of affected contracts: 65 per year (50 are Department of Defence)
- Average value of affected contracts: \$45 million

Construction services projects above the \$7.5 million threshold are predominantly delivered by Defence (83% by value of total), with the Department of Finance the next highest at 9%. Due to this high dominance by Defence, this assessment may consider the costs and benefits to Defence separately where appropriate.

This analysis considers the benefits of sustainable buildings separately to 'horizontal' infrastructure e.g. roads and pavements. The available Austender data does not allow an easy distinction between these types, so an estimate is made based on Defence spending. AusTender indicates that around 43% of Defence construction projects are delivered by the Service Delivery Division and 57% by Infrastructure Division. The Infrastructure Division generally deliver new assets, both buildings and horizontal infrastructure. While some Service Delivery Division projects are for new builds, the majority are maintenance of existing infrastructure. Based on this data it is assumed that approximately 60% of the construction services spend is on new infrastructure (including buildings) and roughly half of that (\$800 million per year) is on new buildings.

4.4.3 Furniture, fittings and equipment (FFE)

Sustainability measures

There is no one sustainability standard for the diverse types of products that fit under the FFE, which could include office chairs, desks, printers, carpets, window dressings, gym equipment and kitchen appliances.

The GBCA includes a Green Star Interiors rating tool that assesses the full interior fit out of buildings, such as offices. The Green Star Interiors rating tool operates in a similar way to the Green Star Buildings rating tool discussed above.

Good Environmental Choice Australia (GECA) certifies a range of products against environmental values, in accordance with the ISO 14024 standard. Ecolabels are available for building materials, furniture, office supplies, cleaning products, textiles and more. Other ecolabels available in Australia relevant to FFE relate to greenhouse gas emissions, forest stewardship, material sustainability, water and energy efficiency.

There is no reliable dataset of whether Australian Government agencies currently specify or consider products with ecolabels during procurement.

Data

AusTender data for categories relevant to FFE, shows there are approximately 1400 contracts per year worth \$315 million. Excluding procurements that were under the \$1 million threshold or a contract variation gave the following data used in this impact analysis:

- Total value of affected contracts: \$180 million per year
- Number of affected contracts: 48 per year
- Average value of affected contracts: \$3.7 million.

The data is considered to have a moderate level of uncertainty as the AusTender categories used do not allow easy separation of the procurements related to FFE from similar procurements, such as office supplies.

4.4.4 ICT goods

Sustainability measures and assumption

The Global Electronics Council offers an Electronic Product Environmental Assessment Tool (EPEAT) to rate the sustainability of ICT goods. EPEAT sets a bronze, silver and gold standard that reflects the environmental sustainability attributes of the ICT goods. Environmental sustainability factors considered are:

- energy conservation
- packaging
- life cycle carbon footprint
- material types
- design for end of life.

This is the rating system most regularly used for ICT goods sold in Australia. The Australian Government Energy Star standard is also used to identify energy efficient electronic goods and appliances⁴⁶.

The Australian Government ICT Sustainability Plan 2010-2015 required all ICT goods procured by the Australian Government to be at least EPEAT silver standard and Energy Star rated. There was limited reporting under this now retired policy, so there is no evidence of what level was achieved.

Consultation with ICT procurers in government agencies identified that many agencies already procure goods such as laptops with a Gold EPEAT and Energy Star rating. These are considered incidental as procurement decisions do not target a particular EPEAT standard. There are no records of EPEAT ratings of Australian Government ICT goods, so it is unknown what fraction of ICT goods are at each EPEAT standard.

Data

Determining the likely level of procurement of ICT goods affected by the ESP Policy is limited by the data entered in AusTender. The available fields (category and description) are in many cases inadequate to distinguish between hardware, software and labour, or type of hardware. Attempts

⁴⁶ Australian Government [ENERGY STAR | The simple choice for energy efficiency](#). Accessed 19/1/24

have been made to exclude labour and software, where obvious, and the remaining data would represent an over-estimation of the ICT goods affected by the ESP Policy. This data has a high level of uncertainty.

- Total value of affected contracts: \$1.5 billion per year
- Number of affected contracts: 310 per year
- Average value of affected contracts: \$4.7 million

Of the 310 procurements of ICT goods, 145 are Department of Defence, 30 each from Services Australia and Australian Signals Directorate, and 13 from Home Affairs. Seventeen agencies conducted between one to 10 procurements and 36 agencies procured less than one per year.

4.4.5 Textiles

Sustainability

Several ecolabels are relevant to textiles, including GECA, Global Organic Textile Standard (GOTS) and Oeko-Tex⁴⁷. There is limited evidence of Australian Government agencies specifying sustainability standards or ecolabels in procurement of uniforms. One recent example is the Great Barrier Reef Marine Park Authority procuring uniforms with GOTS ecolabelling.

Recovery of textiles at end of life is an important component of sustainability. Some government agencies are actively trying to reduce the disposal of uniforms to landfill, however there is still limited consideration of the end-of-life disposal method when undertaking a new procurement. This analysis assumes that currently, there is a moderate sustainability consideration in government procurement of textiles.

Data

The following AusTender categories were considered for the textiles category:

- bedclothes and table and kitchen linen and towels
- clothing
- fabrics and leather materials
- footwear
- uniforms.

Some textiles were included in other categories such as luggage or camping supplies. It was difficult to separate the textile and non-textile data available in these categories. However, none of these procurements were over \$1 million so were unlikely to be affected by the ESP Policy. Based on the specificity of the categories analysed, the data is considered to have a low level of uncertainty.

The data excluded procurements that were under the \$1 million threshold or a contract variation. This gave the following data used in this impact analysis:

- Total value of affected contracts: \$95 million per year
- Number of affected contracts: 25 per year
- Average value of affected contracts: \$3.8 million.

⁴⁷ Ecolabel Index [All ecolabels | Ecolabel Index](#) Accessed 19/1/24

4.4.6 Summary of data

The data above is summarised in Table 7 below.

Table 7 Number and value of affected contracts, per category, per year

	Construction services	FFE	ICT goods	Textiles
Value of affected contracts	\$2.7b	\$180m	\$1.5b	\$95m
Number of affected contracts	65 (50 Defence)	48	310	25
Average value of affected contracts	\$45m	\$3.7m	\$4.7m	\$3.8m
Top agencies (by value)	Defence (83%) Finance (9%)	Defence (63%) Services Australia (21%)	Defence (51%) Services Australia (11%)	Defence (85%) Home Affairs (13%)

*b = billion, m = million

4.5 Costs

4.5.1 Business compliance costs

This section considers the required additional tender costs by suppliers tendering for Australian Government contracts in affected procurements, for ESP Policy (Option 2).

In the status quo, there are no additional costs on suppliers associated with compliance.

To comply with the requirements of the proposed ESP Policy, suppliers tendering for in-scope government procurements must submit a SESP with their tender. This would likely include time/effort to understand the requirements of the policy and develop the SESP. In addition, there may be additional costs associated with innovation, R&D and/or identification of alternative products from sub-suppliers.

Suppliers will also be required to report on metrics throughout the contract delivery stage. It is assumed these reporting costs will be passed on to the procuring entity and are addressed in section 4.5.2 below.

Construction services

The Department of Defence is a major procurer of construction services in the Australian Government, with around 80% of contracts by value. Given this significance, the costs for Defence are considered separately to other government agencies.

Defence has an existing internal policy, *The Smart Infrastructure Handbook* which sets an expectation for sustainability to be considered in infrastructure delivery. The Defence Suite of Facilities Contracts requires suppliers tendering for Defence infrastructure projects to submit with tender an Ecologically Sustainable Development and Whole-of-Life Plan (ESD and WOL Plan). This ESD and WOL Plan must set out in detail the activities the supplier will undertake to manage the project in accordance with sustainability principles set in the Smart Infrastructure Handbook. Consultation with Defence identified the proposed SESP required as part of the ESP Policy is not markedly different to that

required by the ESP and WOL Plan. There may be some additional effort to lift the standard of the ESD and WOL Plans to that expected of a SESP. This additional cost on the suppliers bidding for Defence contracts is anticipated to be \$10,000 per contract.

Other government agencies procure construction projects less frequently and do not have an internal policy suite like Defence. Providing a SESP would therefore require an increased effort from suppliers to these agencies.

The consultation for the policy development (see Section 5) found that ‘most stakeholders perceived the SESP requirements to be achievable given that providing sustainability-related information is increasingly business-as-usual for suppliers’⁴⁸.

To estimate the cost to comply with the ESP Policy requirement, a consultation survey (detailed in Section 5), asked suppliers:

Please indicate the anticipated impact on your organisation?

On average, the suppliers reported a ‘medium’ impact to deliver a SESP. This increased to ‘high’ for those who identified as a small to medium enterprise or an Indigenous supplier. However, the data provided in the survey was inadequate to quantify the cost as it was unclear whether the reported impact was per procurement or per year⁴⁹.

Instead, a qualitative assessment of the additional time to meet the ESP Policy tender requirements was undertaken. This considered:

- understanding of tender requirements (all tenderers)
- staff training (all tenderers)
- identification of sustainability initiatives (all tenderers)
- preparation and submission of a SESP (all tenderers)
- engaging with sub-contractor suppliers to identify options (all tenderers)
- tender negotiations related to the SESP (winning tenderer).

Feedback from small to medium enterprises was that this cost is likely to be highest in the first two years of the policy as suppliers develop an understanding of the policy, how to incorporate sustainability into their tender submissions and how to meet expectations of the SESP. For the purpose of this assessment, this cost is conservatively assumed to remain at \$25,000 per contract for the period of this assessment.

Furniture, fittings and equipment

Compared to construction projects which require a tailoring of the sustainability design in response to the specific type of building or infrastructure project, procurements in the FFE category are more

⁴⁸ Aurecon 2023 *Environmentally Sustainable Procurement Policy Consultation report*

⁴⁹ The survey gave some guidance on what each response would mean, e.g. Medium was noted as *moderate cost to the organisation; e.g. equivalent to around 1-person full time*. However, the survey was not clear on whether this was per procurement or per agency. The responses suggested agencies interpreted it differently.

standardised. The key feature of a SESP would be identifying the available sustainable alternatives and the relevant costs for each good. For furniture, this might look like the offer shown in Consultation with suppliers identified that this would be a low effort requirement, becoming easier after each tender, as the products become standardised. An additional 15 hours per tender is assumed, for a total of \$5,000 per procurement.

Table 8.

Consultation with suppliers identified that this would be a low effort requirement, becoming easier after each tender, as the products become standardised. An additional 15 hours per tender is assumed, for a total of \$5,000 per procurement.

Table 8 Example office chair offer

Product	Sustainability features	Cost
Chair 1	None	\$175
Chair 2	50% recycled content Formaldehyde free Recycled packaging	\$170
Chair 3	25% recycled content Renewable energy Low embodied carbon Compostable packaging	\$180
Chair 4	FSC certified wood GECA certified foam GOTS certified linen	\$175

ICT goods

Consultation with government procurers of ICT goods identified that once a decision had been made on the preferred model, procurement decisions were generally minor. Sustainability offerings might involve tweaks such as offering a carry bag with recycled content, compostable packaging or end-of-life recovery. It is already common practice for ICT goods to have information on the EPEAT and Energy Star rating, and additional sustainability factors such as packaging type. Advice from ICT suppliers is that providing this information would be low to negligible additional effort.

