

TOOL F: Incorporating environmental demands into public procurement

Objectives of the tool

- to provide a clear guide on **how to introduce environmental considerations** in the different stages of any public procurement action under the legal framework of the EU procurement Directives.
- to give a good overview of **the potential for implementing** green public procurement.

Benefits of the tool

- to understand how to introduce environmental criteria in public procurement processes
- to know how to develop evaluation models with environmental aspects

What does this tool do?

The tool is particularly aimed at procurers themselves in indicating at precisely which stage of procurement environmental demands can be most effectively inserted, with a particular focus on the tender evaluation stage. However, the tool may also be of interest to decision-makers and officers from other departments (such as environmental officers) to give them a good overview of the potential for implementing green public procurement.

This tool is closely complemented by Tool B, which provides concrete advice on how to integrate green procurement into an Environmental Management System, with clear advice for each stage of the procurement process.

Quick actions

In order to learn how to introduce environmental consideration into tender documents, you will have to read the whole tool.

However, if you know already how to do that from a legal point of view, the quick actions describe where you can introduce environmental considerations and the implications of doing so.

Depending on how committed you want to be, the environmental criteria can be introduced in:

Section	Considerations
Subject Matter	<p>This is the section where it can be clearly stated that you are opting for greener products/services. You can state for example that you will purchase recycled paper, green electricity, cleaning and separated waste collection service, etc.</p> <p>However detailed technical criteria will have to be defined in the specifications section.</p>
Selection of suppliers	<p>Apart from the exclusion from the tender process of companies if they have been convicted of environmental offence (and this has to be specified in the national legislation as a reason to not operate with public administrations), you can also select suppliers with environmental expertise. However this has to be related to the subject matter of the contract.</p>
Technical specifications	<p>These are compulsory requirements that all tenders must comply with, guaranteeing this way a minimum environmental standard of all offers.</p>

	<p>The extension and exigency on the specifications will vary according to your commitment, market availability, etc.</p>
Award criteria	<p>The introduction of environmental considerations in the award phase can be:</p> <ul style="list-style-type: none"> - to indicate a preference for greener products/services if not included in the technical specifications (perhaps due to market uncertainty) - to indicate a preference for even better environmental performance when minimum criteria have been already introduced in the specifications section. <p>It is critical that criteria have to be set in a transparent and clear way and be weight.</p>
Contract conditions	<p>Clear performance clauses can be inserted in the contract to ensure that the service is carried out according to high environmental standards.</p> <p>If you do so, don't forget to outline appropriate penalties for non-compliance.</p>

1	INTRODUCTION – INCORPORATING ENVIRONMENTAL CRITERIA INTO THE PROCUREMENT PROCESS	4
2	EC PUBLIC PROCUREMENT LEGISLATION	5
2.1.	GOVERNING RULES AND GENERAL PRINCIPLES	5
2.2.	DEFINING THE SUBJECT MATTER OF A TENDER	6
2.3.	SETTING SPECIFICATIONS.....	6
2.4.	USING ECO-LABEL CRITERIA	7
2.5.	SELECTING SUPPLIERS.....	8
2.6.	TENDER EVALUATION	9
3	MODELS FOR TENDER EVALUATION.....	11
3.1.	PREPARING THE TENDER EVALUATION PROCEDURE	11
3.2.	EVALUATION CRITERIA AND WEIGHTINGS	11
3.3.	WEIGHTING ENVIRONMENTAL CRITERIA IN EVALUATION	12
3.4.	FINANCIAL EVALUATION – USING LIFE CYCLE COSTING	13
4	CASE STUDIES	14

1 INTRODUCTION – INCORPORATING ENVIRONMENTAL CRITERIA INTO THE PROCUREMENT PROCESS

Within EU procurement legislation there are a number of opportunities for including environmental demands throughout the entire procurement procedure. Generally speaking, the earlier such demands are introduced, the more effective the impact will be and the greater the opportunity for environmental innovation.