\$0 additional cost is assumed for the costs for businesses to comply.

Textiles

All of the textile procurements over \$1 million are uniforms (clothing, hats, footwear). Similar to ICT goods, once a decision is made on the preferred style, procurement decisions are generally minor. Unlike ICT goods, suppliers of uniforms do not routinely include sustainability information for their products. To do so would require additional effort by tenderers to identify and document sustainability of each product offered. This effort is assumed to be 15 hours each for four tenders, or \$5,000 per tender.

Summary business compliance costs

The above costs for suppliers to comply with the ESP Policy requirements are summarised in

Table 9. These costs are for each year of the ESP Policy implementation.

Note that these estimates are only for the preparation of the SESP and other requirements to submit the tender. It does not include additional research and development suppliers may undertake to improve the sustainability of their products in response to the ESP Policy.

Table 9 Business compliance costs, per year

Category	Cost per procurement	Number of procurements	Business Compliance Costs
Construction - Defence	\$10,000	50	\$500,000
Construction - Non-Defence	\$25,000	15	\$375,000
FFE	\$5,000	48	\$240,000
ICT goods	\$0	310	\$0
Textiles	\$5,000	25	\$125,000
Total			\$1.24 million

4.5.2 Administration costs - government agencies

This section considers the costs to government agencies in meeting the requirements of the ESP Policy. For government agencies implementing the ESP Policy it is assumed increased costs for:

- staff training of ESP Policy requirements and implementation
- assessing tenders and the SESP
- contract management
- reporting to DCCEEW.

Aurecon's consultation report⁵⁰ concluded that:

- Australian Government agencies' responses reflected an overall agreement that increased investment would be required for implementing policy requirements.
- The addition of a SESP would likely increase time spent assessing tenders.
- Australian Government agencies' procurement teams lack capabilities to assess sustainability-related information in tender submissions and require upskilling or require the engagement of external expertise.
- Some Australian Government agencies considered the sustainability-related contract management to be time-intensive.

Training

It is anticipated Australian Government agencies' procuring staff will need formal and informal training to understand how to implement sustainability requirements. Training might include

⁵⁰ Aurecon 2023 *Environmentally Sustainable Procurement Policy Consultation* report

completion of a sustainable procurement online training, review of the Sustainable Procurement Guide, watching DCCEEW case studies and additional external training.

The amount of training required per person would depend on the category as the complexity varies. Construction is assumed to be the most complex, and ICT goods the least. This latter is due to their being a clear rating system (EPEAT) available that would allow for easier consideration of sustainability.

The amount of training required would depend on the number of procurements per year, and the agency. Defence has significantly higher procurement than other agencies and therefore have dedicated staff managing procurement. The training required per procurement is therefore much lower than other agencies. Most agencies are anticipated to engage in less than one in-scope procurement per year and would be expected to train the staff involved in each procurement. In the ICT goods category, 3 agencies have a moderate-high level of ICT procurement, and these agencies are assumed to have a lower training requirement (per procurement) than the majority of agencies due to the sharing of resources.

These assumptions are documented in Table 10 which shows the estimates of training required.

Table 10 Estimate of training costs, per year

Category	Rate of Procurement	Procurements per year	Number of staff trained across all agencies	Training per person	Total Training hours	Total cost (@\$80/h)
Construction	Defence	50	15	20	300	
	Others	15	30	20	600	
FFE	Defence	35	10	12	120	
	Others	13	26	12	312	
Textiles	Defence	24	10	12	120	
	Others	1	3	12	36	
ICT	Defence	145	15	8	120	
	Medium (3 agencies)	73	15	8	120	
	Low	92	45	8	360	
TOTAL					2088	\$167,000

Tender assessment

Tender assessment will include the review and rating of each tenderer's SESP and working with the preferred supplier to refine the Plan prior to awarding the contract.

For construction services, sustainability is already a consideration for the majority of procurements, as a result of the existing Defence internal policy. An additional 36 hours is assumed for Defence procurements, and 48 hours for other agencies. This is an average of 40 hours per contract.

For the other categories this is considered much less and reducing after the first procurements as the products become standardised. An average of 15 additional hours for FFE and Textiles and 8 for ICT per tender is assumed.

Contract management

During the contract stage, procuring government agencies will be required to ensure the supplier is complying with the SESP commitments. For an average construction project this is estimated at 100 hours per contract. This includes both supplier and procurer time. As discussed in section 2.2.21 it is assumed during the project delivery stage the costs will be passed on to the procuring entity.

For other categories it is assumed there will not be low additional effort (10 hours) for contract management. This is based on the short delivery timeframe.

Reporting

Construction projects will be required to demonstrate how environmental sustainability has been incorporated into the project by reporting on several metrics. Like contract management, it is assumed the cost of this reporting is passed on to the procuring entity.

The consultation for the policy development found, on average, Australian Government agencies ranked the impact of sustainability reporting requirements to their organisations as 'medium'. This has been estimated as 40 hours per contract for construction services.

For other categories, reporting is conservatively estimated to be 10 hours based on consultation outcomes (section 5).

Summary – Government entity policy implementation costs

These implementation costs may be lower for Defence procurements as they have existing similar policy mechanism (as discussed in section 4.4). For all other government agencies is likely to be higher in the initial years and reduce over time as capacity builds. For the purpose of this assessment this effort is conservatively assumed to stay static for all government agencies including Defence for the period of the ESP Policy.

The assumed number of hours required for government agencies to implement the policy is shown in Table 11. This is for each year of the policy implementation of 5 years.

Table 11 Summary of government agency ESP Policy implementation costs per year

Procurement process stage	Category	Contracts/ year	Hours/ procurement	Hours / year	Total cost (@\$80/h)
Training	All	452		2088	\$167,000
Tender assessment	Construction	65	40	2600	\$208,000
Tender assessment	Textiles, FFE	73	15	1095	\$87,600
Tender assessment	ICT	310	9	2790	\$223,200
Contract management	Construction	65	100	6500	\$520,000
Contract management	Other	383	10	3830	\$306,400
Reporting	Construction	65	100	6500	\$520,000
Reporting	Other	383	20	7660	\$612,800

Total government implementation cost per year	\$2,600,000*
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*Figures are rounded to reflect level of accuracy of data

4.5.3 DCCEEW support costs

To support suppliers and Australian Government agencies implement the ESP Policy, DCCEEW will provide training, resources including guidance and templates, and reporting tools. DCCEEW will undertake compliance activities, including conducting spot audits and providing targeted education to assist entity and supplier compliance with the ESP Policy. DCCEEW will also conduct annual reviews of the policy's effectiveness in achieving its stated purpose and outcomes. Procurement connected policies undergo a major review to evaluate policy outcomes prior to the policy lapsing after 5 years. If the policy remains relevant, DCCEEW will need to reapply to the Minister for Finance for extension.

Resourcing estimates for DCCEEW to support the policy implementation has been estimated at an average of 2.2 full-time equivalent staff for a total \$510,000 per year, over the five years of policy implementation.

This is in addition to the existing team within DCCEEW who provide support. This latter is a feature of both Option 1 Status quo and Option 2 ESP Policy so is not included as a cost of Option 2.

4.5.4 Procurement costs (potential 'green premium')

This group of impacts relates to the potential costs of procuring more environmentally sustainable goods as a result of policy expectations (the 'green premium'). These are not fixed costs as the ESP Policy allows for suppliers to offer environmentally sustainable goods consistent with the policy principles. These are expected to be appropriate for the project and value for money, so will vary. This assessment therefore does not consider the costs per procurement but averaged across each category. Not all sustainable goods are higher than conventional alternatives.

This is a cost to government agencies, which is directly balanced by the increased income to suppliers for a zero net benefit. The costs are estimated here for completeness and context.

Construction services

Incorporating sustainability into goods and services has the potential to increase the price of the goods. Not all sustainable alternatives are more expensive, and some may be cheaper.

In construction projects, it is anticipated that there will be a range of sustainability offerings though the most likely are:

- material replacement (e.g. low carbon concrete, and materials with recycled content)
- building designed to be more energy efficient
- higher rates of waste recovery (diversion from landfill) in demolition and construction.

These costs to government are an equivalent benefit to suppliers and balance to a zero net benefit. The costs are assessed here for clarity.

Material Replacement

Under Option 2 it is expected that the introduction of the ESP Policy will encourage greater uptake of sustainable construction materials. To determine the extent of the sustainable material adoption, it was assumed that projects would only adopt like-for-like replacements that are currently available on the Australian market, with only a low or moderate price premium and low technical risk.

This is considered a conservative assumption as the ESP Policy is anticipated to drive a change in the market availability of materials. Also, it does not account for design changes that replace materials and increase sustainability, for example structural timber in place of structural steel.

Replacement materials considered include:

- supplementary cementitious materials replacing cement in concrete
- reclaimed asphalt pavement replacing primary asphalt
- recycled crushed concrete replacing gravel in pavement subbase
- increasing recycled content in steel replacing virgin material
- steel fibre reinforcing replacing steel mesh/bar reinforcing and reducing the volume of material required.

Infrastructure Australia modelled the cost and carbon abatement potential from the adoption of low embodied carbon materials and construction practices by 2027⁵¹. This report considered 2 scenarios. Maximum Decarbonisation Scenario which represents the highest level of ambition that industry stakeholders felt were achievable by FY 2027, assuming that cost was not a barrier; and Mid-Level Decarbonisation Scenario which uses lower uptake rates and reduces the use of decarbonisation strategies that are particularly expensive. This impact analysis assumes that agencies will adopt low carbon materials that are low or no additional cost, similar to the 'mid-level decarbonisation' scenario. The data for this scenario was used to inform the estimation of the green premium of low embodied carbon materials.

Infrastructure Australia⁵² found that rather than there being a green premium, there is actually a cost savings achievable for using low carbon materials. Under the mid-level scenario this saving was around 0.24% of the total project value, reducing to 0.14% for the maximum decarbonisation scenario.

For this assessment, it is conservatively assumed that replacing materials would result in no net material cost for construction projects.

Design

In construction services, the best outcomes are achieved when sustainability is considered at the design stage. The Green Building Council of Australia (GBCA)⁵³ in 2021 found the average additional cost to deliver a Green Star rated building to be around 1.5% of the project budget for a 4-star rating and 2.7% for a 5-star. These cost estimates would include all costs to procurers, not just the design stage costs. This includes the implementation costs (considered above) as well as delivery costs (considered in 'green premium' costs above).

⁵¹ Infrastructure Australia, 2024, Embodied Carbon Projections for Australian Infrastructure and Buildings (yet to be released)

⁵² *ibid*

⁵³GBCA [Green Star in Focus](#) , May 2021. Accessed 19/1/24

A UK study of the cost of green buildings⁵⁴ found design costs are 32% higher than for conventional building design. Allowing for design fees at 3% of project costs, 'green' design can increase project costs by around 1%.

As discussed above, the ESP Policy is assumed to encourage design to a 4-star Green Star standard with some projects being certified 4-star or higher. The additional design cost is assumed as 1% of total project cost for buildings. Assuming spend on buildings is \$800 million (see section 4.4.2), this is an additional cost of around \$8 million, if all new projects were designed to a higher sustainability standard.

This increased cost is balanced by the corresponding benefit to suppliers in receiving higher project value.

Furniture, fittings and equipment

Limited data is available to estimate the additional cost (if any) of products with sustainability attributes in the FFE category. Instead, fit outs are used as a proxy to assess the costs of sustainability in this category.

Above the \$1 million threshold, the category is most likely to capture full office fit outs and refurbishments. The GBCA offers a Green Star Interiors rating tool which can be used to rate the sustainability of building fit outs. The ESP Policy will encourage fit out projects to seek Green Star Interiors certification, or at least align with the standards. It is anticipated that under the ESP Policy projects would target the 4-Star (Australian best practice) standard. It is assumed that in absence of the ESP Policy, projects would be consistent with the 3-Star standard (good practice).

A GBCA publication⁵⁵ shows that to achieve a 4-star Green Star standard increased the capital costs of fit outs by 1.5% on average. As some of these costs are associated with the reporting which has been costed elsewhere in this analysis (section 4.5.2), a 1% premium is assumed here to apply.

Assuming a total procurement cost of \$180 million per year in the FFE category, this equates to a possible green premium of \$1.8 million.

Textiles

WRAP, a climate action NGO, undertook a cost benefit analysis associated with an introduction of a UK Government Extended Producer Responsibility scheme⁵⁶ for textiles⁵⁷. This found the cost of such a scheme would increase the sustainability of the textiles, at a cost premium of between 0.9% to 2.6%. This analysis is not directly relevant to the ESP Policy, as it considers the broad range of textiles, including 'fast fashion'. Australian Government uniforms are already high quality and so the cost premium is likely to be reduced. To allow an estimate, a 1% cost premium is assumed here.

⁵⁴ Andrea Chegut et al *The price of innovation: An analysis of the marginal cost of green buildings* ScienceDirect Vol 98, 2019

⁵⁵ Davis Langdon [The Road to Green Property](#) report for the GBCA, 2010

⁵⁶ Extended Producer Responsibility (EPR) is an economic instrument to support better management of products at the end-of life by transferring the associated costs to producers

⁵⁷ WRAP [Textiles Policy CBA](#) 2022. Accessed 19/1/24

Given the assumed \$95 million annual spend on textile procurements affected by the ESP Policy, there may be an additional cost due to procuring ‘greener’ uniforms of around \$1 million.

ICT goods

At this stage it is unknown how many Australian Government ICT goods are rated by EPEAT and to what level, so the potential cost premium is difficult to assess. This has not been evaluated and is instead given a value of ‘\$a’ in costs. This will be balanced with a corresponding ‘-\$a’ in the indirect benefits to suppliers (section 4.6.1).

Summary procurement costs

The summary of these additional procurement costs is shown in Table 12.

Table 12 Estimate of ‘green premium’

Category	Estimated Cost
Construction (Materials)	\$ 0
Construction (Design)	\$ 8,000,000
FFE	\$ 1,800,000
Textiles	\$ 1,000,000
ICT goods	\$ not costed
Total	\$10.8 million + \$a

*\$a represents the uncalculated value for ICT goods

4.5.5 Summary of costs

From above, the anticipated costs to implement the ESP Policy are shown in Table 13.

Table 13 Summary of costs

Impact	Costs (\$/a)
Business Compliance	\$1,200,000
Administration Govt	\$2,600,000
DCCEEW Support	\$500,000
Procurement Costs	\$10,800,000 + \$a
Total	\$15,100,000*

*Rounded to reflect level of accuracy

4.6 Type 1 benefits

4.6.1 ‘Green premium’ revenue – suppliers

Suppliers to the Australian Government in procurement categories within policy scope may benefit from increased project revenue related to increased procurement costs (e.g. ‘green premium’).

These are costs that are a direct transfer between government and business (cost to government, benefit to suppliers) resulting in a zero net benefit.

The value of this impact is assessed in Section 4.5.4 above and included as negative values in this section. From Section 4.5.4, this potential increased revenue to suppliers is in the order of \$10.8 million for construction services, FFE and textiles combined, plus an uncosted amount for ICT goods revenue.

Suppliers would also benefit from becoming competent and confident to offer environmentally sustainable solutions. This will benefit them in contracts outside the scope of the ESP Policy.

4.6.2 Embodied carbon reduction – construction services

Embodied carbon refers to all greenhouse gas emissions that are associated with materials and construction processes throughout the whole lifecycle of a product.

The built environment is directly responsible for nearly one third of Australia's total greenhouse gas emissions⁵⁸. These emissions come from operations (mainly electricity use) as well as the embodied carbon associated with constructing and maintaining an asset. Reducing these emissions is an important, and cost-effective, way to meet Australia's greenhouse gas emission reduction targets.

Infrastructure Australia⁵⁹ reported that embodied emissions of construction materials in Australian infrastructure projects are estimated to be approximately 10% of Australia's total emissions in the 2022/23 financial year.

In the Infrastructure Australia 2024 report, discussed in Section 4.5.4, it was found that by 2027, 23% of embodied carbon emissions of infrastructure could be reduced by substituting like for like material. As the improvements were ramped up over time, this was on average 12% per year for the 4 years to 2027. This impact analysis adopts this 12% average to determine the potential carbon savings for Australian Government infrastructure.

The Infrastructure Australia report was based on an infrastructure spend in 2022/23 of \$116 billion which would be responsible for 37 million tonnes CO₂e in embodied carbon. That is, 318 tonnes of CO₂e released per \$1 million of capital spend. Assuming this same ratio of embodied carbon per infrastructure spend would apply to the \$2.7 billion per annum Australian Government construction services projects, that would result in around 860 000 tonnes CO₂e, with no action (status quo).

Assuming a 12% reduction in embodied carbon, 100 000 tonnes of CO₂ per year that could be saved with like-for-like replacement of materials for low carbon alternatives in Australian Government construction projects.

With a carbon value of \$60 (see 4.4.1) this reduction in greenhouse gas emissions could be worth \$6 million per year.

⁵⁸ Infrastructure Australia *Embodied Carbon Projections for Australian Infrastructure and Buildings, 2024* (yet to be publicly released)

⁵⁹ *ibid*

4.6.3 Comparing costs with Type 1 benefits

A summary of the costed impacts from above (costs and type 1 benefits) is shown in Table 14.

Table 14 Summary of costs and Type 1 benefits

Impact	Costs (\$/a)	Type 1 Benefits (\$/a)	Net Benefit
Business Compliance	\$ 1,200,000		
Administration Govt	\$ 2,600,000		
DCCEEW Support	\$ 500,000		
Procurement Costs [^]	\$10,800,000		
Revenue increase - suppliers [^]		\$ 10,800,000	
Embodied carbon - construction		\$ 6,000,000	
Total	\$15,100,000	\$16,800,000	\$1,700,000

[^] Excluding uncosted ICT costs/benefits

*Rounded to reflect level of accuracy

The comparison of the costs of the ESP Policy implementation and the Type 1 benefits (those that are realised at the time of procurement and can be monetised), suggest that the benefits outweigh the costs by around \$1.7 million. The benefit cost ratio is 1.11. That is, the net benefit is around 11% of the total costs. (These costs and benefits only apply for each year of the policy and have not been discounted.)

The uncertainty of some of the data means there is a potential error margin in the determination of costs and benefits, and this error is likely greater than 11%. That is, the difference between the calculated benefits and costs could be lower than the margin of error. Therefore, considering just the Type 1 benefits is not conclusive to demonstrate a net benefit of Option 2 (ESP Policy).

Further evaluation of the Type 2 benefits has been undertaken to demonstrate a more robust preference for option 2 ESP Policy.

4.7 Type 2 benefits

4.7.1 Operational electricity cost savings

Incorporating sustainable procurement principles can lead to better energy efficiency in building heating/cooling systems as well as ICT goods and other electronic equipment such as printers.

The GBCA found that a 4-star Green Star building can use 35% less electricity than standard buildings⁶⁰. Assuming an average asset life of 50 years, during the 5 years of the policy, 10% of government buildings may be upgraded, including an opportunity to incorporate better energy efficiency. Even a 10% energy efficiency improvement could therefore result in a 1% saving of electricity across government offices as a result of implementing the ESP Policy, after 5 years. To

⁶⁰GBCA [The Value of Green Star A Decade of Environmental Benefits 2013](#)

allow for electricity in non-office buildings, a 0.5% energy efficiency improvement is assumed as a result of implementing the ESP Policy.

AusTender data indicates the Australian Government spends around \$230 million per year on electricity. A 0.5% improvement in electricity efficiency could result in a benefit of around \$1.1 million per year by the 6th year after policy implementation. This is assumed to start at \$220,000 benefit in year 2, (allowing a year for policy implementation to realise benefits), increasing pro rata to \$1.1 million per annum by year 6 and continuing at this level for the remainder of the impact period.

4.7.2 Operational greenhouse emission reductions

In addition, embodied carbon reductions (section 4.6.2), well-designed buildings and equipment, including ICT goods, can result in much lower energy used during operation, with a corresponding reduction in greenhouse gas emissions.

Section 4.7.1 estimated the energy savings in monetary terms from energy efficient buildings. Until the Australian electricity grid is fully renewable, this has a direct link to greenhouse gas emissions. To extrapolate the possible 0.5% or \$1.1 million per annum of electricity savings into greenhouse gas cost savings the following has been assumed:

- *Electricity unit cost* – This varies depending on the state and retail contract of each government agency. It is recognised that government agencies may have a lower-than-average retail rate, and for this exercise 15c/kWh is assumed.
- *Emission Factors* – DCCEEW report the national greenhouse gas emission factor as 0.68kg CO₂/kWh⁶¹.
- *Cost of carbon* – \$60 per tonne of CO₂ as assumed in section 4.4.1

Using this data results in an estimated operational greenhouse gas emission saving equivalent to \$300,000 per year after 5 years of policy implementation. This is assumed to increase pro rata at \$60,000 per year for 5 years. As there will be a delay in realising the benefits, they are assumed to start at \$60,000 at year 2 and increase to \$300,000 by year 6 and remain at \$300,000 for the remainder of the impact period.

4.7.3 Summary Type 2 benefits

Allowing for just a 0.5% improvement in energy efficiency of government operations could result in savings (electricity plus reduced greenhouse gas emissions) of \$1,400,000 per year by the end of the 5-year policy period. This is assumed to start at \$280,000 benefit in year 2, increasing pro rata to \$1,400,000 in year 6.

4.7.4 Comparing costs with Type 1 plus Type 2 benefits

For this analysis, the annual Type 2 benefits are assumed to be discounted at 7% per year. Using the formulas of present value (PV) where $PV = (\text{annual amount}) / (1+r)^{(t-1)}$, where t is year (year 1 is first year of policy implementation) and r is discount rate, the PV for each year is shown in Table 15. The

⁶¹DCCEEW [Australian National Greenhouse Accounts Factors \(dcceew.gov.au\) February 2023](https://www.dcceew.gov.au/greenhouse/publications/australian-national-greenhouse-accounts-factors)

Total Net Present Value (NPV) is the PV of the benefits less the PV of the costs over the period of assessment.