In simple terms environmental demands can be introduced in all the following stages:

Stage	Type of environmental demand
a) Identifying need	Rethink your actual needs – can you: Eliminate? Re-use? Recycle? Dispose?
b) Specifications	Set specific demands on the environmental characteristics of a product, or environmental standards to be respected in carrying out a service.
c) (Pre-)Selection of suppliers/contractors	Ensure that the winning supplier/contractor has not been convicted of an environmental offence. Demand evidence that the contractor of a service can meet high environmental standards and/or environmental management if appropriate
d) Tender evaluation/awarding contract	Award additional points for higher environmental standards than those set in the technical specifications
e) Contract management/conditions	Ensure that high environmental standards are respected in carrying out the contract, by inserting clear clauses and outlining appropriate penalties for non-compliance.

The European Commission has published: 'Buying Green: A Handbook on Environmental Public Procurement'. <http://europa.eu.int/comm/environment/gpp/pdf/int.pdf> which provides an excellent overview of Green Procurement, and what can be achieved within the EU procurement rules.

A number of other guides have been published at the national level providing helpful information on including environmental criteria into the procurement process including a 'Joint Note on Environmental Issues in Purchasing' issued by The Office of Government Commerce (OGC) in the UK (www.ogc.gov.uk/index.asp?id=400). Links to a number of different information sources are provided at [section 5](#).

The systematic inclusion and appropriate monitoring of environmental demands in procurement procedures can be greatly improved by having a comprehensive Green Procurement Policy, see Tool A and/or and Environmental Management System see Tool B.

2 EC PUBLIC PROCUREMENT LEGISLATION

2.1. Governing rules and general principles

Public Procurement in EU Member States is governed by three principles:

- European and International agreements:
 - Treaty of Rome (which also applies to the private sector), which requires the free movement of goods and services and non-discrimination on the grounds of nationality.
 - The WTO (World Trade Organisation) and GPA (Government Procurement Agreement), which reinforces rules guaranteeing fair and non-discriminatory conditions of international competition
- New EU Procurement Directives and the National Regulations that implement them
 - Directive 2004/18/EC on public works, supply and service contracts
 - Directive 2004/17/EC on public procurement for entities working in the water, energy, transport and postal services sectors
- National Policies
 - Example: UK Best Value Act that requires local public authorities to consider whole life costs and obtain value for money.
 - Swedish regulation for governmental public authorities obliging them to implement an EMS and to insert environmental requirements in their procurement actions.

Within Europe all Public Procurement is subject to the EU principles, though only contracts above specific thresholds are governed by the procedural framework of the EU Procurement Directives and must be advertised in the Official Journal of European Union (OJEU). The Thresholds are (with some exceptions):

€137,000 or €211,000 for Supplies and Services (depending on the type of organisation you are)¹
€5,278,000 for Works

These are the new thresholds as updated in December 2005; however it is important to check whether the new Directives have yet been transposed into national procurement regulations.

If the purchase is below the threshold, then the procurement is governed by national procurement law, which in some cases can make different provisions than those demanded by the European legal framework. However, in all cases public procurement must be in compliance with the principles of non-discrimination as outlined in the Treaty of Rome.

Environmental criteria can be defined in many different ways depending on the subject of the contract or the procuring method. They can be set up as compulsory technical specifications, award criteria, or conditions for the performance of the contract (i.e. contract clauses). They can take many different environmental aspects into account: manufacturing methods, characteristics, contents, emissions, energy consumption, disassembly, waste and so on. The origin or background for the criteria chosen can vary; stakeholder guidelines, recognised international/national standards, eco-labels, research etc. What they all have in common is that they have to fulfil some basic principles:

Box 1: Environmental criteria in public procurement – basic principles

¹ €137,000 applies to all organisations covered in Annex IV of the new Procurement Directives. €211,000 applies to all other organisations

- **Proportionality** – the criteria have to be in balance with the goal / target
- **Non-discriminatory** – the criteria must not favour or be unfair to suppliers or products from other countries or regions
- **Equality** – all tenderers must be treated equally
- **Transparency / predictability** - All competitors must be treated equally, given the same opportunity, be supplied with the same information, be subjected to the same test and undergo the same evaluation process as all other bidders. The criteria for selection must be established at the outset and remain consistent throughout.
- All criteria must be **Linked to the subject matter of the contract** and **consistent with other requirements** and specifications in the tender documents
- Award criteria must be **comparable and possible to evaluate**

Some further guidance on including environmental demands in procurement for seven high priority product and service groups is provided in Tool E.