Table 15 demonstrates that the net present value of the costed benefits of the ESP Policy exceed the costs by around \$17 million over the 15-year period. The present value of costed benefits is \$83.5 million, and the present value of costs is \$66.2 million. This reflects that the benefits are ongoing for many years after the policy has ceased to be implemented. This is a benefit cost ratio of 1.26 (\$83.5/\$66.2). This demonstrates that the costed benefits outweigh the costs, even with a margin of error of 26%.

Table 16 provides more detail of the benefit cost calculations. In addition to these costed benefits are the uncosted, Type 3 benefits of the policy. These are discussed below.

4.8 Type 3 benefits

The Type 1 plus Type 2 benefits have been demonstrated to balance the costs of the ESP Policy, so further evaluation of type 3 benefits is not required. They are discussed below for completeness. They have not been evaluated, due to the lack of data.

4.8.1 Embodied carbon reduction

Construction services

The embodied carbon benefit of construction services procurement was evaluated as a Type 1 benefit in section 4.6.2.

Furniture, fittings and equipment

Changing the types of furniture, fittings or equipment procured can reduce embodied carbon. For example, furniture that is made with recycled content or natural materials, made locally, designed for durability, with reduced packaging, and/or recycled at end of life has a lower carbon footprint than conventional products. Furniture that is refurbished rather than replaced is even better. For example, one estimation is that the average carbon footprint of an office chair is 72 kg CO₂e and 35 kg CO₂e for a standard office desk.⁶²

ICT goods

In 2020, the ICT sector accounted for 1.8 to 2.8% of global greenhouse gas emissions in operation. User devices contribute over half this.⁶³ Government agencies can reduce impacts by:

- specifying low embodied carbon and energy efficient products
- changing procurement strategies, such as providing only one laptop per person rather than a laptop, desktop and phone
- encouraging behavioural change in users to reduce energy use
- ensuring products are reused and recycled at end of life.

⁶² FIRA [Benchmarking Carbon Footprints of Furniture Products 2011](#) Accessed 19/1/24

⁶³ Allianz [More emissions than meet the eye: Decarbonizing the ICT sector](#) 2023. Accessed 19/1/24

Table 15 Net present value of net benefits (types 1 and 2) over 15 years (7% discount rate)

Present Value of Impact	Annual amount	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 15	Total
Total Costs	- \$15,100,000	-\$15,100,000	-\$14,112,150	-\$13,188,925	-\$12,326,098	-\$11,519,718				
Total Type 1 Benefits	\$16,800,000	\$16,800,000	\$15,700,935	\$14,673,771	\$13,713,804	\$12,816,640				
Total Type 2 Benefits	\$1,400,000 (pro rata for first 5 years)	\$0	\$261,682	\$489,126	\$685,690	\$854,443	\$998,181	\$932,879	\$542,944	
Type 3 Benefits	uncosted									
PV Total Costs		-\$15,100,000	-\$14,112,150	-\$13,188,925	-\$12,326,098	-\$11,519,718	\$0	\$0	\$0	-\$66,246,890
PV (Total costed) Benefits		\$16,800,000	\$15,962,617	\$15,162,896	\$14,399,495	\$13,671,082	\$998,181	\$932,879	\$542,944	\$83,497,649
Net Costed Benefits										\$17,250,759
Cost Benefit Ratio										1.26

Textiles

The textile industry is a significant contributor to greenhouse gas emissions, through manufacture to disposal. A report by the Stockholm Environment Institute⁶⁴ found that compared to conventional cotton, the embodied carbon of polyester was double, and organic cotton was around half.

Transitioning government uniforms away from synthetic fabrics towards organic cotton, as well as designing uniforms to last longer, reusing uniforms when staff leave, and recovering uniforms at end of life can save significant amounts of embodied carbon.

4.8.2 Environmental benefits

Consideration of sustainability in procurement also reduces other environmental impacts such as pollution, deforestation, biodiversity loss and water scarcity. For example:

- Construction materials may release ozone depleting substances⁶⁵.
- Synthetic textiles can release microplastics into the aquatic environment during washing.
- Disposal of goods can release toxins into the environment. For example, computers contain lead, cadmium, mercury and brominated flame retardants in the plastics which is hazardous waste likely to be a major environmental problem⁶⁶.

Benefits related to these reduced environmental impacts depends on the type of product, and for many products data is not available.

4.8.3 Other whole-of-life benefits

Procurement of more sustainable alternatives can result in benefits apart from those related to environmental impacts. For example, several studies have found that green buildings have a higher value and/or rental premium when compared to non-rated buildings^{67 68 69}. This demonstrates that tenants recognise the savings in electricity costs from a more energy efficient building as well as other benefits such as the value in health, productivity and reputation associated with working in a sustainable building environment.

Health and productivity

More sustainable materials often come with associated health benefits. For example:

- ‘Green’ buildings often include a focus on functions likely to affect an individual occupant such natural light, ventilation and noise attenuation.
- Natural fabrics are less likely to cause skin irritations.
- Furnishings with low volatile organic carbon finishes improve air quality and reduce associated health issues such as headaches, fatigue and nausea⁷⁰.

⁶⁴ Cherrett, N et al [Ecological footprint and water analysis of cotton, hemp and polyester | SEI](#) 2005. Accessed 19/1/24

⁶⁵ [About | EPD Australasia](#) Accessed 19/1/24

⁶⁶ ANAO Report 2005-2006 Green Office Procurement

⁶⁷GBCA [green-star-buildings-the-business-case.pdf 2023](#). Accessed 19/1/24

⁶⁸ Andrea Chegut et al The price of innovation: An analysis of the marginal cost of green buildings ScienceDirect Vol 98, 2019

⁶⁹ API [building better returns research report.pdf \(cbd.gov.au\)](#) Accessed 19/1/24

⁷⁰ Piers MacNaughton [The Impact of Green Buildings on Cognitive Function](#) Building and Environment Volume 114, March 2017, Pages 178-186

These health benefits translate to increased productivity. A Westpac study⁷¹ found a 19% reduction in absenteeism from a Green Star rated building compared to their other workplaces. Modelling by CitySwitch shows that a 5000 sq metre green-rated space could save \$262,000 a year on reduced absenteeism⁷².

Resilience

The built environment is at increasing risk of disruption from local and global events such as climate changes, cyber-terrorism, supply chain disruptions. Embracing sustainability in design and construction often by default increases a building's resilience, as concepts such as climate adaptation are built into the design⁷³. These benefits are not quantified due to the lack of data.

Disposal costs

Goods designed for reuse or incorporating better recovery of waste will also result in reduced disposal charges at end of life.

4.8.4 Benefits of supporting government commitments

One of the primary drivers of the ESP Policy is the 2022 government election commitment (C-G47-002629). This commitment was to strengthen the existing environmental sustainability provision in the government's purchasing and contracting rules (the CPRs), with a view to increasing the use of recycled content. It was also intended to support industry to increase the use of recycled content in government projects.

Delivery of the ESP Policy is a success measure for Net Zero Procurement under *the Net Zero in Government Operations Strategy*.

The ESP Policy is linked to the Buy Australian Plan point 8: 'use government spending power to take action on climate change and support energy projects'. It also supports the government's nature positive agenda.

One of the seven recommendations from the third meeting of the Circular Economy Ministerial Advisory Group (October 2023), relates directly to the ESP Policy: 'the Commonwealth should embed circular economy principles and requirements in building and infrastructure procurements'.

The policy also supports delivery of targets set in the *National Waste Policy Action Plan*, including those related to:

- reducing waste generation
- increasing resource recovery
- increasing use of recycled content by governments and industry
- providing data to facilitate informed decisions.

⁷¹ Westpac [Westpac-2023-Climate-Report.pdf](#) Accessed 19/1/24

⁷² In the Black [Why green offices boost productivity](#) Accessed 19/1/24

⁷³ Sarah Stanley [Why green building is synonymous with resilience](#) USGBCA 2019. Accessed 19/1/24

4.8.5 Other indirect benefits

Capability uplift - Australian Government

One of the benefits of the ESP Policy will be to increase the capability of Australian Government agencies in incorporating environmental sustainability principles into their procurement. This would be achieved through the training (costed in section 4.5.2) and on-the-job experience.

There would also be data available to understand the extent of environmental sustainability in procurement, to set a baseline and targets. This will support quantification of environmental benefits.

Delivering more sustainable assets demonstrates the commitment by the government to its stated policy objectives, including reduced environmental impact, reduced greenhouse gas emissions and increased circularity. Another possible benefit is the retention of staff as the values of the APS become more aligned with its staff.

Innovation driver - Australian industry

Demonstrating a strong commitment to government procurement of sustainable materials will be a major driver for innovation, providing industry with incentives for investing in developing more sustainable products and services. Successful delivery of alternative materials or goods in public procurement will normalise the procurement of these goods across the economy, and result in a shift to more sustainable production.

Circular economy transition

Sustainable procurement can accelerate the transition to a circular economy and the shift towards more sustainable patterns of consumption and production, leading to more efficiencies in resource use and reduced waste.

The ESP Policy aims to encourage a greater adoption of circular economy principles, by mandating the purchase of goods that have some or all of the following attributes:

- are durable, repairable, reusable, recyclable
- have been refurbished
- contain recycled content / use recycled materials
- are recycled at the end of useful life
- are returned for resource recovery through a take-back or end of life scheme
- are available for lease, rent or product-as-a-service instead of buying outright.

Incentivising Australian Government suppliers to provide more sustainable, circular goods and services, keeps materials in use for longer and will drive Australia's transition to a circular economy. It may also improve the international competitiveness of Australian suppliers as our trading partners are also implementing sustainable public procurement policies.

Broader economic benefits could also be realised through improving the way we use materials, and the creation of new industries. KPMG has determined that improving the way we use materials

in the food, transport and built sectors alone could add \$210 billion to Australia's GDP by 2048, with an additional 17,000 jobs.⁷⁴

Health

Reduction in electricity usage through more energy efficient buildings or use of low carbon materials has secondary health benefits for the community. The mining and combustion of coal for electricity generation in Australia produces air pollution containing particulate matter, nitrogen oxides, sulphur dioxide, as well as other emissions. These can cause health problems such as respiratory illness, cancer and cardiac disease.⁷⁵

4.9 Results and discussion

The detailed costs and benefits of implementing Option 2 – ESP Policy over the 15-year period are shown in Table 16.

For this calculation, the costs and benefits are assumed to be discounted at 7% per year. Using the formulas of $NPV = (\text{annual value}) / (1+r)^{(t-1)}$, where t is year and r is discount rate.

Key features

The key findings of this analysis are:

- There is an estimated cost for suppliers to comply with the policy requirements of \$1.2 million per year, across all categories.
- There is an estimated cost for government agencies procuring goods and services in the affected categories of around \$2.6 million per year.
- The costs for DCCEEW to support government agencies and suppliers to implement the policy is around \$500,000.
- The additional procurement costs to government are directly balanced by increased revenue to suppliers.
- The costs to implement are balanced by the reduction in embodied carbon associated with procuring more sustainable construction materials, plus financial and greenhouse gas savings from energy efficiency.
- There are additional benefits which have not been costed.

Table 16 demonstrates that the net present value of the costed benefits of the ESP Policy exceed the costs by around \$17 million over the 15-year period. This is a benefit cost ratio of 1.26 (\$83.5/\$66.3). This demonstrates that the costed benefits outweigh the costs, even with a margin of error of 26%.

In addition to these costed benefits are the uncoded Type 3 benefits of the policy.

⁷⁴ KPMG [Potential economic pay-off of a circular economy 2020](#)

⁷⁵ Climate Council [Killer Coal: Just how bad are the health effects of coal?](#) 2023 Accessed 19/1/24

Table 16 Costs and benefits of ESP Policy, 7% discount rate

Impact	Affected Party	Annual impact	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Total
Business Compliance	Suppliers	-\$1,200,000	-\$1,200,000	-\$1,121,495	-\$1,048,126	-\$979,557	-\$915,474											-\$5,264,654
Administration govt	Government agencies	-\$2,600,000	-\$2,600,000	-\$2,429,907	-\$2,270,941	-\$2,122,374	-\$1,983,528											-\$11,406,749
DCCEEW support	DCCEEW	-\$500,000	-\$500,000	-\$467,290	-\$436,719	-\$408,149	-\$381,448											-\$2,193,606
Procurement costs	Government agencies	-\$10,800,000	-\$10,800,000	-\$10,093,458	-\$9,433,138	-\$8,816,017	-\$8,239,268											-\$47,381,882
Revenue increase	Suppliers	\$10,800,000	\$10,800,000	\$10,093,458	\$9,433,138	\$8,816,017	\$8,239,268											\$47,381,882
Embodied carbon (construction)	Government agencies	\$6,000,000	\$6,000,000	\$6,000,000	\$5,607,477	\$5,240,632	\$4,897,787	\$4,577,371										\$26,323,268
Electricity savings*	Government agencies	\$220,000	\$0	\$205,607	\$384,313	\$538,757	\$671,348	\$784,285	\$732,976	\$685,025	\$640,210	\$598,327	\$559,184	\$522,602	\$488,413	\$456,461	\$426,599	\$7,694,107
GHG emission reduction*	Government agencies	\$60,000	\$0	\$56,075	\$104,813	\$146,934	\$183,095	\$213,896	\$199,903	\$186,825	\$174,603	\$163,180	\$152,505	\$142,528	\$133,204	\$124,489	\$116,345	\$2,098,393
Embodied carbon (other categories)	Government agencies	uncosted	ongoing benefits															uncosted
Environmental benefits	Environment	uncosted	ongoing benefits															uncosted
Whole-of-life benefits	Government agencies	uncosted	ongoing benefits															uncosted
Supporting government commitments	Australian Government	uncosted	ongoing benefits															uncosted
Capability Uplift	Australian Government	uncosted	ongoing benefits															uncosted
Innovation driver	Industry	uncosted	ongoing benefits															uncosted
Circular economy transition	Australian economy	uncosted	ongoing benefits															uncosted
Health	Australian community	uncosted	ongoing benefits															uncosted
PV total costs																		-\$66,246,890
PV total costed benefits																		\$83,497,649
Net PV costs and benefits																		\$17,250,759
Benefit Cost Ratio																		1.26

*increasing by annual amount from year 2 to year 6

Affected parties

Table 16 shows the most affected parties are suppliers to Australian Government, and Australian Government agencies undertaking procurement. Both experience implementation costs (\$5.2 million and \$11.4 million respectively, over 5 years).

Suppliers are also likely to experience benefits from the demand for more sustainable goods and services, such as increased revenue from the more sustainable goods as well as the innovation and investment driver experienced by the industry as a whole. Given the likely increased costs of more sustainable products, particularly in the construction services sector, this benefit to suppliers could be in the order of \$47 million over the 5 years of the policy operation, which outweighs the compliance costs by a factor of around 9.

Similarly, Australian Government agencies may experience benefits associated with reduced operational costs, reduced greenhouse gas emissions, reductions in other environmental impacts as well as capability uplift. While only the reduced electricity and some savings from reduced greenhouse gas emissions have been costed, there is a potential benefit of around \$36 million over the 15 years of the analysis period.

Sensitivity

The highest potential costs of procurement are those related to the green premium and design and these are of low to moderate accuracy, as they vary with type, location and scale of project. These costs are however directly correlated with a corresponding benefit to suppliers for increased revenue, so is a net neutral benefit and the actual value would not affect the net outcome. These costs/benefits are included for completeness but do not affect the net benefit of the ESP Policy.

The next highest value impact, the value of embodied carbon reduction, is of moderate accuracy, as the data is based on one industry study. Without considering any other benefits, if the value of the embodied carbon benefit for construction projects was reduced from \$6 million to \$2.7 million per annum the ESP policy would still break even.

Discount rates

Table 17 summarises the estimated costs and benefits of introducing the ESP Policy, based on the above evaluation, and exploring different discount rates. This demonstrates that the discount rate only minimally affects the cost benefit ratio.

Table 17 Summary of net present value of costs and benefits at various discount rates

Discount rate	4%	7%	10%
Costs	-\$69,911,418	-\$66,246,890	-\$62,964,968
Type 1 + Type 2 Benefits	\$89,979,878	\$83,497,649	\$78,042,725
Type 3 Benefits	uncosted	uncosted	uncosted
NPV of costed benefits	\$20,068,461	\$17,250,759	\$15,077,757
Benefit Cost ratio	1.29	1.26	1.24

4.10 Regulatory burden

The *Australian Government Regulatory Burden Measurement Framework*⁷⁶ (the framework) requires that all new policies or changes to existing policies need to have the increase or decrease in costs imposed on businesses, community organisations and individuals. As discussed above the proposed ESP Policy will impose costs on only one group (excluding Australian Government agencies), and that is suppliers tendering for Australian Government procurements.

The framework identifies three types of regulatory costs:

- administrative costs
- compliance costs
- delay costs.

As discussed above, the compliance and delay costs experienced by suppliers contracted to the Australian Government are assumed to be passed on to the government in the contract price. The ESP Policy will impose additional administrative costs to tender for government contracts. These costs are assumed to be held by the tenderers and not passed on to the contracting agency. These costs are the 'business compliance costs' analysed in section 4.5.1. These business compliance costs are considered the regulatory burden. The Regulatory Burden (business compliance costs) was estimated in Section 4.5.1 as \$1.2 million per year.

4.10.1 Preferred option

Application of the decision rule (Section 4.3.3.2) which states that 'if the evaluated benefits are greater than, or similar to, the evaluated costs, the ESP Policy will be considered the preferred option', finds that the ESP Policy is preferred over the status quo.

⁷⁶ [Regulatory Burden Measurement Framework | The Office of Impact Analysis \(pmc.gov.au\)](#) accessed 5/2/24

5 Consultation

5.1 Consultation overview

Between November 2022 and October 2023, DCCEEW undertook a targeted consultation program over twelve months that ultimately aimed to:

- understand stakeholder sentiment toward a proposed ESP Policy
- assess the perceived impact
- identify improvement opportunities.

A mix of consultation methods were used to maximise the number of stakeholders engaged and depth of feedback received. In total, DCCEEW had 228 interactions with 173 organisations. This included the top suppliers and procurers in the target categories of construction services, ICT goods, textiles, and furniture, fittings and equipment. Consultation occurred as follows:

- 121 interactions with 94 suppliers
- 89 interactions with 61 Australian Government agencies
- interactions with 8 state and territory governments
- 1 local government procurement peak body
- 9 subject matter experts (certifiers and sustainable buildings).

Preliminary consultation was targeted at state and territory governments to understand how they were implementing and measuring environmental sustainability in procurement. Given the commonality of products procured by jurisdictions it was acknowledged that, where possible, it would be helpful to apply the same metrics. Department of Finance and the Department of Defence were engaged on reporting approaches and methods including the opportunity to link with existing systems.

During the discovery stage Australian Government agencies were consulted on the current application of environmental sustainability in procurements. Feedback was sought on target categories, reporting approaches, and desired objectives and principles of a potential policy. The Industry Capability Network were engaged to undertake a supply market assessment of Australian businesses to determine their sustainability maturity. This consultation informed the policy design.

The draft ESP Policy was tested with the owners of existing Procurement Connected Policies to ensure the policy was consistent with and would not force a breach of their policies. It was circulated to 102 chambers of commerce and Indigenous business and employment hubs, 50 peak bodies and certification organisations, 89 current Australian Government suppliers and Supply Nation, and 191 Commonwealth entities and companies. This consultation sought to understand sentiment to an environmentally sustainable procurement policy and determine burden on suppliers and Australian Government agencies. It also tested suppliers' capacity to comply with the policy including the data requirements and identify potential implementation issues.

The Office of Impact Analysis has been engaged in development of this impact analysis.

Table 18 summarises the consultation activities undertaken as part of the ESP Policy development.

Table 18 Primary consultation activities

Period	Stage	Audience	Method	Purpose
Oct-Dec 2022	Preliminary consultation	State, territory and local governments, Department of Defence, Department of Finance	Meetings	Test initial policy concept, investigate metrics and reporting options
April-May 2023	Discovery consultation	Australian Government agencies	Discussion Paper	Testing policy concepts, objectives, principles, categories and reporting
Aug – October 2023	Design consultation	Indigenous suppliers working in construction services	Supply Nation Conference – introductions at supplier stands	Understand capacity of indigenous suppliers to respond to policy
		Owners of other Australian Government procurement connected policies and the modern slavery legislation	Meetings	ESP Policy alignment with other PCPs
		Australian Government agencies, suppliers including SMEs and First Nations suppliers, sustainable buildings experts, certifiers and peak industry bodies	Survey In depth interviews	Test draft ESP Policy
Ongoing	Major government agencies	Department of Finance Department of Defence, Services Australia, Digital Transformation Authority	Meetings Emails	Identification of potential implementation issues and regular testing of ESP Policy design to address these emerging challenges Consultation on relevant sections of this impact analysis Testing guidance materials

Consultation resulted in feedback from a substantial number of stakeholders and was a critical input to this impact analysis. However, there were some limitations with the survey issued to stakeholders with the draft ESP Policy.

To expedite analysis of survey results, the survey only included closed ended response options. This restricted the depth of information received through the survey. Individual and small group interviews were held with selected stakeholders to elicit qualitative information and explore issues raised by stakeholders regarding policy design and impact.

The survey included a question to determine the resource impact of the ESP Policy: *please indicate the anticipated impact on your organisation?* Response options were low; moderate; high; unsure; and need further information. ‘Medium’ was defined as moderate cost to the organisation, equivalent to around 1 full-time equivalent (FTE) staff, with high and low impact being more or less than 1 FTE respectively. The question did not specify the timeframe, e.g. per year, and could potentially be interpreted as overall cost to the organisation or per procurement.

Due to the ambiguity of the question and variability in responses, suggesting an inconsistent interpretation of the question, the results were not used for the cost benefit analysis. An alternative calculation was used to estimate the cost burden and checked with the top three agencies undertaking construction services procurements over \$7.5 million.

5.2 Summary of feedback

Overall, stakeholders supported the policy objectives and the introduction of an ESP Policy. Suppliers agreed the policy would provide industry with the certainty to invest in sustainability.