2.2. Defining the subject matter of a tender

As is clear from the principles above, when wishing to include environmental demands in a procurement action it is important to indicate this wish in the “subject matter” of the contract or title of the tender itself. In addition to complying with the governing principles, this also indicates clearly to potential tenderers that you wish to purchase a product or service of a high environmental quality.

There is a large degree of flexibility in defining the subject of the contract *Public procurement legislation is not so much concerned with **what** contracting public authorities buy, but mainly with **how** they buy it².*

There are some restrictions however: The subject matter is still however covered by the basic principles of the Treaty of Rome, and so cannot lead to discrimination of suppliers, and any technical specifications or award criteria related to this subject matter must comply with the procurement Directives.

Some examples provided by the Handbook include:

- ‘Environmental cleaning contract’
- ‘Organic catering contract’
- ‘Energy-efficient building’

2.3. Setting specifications

The specifications of a tender define the criteria which the product or service offered by a bidder **MUST** meet, and so can be used to set minimum environmental requirements. This is the most direct way of ensuring that high environmental performance is achieved. It is also possible to define characteristics which you would **PREFER** the product or service to have, but which are not compulsory. For this, criteria can be included in the tender evaluation stage ([Section 2.6](#)).

In setting specifications it is important to include the input of a number of people/sources:

1. The user of the goods or service: this person will know what they need, what function the product or service needs to perform, what budget is available etc. and should present a business case to embark on a procurement exercise.
2. Procurement Professional: Procurement is a complex activity and needs procurement expertise to ensure it is done correctly. An organisation will have internal financial regulations to be complied with and all Public Procurement in Europe needs to comply with National and EC legislation.

² *Buying Green: A Handbook on Environmental Public Procurement*

3. Environmental Professional: is needed to provide up to date information about the availability of environmentally preferable goods and services and the current legislation applicable to the purchase use and disposal of goods.
4. Environmental Policy: an organisation wishing to improve its procurement processes by including environmental issues will have developed either an Environmental Policy that includes a statement about procurement or will have developed a standalone Green Procurement Policy. These Policies need to be embedded within the Procurement Process.

According to the new procurement Directives environmental specifications can be either technical (specifying a technical characteristic of the product, such as a specific heating system to be used in a new building) or based on performance or functionality (such as the need to keep rooms at a certain temperature). The performance-based approach allows a greater degree of scope for market innovation.

Some further guidance on preparing environmental specifications can be found in Tool B section 8.

2.4. Using eco-label criteria

In many cases public authorities may not have the sufficient know-how to determine how to set environmental demands for a specific product or service. A number of different websites have a great deal of information on setting environmental criteria. These are listed in Tool E.

One good source for setting such criteria is eco-labels, such as the EU "Flower", the Blue Angel and the Nordic Swan. These schemes certify products on the basis of comprehensive technical environmental requirements. These underlying requirements can, in certain cases, be used by public purchasers.

The new Directives explicitly allow for the use of eco-label criteria (article 23.6) providing:

- those specifications are appropriate to define the characteristics of the supplies or services that are the object of the contract,
- the requirements for the label are drawn up on the basis of scientific information³,
- the eco-labels are adopted using a procedure in which all stakeholders¹, such as government bodies, consumers, manufacturers, distributors and environmental organisations can participate, and
- the requirements for the label are accessible to all interested parties.

As with all requirements in public procurement the basic principles outlined in section 3.1 have to be considered when using eco-labelling criteria. Not all the criteria used by an eco-label necessarily comply and an analysis is recommended before using them as technical specifications.

Specifically look for:

- criteria that relate to manufacturing processes rather than the final product
- rules that relate to the general management practice of the company, promotion of the label and the relation between the licence holder and eco-labelling organisation
- criteria that don't have a clear link to the subject of the contract
- criteria concerning ethical and other similar issues.