On impost:

- Australian Government agencies reported a moderate perceived level of impact.
- On average, suppliers perceive the policy requirements as a moderate impact to their organisations.
- Stakeholders expressed concern about the policy burden on small to medium enterprises (SMEs) and Indigenous businesses. This was countered by some SMEs and Indigenous businesses' claims they are moving in this direction and already providing some environmental reporting.
- Anticipated increased cost, particularly in the early implementation phase as new processes and practices are established.

On capability:

- Australian Government agencies queried whether the market was ready to supply environmentally sustainable goods and services.
- Both suppliers and Australian Government agencies stressed the importance of education and resources to uplift capability.
- Australian Government agencies requested templates to streamline processes, provide consistency and maintain equity in evaluating suppliers. Some anticipated the need to engage sustainability experts to support the procurement process.

On metrics and reporting:

- Wide variability in views on the availability of data for supplier reporting.
- Strong preference for consistency between federal and state government sustainable procurement metrics and to align with international sustainability standards.
- Jurisdictional colleagues expressed interest in aligning environmental sustainability metrics, where possible, to minimise reporting impost on industry suppliers who work nationally.

On policy design:

- Support for the holistic approach to environmental sustainability instead of a narrow focus on recycled content.
- Support for the phased introduction of categories to the policy scope as this will allow agencies and suppliers time to prepare.
- Mixed views on proposal to weight environmental sustainability criteria.
- Mixed views on whether the policy should apply to both goods and services.
- Australian Government agencies responsible for existing Procurement Connected Policies (PCPs) did not identify any potential conflict between their PCP and the proposed design of the ESP Policy.

- Agreed the policy must align with related policies such as the *Net Zero in Government Operations Strategy* and the *Buy Australian Plan* to avoid duplication of effort.

5.3 Detailed feedback

5.3.1 Australian Government agencies

Feedback from the Australian Government agencies most heavily affected by the ESP Policy is summarised in this section.

Department of Finance (Finance)

Extensive consultation with various teams within the Department of Finance guided the development of the ESP Policy. The teams engaged were the Property and Construction Division, the Procurement and Insurance Division and the Procurement and Grants Information Systems team (responsible for AusTender).

The Department of Finance noted the need for an effective data collection, management and reporting system to reduce the administrative burden for contract managers. Roles and obligations for assurance activities must be clearly articulated. They noted suppliers already voluntarily provide sustainability-related information to differentiate their tender submissions, so they thought the SESP requirements are reasonable. They noted that the ESP Policy aligns positively with the *Net Zero in Government Operations Strategy*.

It was suggested that consistent, mandatory or minimum performance targets could be considered in the future when sufficient baseline data is available.

Department of Defence (Defence)

Defence is the largest procurers across all in-scope categories, and was consulted extensively, including broad distribution of the draft ESP Policy within the department for comment, an in-depth interview and several informal discussions with representatives across all affected divisions. In general, Defence groups support the implementation of the ESP Policy. Many areas already have sustainability provisions in procurement. Defence perceived the policy to be a medium-high impost across the department, with data collection and reporting potentially being high for some areas.

There are concerns about achieving Green Star certifications due to security risks and potential project delivery delays.

It was suggested that the proposed threshold of \$1 million for textiles may result in a high procurement impost for Defence uniforms.

Services Australia

Services Australia provided feedback through the APS survey, an in-depth interview on the draft policy and discussions with DCCEE staff.

Services Australia expressed concern the policy will increase complexity for Australian Government agencies and suppliers in the context of other procurement connected policies and achieving value for money and will require additional investment for all parties. They emphasised the need for guidance and enabling tools (i.e. model clauses, minimum standards, approach to market

requirements) to support agencies. Services Australia suggested DCCEEW independently assess suppliers, similar to Supply Nation's assessment of Indigenous-owned businesses and provide entities with a score for APS procurers to apply to procurement evaluations.

Services Australia supported embedding environmental sustainability when panel arrangements are established (for applicable categories) and incorporating this into the panel Deed as a way to minimise impost on Australian Government agencies and suppliers.

Services Australia supports threshold applicability on a procurement basis, rather than a project basis and suggests agencies have discretion as to how they may apply the ESP Policy. Alternatively, DCCEEW could allow the ESP Policy to be applicable on a project basis, to be applicable for Department of Defence (Defence) only, if this is Defence's preference.

Digital Transformation Agency (DTA)

The Digital Transformation Agency (DTA) manages the Digital Marketplace which is the primary mechanism for procurement of ICT goods for the Australian Government. The DTA's sentiment towards the policy was positive.

Concerns were raised about the impost on SMEs; the complexities associated with panel arrangements and the potential reporting constraints for product data when the suppliers are not the primary manufacturers. DTA acknowledged the importance of guidance related to panel arrangements, evaluation and verification of sustainability claims.

5.3.2 Suppliers

Most suppliers indicated the policy was a positive step forward. They suggested the market would support the policy if:

- It achieves consistency between federal and state environmentally sustainable procurement policies.
- There is no significant administrative/financial burden on suppliers.
- The government is prepared to share the cost of the transition by going beyond lowest-price options.
- It enables companies to highlight their sustainability efforts and differentiate their business.
- It clearly differentiates between sustainability requirements at design versus construction phase for tendering and reporting requirements in construction services.
- It aligns with existing sustainability policies and standards.
- Suppliers were supported with guidance, templates and a reporting system.

Suppliers' views on the policy were that:

- The SESP requirements were achievable and added value.
- Costs would increase, particularly in the early implementation phase, while new processes and practices are established.
- Most metrics are reasonable, and some data associated with the proposed construction services metrics is already collected by at least half of the consulted suppliers in that category.
- It is important to include the design phase of construction services as it can deliver the greatest benefits.

- Supplier innovation was an opportunity to differentiate their business in the tender evaluation process.

5.4 How stakeholder feedback has been addressed

The design of the ESP Policy and guidance package has evolved in response to stakeholder feedback. Design decisions in response to stakeholder feedback is detailed in Table 19.

5.5 Future consultation

The merit of aligning metrics and reporting requirements across jurisdictions was acknowledged in consultation. DCCEEW is continuing to engage with state and territory colleagues through a community of practice and will consult on the development of metrics for the ICT goods, textiles and furniture, fittings and equipment categories. The construction services metrics have been shared with state and territory officials.

The Department of Finance, the Australian Small Business and Family Enterprise Ombudsman and the National Indigenous Australians Agency play a key role in supporting small to medium enterprises and First Nations businesses. DCCEEW will work with these organisations to develop and disseminate guidance for SMEs and First Nations businesses.

Industry and Australian Government input is critical to developing robust metrics that can be reported on by suppliers. These stakeholders will be consulted in the development of the metrics for the ICT goods, textiles and furniture, fittings and equipment categories.

Table 19 Policy design decisions

Policy Design	Stakeholder views	Final decision
Address environmental holistically instead of focussing on recycled content	Supported	ESP Policy has three focus areas: climate, environment and circularity
Focus policy on procurements with greater opportunity for environmental sustainability	Supported	Four categories are in scope
Phase in procurement categories to allow Australian Government agencies and suppliers preparation time	Supported	Categories to be phased in over two years. Year 1: Construction services on the basis that it affects lowest number of stakeholders compared to the other categories; and that Defence undertakes the majority of procurements in this category and has existing sustainability requirements. Year 2: ICT goods; Textiles; FFE
Assessment of innovation	Mixed Some suppliers supported the recognition of innovation and felt it would increase their competitiveness. Sustainability certifiers raised concerns that innovation was subjective and difficult to assess.	Innovation was removed from tender assessment. The innovation metric was retained as it is an important driver of circularity, and it is not mandatory.
Application of the ESP Policy requirements to panel and standing offer arrangements.	Supported Australian Government agencies supported the inclusion of the ESP Policy applying to panel and standing offer arrangements. It was requested that the policy stipulate that supplier environmental sustainability plans are submitted when the panel is established or renewed. This would reduce impost on both suppliers and Australian Government entities as the SESP would be done once and flow through to all procurements under that arrangement.	DCCEE met with the DTA and Department of Finance to determine if the SESP could be incorporated into the Head Agreement. It was determined that this was not possible due to the breadth of products or services offered through these panels. Procurements that use panels or standing offer arrangements as the procurement method must apply the ESP Policy (where they meet the in-scope categories and relevant thresholds). Any supplier participating in a relevant panel must agree to comply with all relevant procurement connected policies.
ESP Policy to apply to both goods and services	Mixed Some Australian Government entities thought the policy should focus on goods only. They felt the principles would be difficult to apply to services.	Services are in scope. In some cases, services are a fundamental component of delivering a good (such as architectural services as part of construction) and allow the greatest opportunity to incorporate sustainability measures. 80% of sustainability is locked in at the design stage.

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<p>Provision of templates and guidance</p>	<p>Education and guidance to support policy implementation was a strong theme running through all stakeholder consultation.</p>	<p>DCCEEW will expand its existing education and advocacy program to provide implementation support to Australian Government agencies and suppliers. (Refer to Error! Reference source not found.)</p>
<p>Vetting suppliers</p>	<p>Some Australian Government agencies recommended that DCCEEW vet suppliers for environmental sustainability and establish a Supply Nation equivalent. This was considered a solution to capability challenges.</p>	<p>This would require a high level of resourcing due to the complexity and breadth of environmental sustainability attributes across a vast range of products and suppliers. In contrast, the assessment of Indigenous ownership is done against set criteria and therefore less complex.</p>
<p>Use of AusTender as the reporting system</p>	<p>AusTender was by far the preferred reporting system by Australian Government agencies</p>	<p>Consultation with the Department of Finance identified AusTender is not an optimal method for collecting data. This is because AusTender and Australian Government entities financial management systems would require a significant investment and take up to 10 years to implement. Also, not all approaches to market are captured in AusTender. Internal DCCEEW consultation identified an opportunity to leverage existing tools such as Power BI to collect and report on data.</p>

5.6 Other studies

In addition to consultation with stakeholders, the policy design and impact analysis was informed by a literature review, the Department of Finance's Commonwealth Procurement Capability Self-Assessment survey and studies commissioned from Aurecon, including:

- materiality assessment
- market readiness review
- industry capability mapping and gap analysis (undertaken by ICN)⁷⁷
- metrics selection for construction services
- environmental economic analysis.

It was found that:

- The Australian Government is lagging on environmentally sustainable public procurement in comparison to its global peers and an environmentally sustainable procurement policy would improve this.
- Australian Government procurers are unsure how to incorporate environmental sustainability into procurement. They cite lack of a centralised reporting system, resourcing constraints and a perceived lack of supporting tools and resources as key constraints to environmentally sustainable procurement implementation.
- Market maturity in environmental sustainability is variable across the proposed spend categories. ICT goods have the highest readiness, followed by construction services.
- There is significant opportunity to improve the environmental footprint of the Australian Government's procurement spend, through substitution of sustainable alternatives, extending product service life and maintaining value through take-back programs that repair, refurbish, reuse and recycle materials.
- A range of metrics could be used to measure the improvements in the areas of greenhouse gas emissions, energy efficiency, water efficiency and materials efficiency. For some metrics, industry would find it challenging to meet the data requirements due to a lack of maturity in environmental sustainability reporting throughout supply chains.
- There is a lack of data on environmental sustainability in Australian Government procurement.

⁷⁷ ICN *Industry Capability Mapping and Gap Analysis*, April 2023, report to Aurecon

6 What is the best option from those you have considered?

6.1 Conclusion

It has been identified that government has the opportunity to take action to both measure and improve the sustainability of its own procurement and enable the transition to a net zero and circular economy.

Section 3.4.1 found that introducing a PCP was more likely to meet the objectives of government action, compared with the status quo of relying on the provisions of the CPRs and existing education programs. On average, the status quo is a ‘low-moderate’ likelihood of meeting the objectives, compared with ‘moderate-high’ for the proposed ESP Policy as a PCP, as shown in Table 20.

	Option 1 – Status Quo	Option 2 – ESP Policy
Overall expected performance of each option against the identified objectives.	Low-moderate	Moderate-high

Having identified that a PCP was the preferred government action, DCCEEW undertook an extensive consultation program to inform the development of that policy. Extensive consultation with government agencies, suppliers and industry has identified that stakeholders agreed the policy would provide industry with the certainty to invest in sustainability.

Table 16 demonstrates that the net present value of the costed benefits of the ESP Policy exceed the costs by around \$17 million over the 15-year period. This is a benefit cost ratio of 1.26. This demonstrates that the costed benefits outweigh the costs, even with a margin of error of 26%.

In addition to the costed benefits, the introduction of an ESP Policy would have other non-monetary benefits, mostly through reduced environmental impact. These non-market benefits are considered likely to be significant and result in a robust net benefit of implementing the ESP Policy compared to the status quo.

The cost to implement the policy, on both suppliers and government agencies will be minimised through support and resources provided by DCCEEW. This cost is expected to diminish over time as data improves, systems and processes are established, and sustainability knowledge improves.

6.2 Recommendation

The introduction of an ESP Policy as a PCP is recommended.

A caveat to this recommendation is that:

- DCCEEW provides the support and resources to minimise impost
- DCCEEW monitors the costs of implementation, and this is considered in the scheduled reviews of the policy.

7 How will you implement and evaluate your chosen option?

7.1 Implementation

The ESP Policy has been designed to maximise outcomes but minimise impact by focusing on high opportunity categories, setting spend thresholds, and phasing in requirements.

It will apply to all non-corporate and prescribed corporate Commonwealth entities undertaking construction services projects at or above \$7.5 million, and textiles, ICT goods, and furniture, fittings and equipment (FFE) at or above \$1 million. These categories have the greatest opportunity for environmental outcomes, draw on international experience, and have credible certification schemes to prevent greenwashing. The ESP Policy will commence on 1 July 2024 and categories will be phased in over 2 years to allow government agencies and suppliers time to prepare. Figure summarises the implementation timeline.

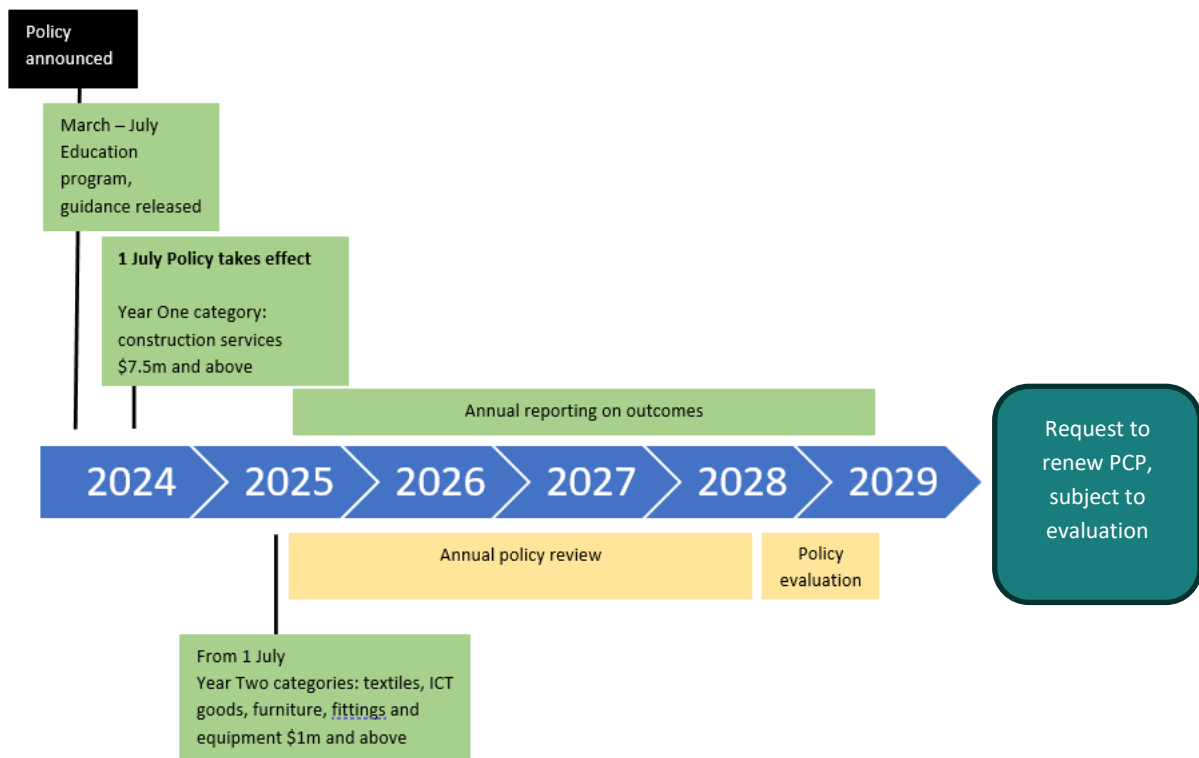


Figure 4 Implementation timeline

During consultation Australian Government agencies and suppliers stressed the importance of education and resources to uplift capability. DCCEEW will expand its existing sustainable procurement education program to support Australian Government agencies and suppliers to implement the ESP Policy. Available resources include the whole-of-government Sustainable Procurement Guide, a help desk, case studies, and presentations from agencies that are putting

environmentally sustainable procurement into practice. Guidance and templates will be released ahead of the ESP Policy taking effect and will continue to be developed and updated, in consultation with end users, throughout the life of the policy.

A reporting framework will be established to address current data limitations and improve transparency of environmental sustainability outcomes from Australian Government procurements. As noted in section 3.3, suppliers will be required to report against pre-determined metrics for each of the in-scope categories. These metrics will indicate the extent to which greenhouse gas emissions have been minimised and the extent to which there is an increase in the use of circular economy principles. For example, the construction services metrics in Table 20 measure resource recovery, use of recycled content and use of low carbon materials.

Table 20 Construction services metrics

OPTION A: Sustainability rating tool metrics		
Focus Area	Sub-Indicator	Measure/Unit
Climate Circularity Environment	Achievement of applicable Green Star or Infrastructure Sustainability (IS) Rating to Australian best practice standards.	Achieved / Not achieved
OPTION B: Base metrics		
Focus Area	Sub-Indicator	Measure/Unit
Environment Circularity	Proportion of waste recovered for recycling	Tonnes (t) or % of total
Circularity	Proportion of products and/or materials purchased containing recycled content	Tonnes (t) or volume (m ³) or number (#) % of total Dollars (\$)
Climate	Proportion of low carbon materials purchased	Tonnes (t) or volume (m ³) Dollars (\$) Tonnes CO ₂ -e minimised
	Achievement of a NABERS Embodied Carbon 4-star rating	Achieved / Not achieved

The policy may be renewed in 2029, subject to demonstrated outcomes and the results of the policy evaluation.

7.1.1 Governance

The ESP Policy will be implemented in accordance with the Department of Finance's Resource Management Guide 415 and the Commonwealth Procurement Rules. As the policy owner, DCCEEW will be responsible for implementing, monitoring and providing advice to entities and other stakeholders on the Procurement Connected Policy (PCP). DCCEEW must also review the effectiveness of the policy annually and notify the Department of Finance of the outcomes and, if required, reapply for the policy to be extended prior to its expiration at five years.

DCCEEW will manage the policy, including implementation risks, within existing departmental governance arrangements. Where appropriate, risks will be escalated and reported to the Department of Finance's Procurement Policy team. A DCCEEW and Department of Finance policy

forum will be established to monitor ESP Policy alignment with other sustainability-related and procurement policies including Net Zero in Government Operations Strategy, circular economy, and the Buy Australian Plan.

Policy implementation will be monitored through the whole-of-government procurement and contract management community of practice and as appropriate, through the Chief Operating Officers network.

Metrics for the year two categories will be developed by DCCEEW in consultation with potentially impacted stakeholders. DCCEEW will seek the Minister for the Environment's approval of the metrics, in consultation with the Minister for Finance.

Annual progress will be reported to the Minister for the Environment and published publicly.

7.1.2 Status of the IA at each major decision point

Table 21 Impact analysis at each major decision point

Decision point	Timeframe	Status of the IA
Government election commitment C-G47-002629	2022	Undeveloped
Environment and Water Minister's Office agreement to pursue an ESP Policy in response to the election commitment	2022	Desktop research undertaken to benchmark the Australian Government's environmentally sustainable procurement approach and investigate ability to deliver climate, environmental and circular economy outcomes through a procurement policy
Authority to consult	August 2022	Discussed with OIA the need to develop an IA
Discovery consultation	October 2022	Preliminary consultation with state and territory governments, Department of Finance and Department of Defence
	April 2023	Discussion paper to confirm current application of environmental sustainability in Australian Government procurements and seek feedback on target categories, reporting approaches, and desired objectives and principles of a potential policy
APS Net Zero IDC agreement to proposed approach to procurement including the development of an ESP Policy	May 2023	Research paper on international action on net zero procurement and potential approaches for Australian Government procurement
Design consultation	August to October 2023 November 2023	Australian Government agencies and suppliers surveyed and interviewed on the draft policy to determine impact and benefits of an ESP Policy Findings of the materiality assessment, market readiness analysis, potential metrics and environmental economic analysis presented to central agencies including the OIA
Minister for the Environment and Water approval of the draft ESP Policy	December 2023	Draft IA sent to OIA for informal review

Finance Minister supports the ESP Policy being considered as a Procurement Connected Policy	January 2024	PCP Proposal with Department of Finance, incorporating elements of the IA and CBA IA and CBA submitted to OIA for first pass assessment
Australian Government agencies review of policy submission	February – March 2024	OIA feedback on the IA first pass review noted and addressed IA second pass submitted

7.2 Risk assessment

A summary assessment of the policy implementation risks is provided below.