³ A precise definition for "scientific information" and "a procedure with all stakeholders" is not provided and has presumably to be judged by the European Court of Justice who is the final interpreter of the EC law. As far as the case law clarified today the essential aspects that always have to be concerned are the basic principles of EC treaty.

These criteria do not necessarily qualify as technical specifications as defined in the public procurement directives. To be applicable, all criteria have to be related to the subject matter of the contract. Requirements for manufacturing processes can be used if the process influences the characteristics of the product - either "visible" or "non-visible" characteristics. The interpretation of that statement is still not fully clear however.

The European Court of Justice has judged this question in two cases, both of them related to "renewable electricity" (C-379/98 and C-448/01). The Court approved requirements for manufacturing processes, even if they were not visible in the final product (the electricity) and based the judgement upon the environmental purpose (reducing the climate impact) that has a high political priority in the European Union. How this relates to other product groups, like paper, is still not clear. The question is if you can use and interpret these two cases analogously for other kinds of environmental problems, e.g. acidification.

For the EU eco-label, "the flower", the criteria for all products and services can be used in public procurement, as compulsory specifications or award criteria. They are developed to be non-discriminatory, transparent, are based on scientific rigour and are valid in EU and EEC. However, this is not the case with all eco-labels. There can be differences between public eco-labels (like the EU-flower, the Nordic Swan and the German Blue Angel), private labels (like FSC, IFOAM and the Swedish Bra Miljöval) and single issue labels (relating to one particular environmental issue such as energy use, e.g. Energy Star)

If eco-label criteria are used as specifications or award criteria those products and services which bear an eco-label are presumed to comply with such criteria. However you must also accept other suitable evidence which shows that the criteria are met, such as a test report from a recognised body or a technical dossier from the manufacturer.

2.5. Selecting suppliers

EU Procurement Rules allow for 3 types of procurement process:

- Open: the contract is advertised and any company within the EEC can apply, this can sometimes result in large numbers of tenders all of which must be evaluated. A less cumbersome method is:
- Restricted: organisations reply to a notice in the OJEU and are sent a Business Questionnaire to complete. Analysis of the business questionnaire may exclude some companies from tendering for the contract; this may be due to financial reasons, health and safety concerns, legal court proceedings, etc. Responses are evaluated and those passing are invited to tender for the contract.
- Negotiated: this is only used where it is not possible to determine a specification or where an open or restricted process has broken down due to no suitable applicants.

The Restricted Tender Process gives the opportunity to vet organisations to identify those able to meet a required standard.

Vetting can be done prior to tendering with suppliers and/or contractors placed on an approved list from which public authorities can subsequently invite companies to tender for work.

Environmental questions can be included in pre-qualification questionnaires to assess the environmental credentials of the company. This may include questions about criminal convictions that may exclude potential tenderers who have been convicted of an environmental crime. Convictions could include failure to dispose of waste correctly, pollution of water courses or failure to store oil correctly.

Some information about companies is available in the public domain (Environmental Report, Corporate Social Responsibility, Eco-label information) but in most cases it will be necessary to ask specific questions and obtain up-to-date information.

Environmental questions can also be asked about the technical capability of potential contractors, where specific environmental experience is needed to fulfil the contract. For

example; if the contract is for a building refurbishment it would be acceptable to ask questions about disposal of waste - particularly hazardous waste.

Public authorities cannot require contractors to be registered for EMAS or ISO 14001, but where contractors are, they can submit this as evidence of environmental technical competence, where this is a requirement of the contract.

A simple and standardised approach is to develop a Business Questionnaire that includes questions about a company's environmental performance for completion at the pre-qualification stage. The standard questionnaire used by Leicester City Council is included in Example 2 of Tool B

Some further guidance on supplier questionnaires can be found in Tool B section 9

2.6. Tender evaluation

Environmental aspects can also be addressed at the tender evaluation phase, where a higher evaluation can be given to products or services with a higher environmental standard. It is possible to link the requirements in the technical specification to the award criteria. The technical specification will define the required level of performance to be met, at evaluation it is possible to award extra points to goods or services exceeding the minimum level as long as this is mentioned in the tender documents.

Inserting environmental criteria can be used to encourage even better performance than that demanded, whilst limiting the financial risk of attracting much higher prices.