Table 21 Risk assessment

Risk	Controls	Residual Risk
Implementation cost for suppliers (regulatory burden) is higher than anticipated	DCCEEW will actively engage with affected suppliers to identify areas for refinement and additional support. 1- and 5-year reviews will allow the policy to be refined in response to any implementation challenges.	Medium
Implementation time and effort for government agencies is higher than anticipated	DCCEEW will actively engage with highly affected government agencies to increase capability to improve implementation efficiency.	Medium
Supplier Environmental Sustainability Plans do not deliver environmental outcomes	DCCEEW will routinely review a selection of Plans and update templates and supporting guidance as required. Suppliers are required to report against metrics that measure environmental outcomes.	Low
Procuring government agencies fail to comply with the policy	DCCEEW will undertake compliance activities and will engage with government agencies who are not complying. Further support will be developed based on entity feedback.	Low
Policy fails to meet objectives	Policy to be revised at 1 and 5- year review points, if required.	Low
Suppliers are unable to offer products/services that meet environmentally sustainable procurement criteria for a given procurement	The policy allows suppliers to choose which environmental sustainability principles they will address. This provides the flexibility to tailor their offering and respond to any market constraints.	Low
Insufficient data is available at the 1-year review to allow for effective review. This is because construction projects are usually delivered over multiple years	DCCEEW will engage with procuring government agencies that have in-scope contracts as part of the review for insights beyond data provision.	Medium
Metrics don't effectively capture policy outcomes, or become outdated or otherwise ineffective or are not cost-effective to provide	Metrics for phase 1 (construction services) have been developed based on independent advice and in consultation with industry. Phase 2 metrics will be determined in 2024 in consultation with industry and will be added to the ESP Policy Reporting Framework. The Department of Finance has agreed that the metrics be listed outside the core policy, to allow efficient updating over the life of the policy.	Medium

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Suppliers provide inaccurate claims of sustainability (greenwashing)	DCCEEW will provide resources and support to procurers to aid verification of claims. DCCEEW will provide guidance to suppliers on ways to substantiate their claims.	Low
Suppliers limit sustainability offerings to avoid accusations of greenwashing	DCCEEW will provide guidance to suppliers on ways to substantiate their environmental sustainability claims. The government's ReMade in Australia brand will support business to substantiate recycled content claims (once introduced).	Low
APS procurers may identify conflicts between the ESP Policy and other Procurement Connected Policies (PCP) applicable to their procurements.	DCCEEW consulted PCP owners to determine conflicts. There were no conflicts identified. There was an overlap identified with the Indigenous Procurement Policy for construction services projects that require Mandatory Minimum Requirements. DCCEEW consulted Indigenous suppliers who confirmed ability to offer environmentally sustainable options. DCCEEW will monitor for any additional support tools needed. The 1- and 5-year reviews will allow the policy to be refined to mitigate any arising conflicts.	Low
Suppliers may only deliver on one of the focus areas (Climate, Environment, Circularity)	If reported outcomes are skewed, the policy can be revised at the 5-year review.	Low
Application of the ESP Policy may inadvertently drive procuring officials and suppliers to source cheaper offshore alternatives	The CPRs include a target for use of small to medium enterprises. Australian Government agencies are also required to comply with the Indigenous Procurement Policy and the Australian Industry Participation Policy which support procurement from Australian businesses.	Medium
Potential reduced competitiveness for small to medium enterprises (SMEs)	Education around supporting the elements of the Buy Australian Plan and support for local SMEs, to be provided by programs outside of DCCEEW. There is flexibility in the policy to allow suppliers to choose which environmental sustainability area to focus on, so they can tailor their offerings.	Low
Potential reduced competitiveness for Indigenous suppliers	DCCEEW will work with Supply Nation to provide support and maximise opportunities where possible.	Medium

7.3 Evaluation

7.3.1 Monitoring

DCCEEW will engage with government agencies and suppliers to monitor implementation of the ESP Policy. DCCEEW will:

- Check AusTender for procurements captured by the ESP Policy and track these against entity reporting to monitor compliance with the ESP Policy.
- Review the results of the annual Department of Finance's Commonwealth Procurement Capability Self-Assessment Survey and other bespoke surveys to understand awareness of the ESP Policy and entity capability in implementing the policy.
- Use reporting required by the ESP Policy to identify trends and engagement with the policy.
- Survey suppliers, intermediaries for Indigenous businesses and SMEs to understand implementation impact.
- Contact a sample of procurers and suppliers.

7.3.2 Reporting

DCCEEW will establish an annual reporting process to elicit data from suppliers (via government agencies) to report against the key performance indicators in the ESP Policy.

These include two indicators of environmental outcomes: the extent to which greenhouse gas emissions are minimised and the extent to which there is an increase in the use of circular economy principles. These indicators will be used to measure progress against objective 6: procurement decisions result in improved outcomes for environmental sustainability.

The third key performance indicator: the number of suppliers contracted to deliver goods and services to the Australian Government that have a Supplier Environmental Sustainability Plan in place will be used to measure progress against objective 3: Environmental sustainability in procurements is documented and publicly reported.

Aggregated results will be published on the DCCEEW website.

By 2029, it is anticipated there will be sufficient data to establish a baseline of environmental sustainability in Australian Government procurements. Baseline results will be used to develop targets for consideration as part of the 5-year policy evaluation.

7.3.3 Review

The ESP Policy will be reviewed annually after commencement, in accordance with RMG 415^[1]. Reviews will be used to assess whether policy amendments are required to enable Australian Government agencies to more effectively procure environmentally sustainable products.

Qualitative information collected in the monitoring activities outlined above will be used to review policy implementation and identify areas for improvement.

^[1] [RMG-415--Commonwealth Grants and Procurement Connected Policies.pdf \(finance.gov.au\)](#)

Annual reviews will seek to fill current data gaps such as quantifying the cost and benefits of the policy.

ESP Policy impact will be analysed annually against the key performance indicators (Section 7.3.2). This will be measured using the metrics data provided by suppliers (through Australian Government agencies).

The impact assessment indicates that implementation will impose a burden on suppliers and government agencies. DCCEEW will monitor costs as part of the annual policy reviews. This will be undertaken through a survey of procurers and analysis of AusTender data.

7.3.4 Evaluation

The ESP Policy will be evaluated against the policy goals and objectives prior to expiry at 5 years. The evaluation will be conducted in accordance with the Commonwealth Evaluation Policy⁷⁸. It will focus on policy settings and impacts, and on the phases of the policy cycle — implementation, reporting and compliance.

Data will be sought from a range of new and existing sources. This will include information collected during monitoring and review, as well as:

- Randomised audits on compliance by relevant entities and suppliers.
- Detailed analysis of reported data, including identification of issues or shortcomings in the data set or difficulties in aggregating data.
- Consultation with other PCP owners.
- Informal feedback received from agencies, tenderers and suppliers following introduction of the policy.
- Statistics on the use of education and resources (number of officials undertaking environmentally sustainable procurement training, hits on DCCEEW's sustainable procurement website, the complexity of enquiries received by the DCCEEW helpdesk).
- A literature search of relevant research and papers published on environmentally sustainable procurement policies (in Australia and internationally).

Evaluating policy settings

Key questions to be considered regarding policy settings are:

- Has the policy delivered environmental sustainability outcomes? To what extent?
- Have the outcomes supported government priorities and commitments as intended?
- How has the cost of in-scope procurements changed since the introduction of the policy?
- Are there conflicts between the policy and other PCPs and/or government policies?
- Should the Commonwealth consider further changes in line with other advanced economies in green procurement or market changes?

Evaluating policy impact

Capability (Objectives 2, 5)

- What change has there been in capability for APS and for suppliers?

⁷⁸ [Commonwealth Evaluation Toolkit | evaluation.treasury.gov.au](https://www.evaluation.treasury.gov.au)

Affected procurements (Objectives 2, 6, 7)

- What quantity of procurements in the in-scope categories are applying the ESP Policy?
- Are there any categories where suppliers are unable to offer environmentally sustainable alternatives?

Environmentally sustainable outcomes – climate, environment and circularity (Objectives 5, 6, 7)

- What proportion of procurements in the in-scope categories apply climate, environment and circularity principles respectively?
- Is there a greater emphasis on one particular focus area? If so, what is driving this? Is intervention needed to promote other outcomes?
- To what extent has the policy met the key performance indicators?
 - The extent to which greenhouse gas emissions are minimised
 - The extent to which there is an increase in the use of circular economy principles
 - Number of suppliers who are contracted to provide goods and services to the Australian Government that have a SESP in place.

Wider benefits and effects (Objective 4)

- What quantity of SMEs and First Nations businesses are being awarded contracts for in-scope procurement categories; and has this changed since policy commencement?
- Is there reduced or increased competitiveness for SMEs and First Nations businesses?

Industry impact (Objectives 4, 7)

- Has industry investment and innovation in sustainable products in the in-scope procurement categories increased since the policy was introduced?
- Is the policy inadvertently driving procuring officials and suppliers to source cheaper offshore alternatives?

Implementation (Objectives 1, 2, 3, 5, 7)

- Have the supplier and APS engagement programs provided sufficient information and support for implementation? What are the opportunities for improvement?
- The initial assessment from APS and suppliers was a moderate impost. Has cost reduced or increased over time?

Reporting (Objectives 1, 2, 3, 4)

- Are the metrics appropriate, effective and efficient to measure policy outcomes?
- Is the reporting process and SESP template fit for purpose?
- Is the data quality and quantity sufficient to assess policy effectiveness and set a baseline?

Compliance

Stage: Approach to market (Objective 2)

- What proportion of procurements in the in-scope categories do not meet policy requirements, e.g. do not have a SESP?
- What proportion of relevant Commonwealth entities fail to comply with the policy?

Stage: Contract fulfillment (Objective 4, 5, 6, 7)

- Are suppliers delivering the environmental outcomes set out in their SESP?

- What changes occur in the SESP from tender submissions to contract delivery, e.g. are suppliers delivering environmentally sustainable products as per their commitments at tender or are they being watered down?
- Where SESP commitments are amended or not met, what caused the change, e.g. product availability, cost increase during project, or lack of knowledge of relevant suppliers?

Glossary

Term	Definition
AusTender	Has the same meaning as in the Commonwealth Procurement Rules
Circular economy	The circular economy is an economic model for achieving sustainable and productive use of resources. In practice it requires reducing the use of new materials, making materials durable, repairable and safe, and collecting, reusing and recycling materials
Circularity	Circularity refers to the use of existing resources for as long as possible, through refurbishment, reuse, repair, recycling, and alternative methods such as leasing/renting. It reflects the principles of a circular economy
Commonwealth Procurement Rules (CPRs)	The rules issued by the Minister for Finance under section 105B (1) of the <i>Public Governance, Performance and Accountability Act 2013</i>
Embodied carbon	All greenhouse gas emissions that are released as part of creating and making a product for use (as opposed to operating the good). This is also referred to as 'embodied emissions'.
Environmentally Sustainable Procurement	The act of selecting goods and services that have the most positive environmental impact throughout the lifecycle and strive to minimise adverse impacts whilst helping to tackle global challenges like climate change, biodiversity loss, waste, and pollution
FFE	Furniture, fittings and equipment, a category of procurement.
FSC	Forest Stewardship Council, a certification body for timber
Greenhouse Gas (GHG)	Has the same meaning as set out in the <i>National Greenhouse and Energy Reporting Act 2007</i>
ISO	International Organization for Standardisation
CO ₂ e	Carbon dioxide equivalent (a measure of greenhouse gas)
Recycled content	Recycled content is the proportion of recycled materials by mass in a recycled content product. As per AS 14021:2018 and ISO 14021:2016 recycled materials include pre-consumer and post-consumer material
RMG 415	Resource Management Guide No. 415 for Commonwealth Grants and Procurement Connected Policies, Department of Finance
SESP	Supplier Environmental Sustainability Plan