In setting environmental evaluation or award criteria it is necessary to ensure that these criteria⁴:

- Are linked to the subject matter of the contract
- Do not confer unrestricted freedom of choice on the contracting authority
- Are expressly mentioned in the contract notice and tender documents
- Comply with the fundamental principles of EU law

Some clarification of what this means in practice comes from a ruling by the European Court of Justice in the so-called "Helsinki Bus Case", as presented in box 2 below.

Box 2 – The Helsinki Bus Case⁵

In 1997; the Community of Helsinki, Finland, decided to put their bus services out to tender. They used award criteria such as overall price, quality of the bus fleet and operational quality.

Under one award criterion, companies could score extra points if they comply with certain emission and noise levels. On the basis of these extra points, the contract was awarded to HKL, which is the municipal transport company.

Concordia Bus, a competitor, who was not awarded the contract, opposed the decision, arguing that the emission and noise levels could not be used as award criteria as they did not bring any economic advantage to the contracting authority.

Following a Court ruling made as a result of this case and the resultant Directives 2004/17/EC and 2004/18/EC award criteria should meet four conditions:

1. Award criteria must have a link to the subject matter of the contract

In the Concordia Bus case, the Court considered that award criteria relating to the level of nitrogen oxide emissions and the noise level of the buses, to be used to provide the transport service, did meet the requirement of being linked to the subject matter of the contract.

⁴ taken from 'Buying Green! A handbook on environmental public procurement'

⁵ taken from 'Buying Green! A handbook on environmental public procurement'

In another judgement the 'Wienstrom case', the court of Justice provided some further information on how the link to the subject of the contract should be interpreted.

In the 'Wienstrom case' the Court of Justice ruled that in a tender for the supply of energy a criterion relating to the amount of energy produced from renewable sources in excess of the expected consumption of the contracting authority (which was the subject of the contract) could not be considered as being linked to the subject matter of the contract.

The Court did however agree that an award criterion related to the amount of energy stemming from renewable energy sources (as part of the electricity effectively supplied to the contracting authority) could be allowed, as this was linked to the subject matter of the contract.

2. Award criteria must be specific and objectively quantifiable

The Court of Justice ruled that based on its previous judgements award criteria must never confer unrestricted freedom of choice on contracting public authorities. They must restrict this freedom of choice by setting specific, product related and measurable criteria, or, as the Court of Justice put it, 'adequately specific and objectively quantifiable' criteria.

In the Concordia Bus case, before evaluation of the tenders, the Community of Helsinki had specified and published a system for awarding extra points for certain levels of noise and emissions. This system was considered by the Court of Justice to be adequately specific and measurable.

In the Wienstrom case the Court of Justice found that, in order to give tenderers equal opportunities in formulating the terms of their tenders, the contracting authority has to formulate its award criteria in such a way that 'all reasonably well-informed tenderers of normal diligence interpret them in the same way' and that contracting public authorities should only set criteria against which the information provided by the tenderers can actually be verified.

In this particular case the contracting authority did not determine the specific supply period during which the tenderers should state the amount that could be supplied by them.

3. Award criteria must have been advertised previously

According to all the procurement directives, contract notices will have to mention whether the contracting authority will award the contract on the basis of 'lowest price' or 'most economically advantageous tender'. In the latter case the criteria used to identify the 'most economically advantageous tender shall be mentioned in the notice or, at least in any case on the tender documents.

4. Award criteria must respect Community law

This condition derived from the EC Treaty the procurement directives is that award criteria must comply with all fundamental principles of Community law. The Court of Justice has explicitly mentioned the importance of the principle of non-discrimination, which is the basis of other principles, such as freedom to provide services and the freedom of establishment.

The distinction between specificity and discrimination in the Concordia Bus case

The issue of discrimination was expressly raised in the Concordia Bus case. One of the objections of Concordia Bus was that the criteria set by the Community of Helsinki were discriminatory because the Community's own bus company HKL was the only company with gas-powered vehicles that could comply with the emission levels.

The Court of Justice rules that the fact that one of the award criteria set by the contracting authority could only be satisfied by a small number of companies did not in itself make this discriminatory.

When determining whether there has been discrimination, all the facts of the case must be taken into account, one of the facts in this case was that the complainant, Concordia

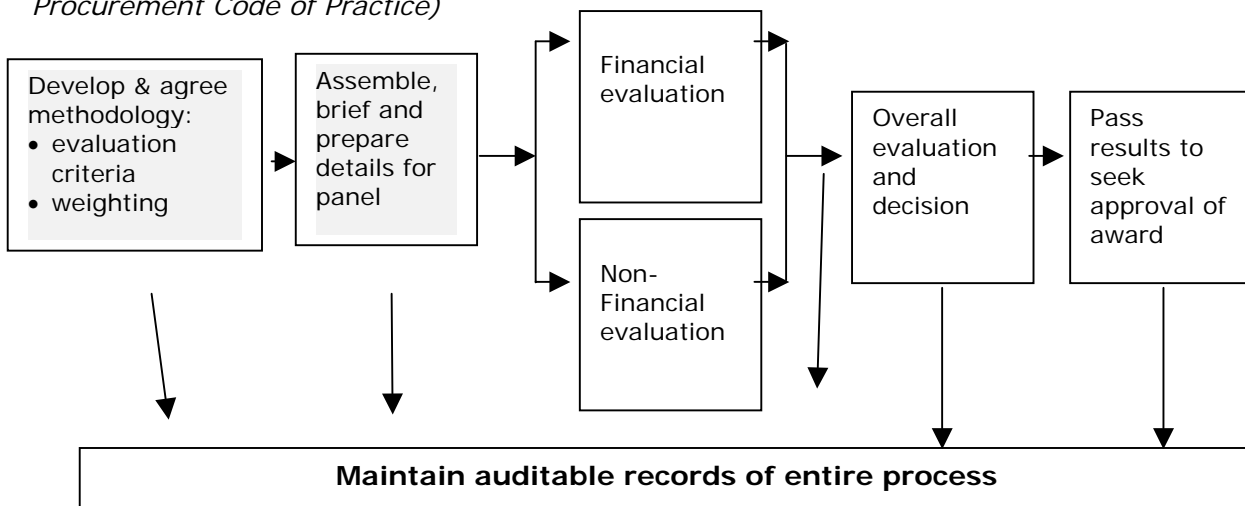
Bus, was awarded a different lot in which the same requirement of gas-powered vehicles was applied.

3 MODELS FOR TENDER EVALUATION

3.1. Preparing the tender evaluation procedure

Once an organisation has identified and analysed their need for a product or service, developed a specification, decided on what pre-qualification questions they are going to ask the next step is to decide and agree a methodology for the evaluation. This should be done prior to writing the Tender Documentation, as forward planning is needed, you can only evaluate against what has been asked for in the Tender Documents.

Fig. 1 – Tender evaluation flowchart (from London Borough of Lewisham's Procurement Code of Practice)



3.2. Evaluation criteria and weightings

The best tender will be determined on the basis of several different sub-criteria and there are several techniques for comparing and weighing up the different sub-criteria. A commonly used technique is to 'weight' the criteria.

For each procurement activity an assessment should be made at the outset of the environmental risk/impact involved. The risk factors identified and the level of risk assessed will help determine both the environmental evaluation criteria and the weightings applied to each criteria.

For example, a procurement activity where it has been determined there is a high environmental risk (purchase of a waste collection service, purchase of vehicles) could give a high weighting to the environmental criteria.

Where an organisation has developed its environmental procurement procedures to integrate into an Environmental Management System, there will be procedures designed to determine the environmental risk/impact of particular goods and services early on in the process.

Best Practice is for the evaluation criteria and weightings to be agreed by a Tender Evaluation Panel (consisting of the End User, Procurement Professionals and Environmental Professional) at the earliest stage in the procurement process.

Irrespective of the value or content of the contract the tender evaluation criteria must be established at an early stage, preferably before Tender documents are written.

Potential tenderers should be informed of what the evaluation criteria and weightings are either in the OJEU notice (for contacts governed by EU rules) or the tender documents⁶.

⁶ As outlined in Directive 2004/18/EC article 53, 2.

Potential suppliers will appreciate the signal being sent out by customers if environmental criteria are explicit in the invitation to tender.

Further advice on aspects to consider when setting evaluation criteria is given in Tool B Section 10.

3.3. Weighting environmental criteria in evaluation

Tender Evaluation often comprises of two separate components, financial and commercial criteria ('price') and non-financial (including environmental) criteria ('quality'). This is often referred to as **Price: Quality** ratio.

The Environment Agency in the UK have developed a Tender Evaluation process that utilises a **Quality: Environment: Cost** ratio. Taking Environment out of the Quality criteria and assessing it separately allows far more emphasis to be placed on the environmental criteria. Table 1 below indicates the ratios recommended by the UK Environment Agency for different procurement actions

Table 1 – Quality: Environment: Cost Ratios from the UK Environment Agency

Type of Purchase	Consultants	Contractors
	Ratio of Quality: Environment: Cost	
Pathfinder - innovative projects	60:20:20 to 50:20:30	50:20:30 to 20:20:60
Complex - sensitive projects	50:20:30 to 20:20:60	20:20:60 to 5:20:75
Straightforward - repeat projects	20:20:60 to 0:20:80	0:20:80

The Environment Agency recommends that a minimum ratio is set for all contracts. For example, 20% could be applied to environmental considerations for all tenders.

Increasing this element of the ratio should relate directly to the degree of environmental risk inherent in the contract and where in the process this has been managed. For example, if the majority of the risks have been managed through supplier selection or technical specifications then the weighting could be reduced, but if the majority of the risks can only be managed through the evaluation stage then the environmental weighting should be increased.

The Environment Agency use a risk matrix to determine the level of weighting applied to the 'environment' element of the ratio. The matrix uses the level of risk and the value of the contract i.e. a contract for goods or services or works where there is a high level of environmental risk AND the contract has a monetary high value, the environmental weighting will be high.

Each procurement activity will have a different set of non-financial criteria depending on the goods or services being bought and the environmental issues and risks identified.

Criteria could include:

- Quality and operational competence (quality management systems, management structure, working methods, human resources issues etc.)
- Technical ability (Qualifications and experience, training, technical performance of goods, maintenance etc.)
- Health and safety (policies, training records etc.)
- Equal opportunities (Policy, procedures, records etc.)
- Management of environmental issues relevant to the subject matter of the contract

Some examples of possible environmental award criteria include:

- Energy consumption

- Water consumption
- CO₂ and/or greenhouse gas emissions
- Other emissions such as SO_x, NO_x, particulates
- Recycled material content
- Recyclability at end of life
- Waste minimisation

The environmental requirements should be linked to any organisational commitments at a national/ group level and where contracts have a specific local component, or are only applicable at the local scale, the environmental requirements should be linked to any area/ site objectives.

For a local authority this may be linked to their Community Plan, Local Agenda 21 Plans or the objectives and targets of an Environmental Management System or aims of an Environmental Policy or Environmental Purchasing Policy.

Environmental requirements should be:

- simple and readily understandable;
- easy to assess against, as relevant information can be easily obtained; and
- related to the delivery of environmental benefits or reduction of environmental costs

3.4. Financial evaluation – using Life Cycle Costing

The EC Public Procurement Directives contain two options for the award of contracts: 'lowest price' or the tender offering 'most economically advantageous' offer. The aim of this option is to help the contracting public authorities get the Best Value for Money (BVM). BVM is preferable as this offers the opportunity for whole life costs to be considered and the opportunity to consider environmental issues.

(The following section is taken from 'Buying Green – a handbook on environmental public procurement')

The price of a tender is always one of the most influential factors, but how do you define the price?

The purchase price of a good, service or work is just one of the cost elements in the whole process of procuring, owning and disposing. To assess the whole cost of a contract, you need to look at all the different stages. This is known as 'life-cycle costing approach'. It involves including in the purchasing decision all the costs that will be incurred during the lifetime of the product or service.

Life-cycle costing assessment does not need to be difficult or time consuming, although there are very detailed techniques for elaborate costing calculations, a simple comparison of obvious and measurable costs will suffice for many contracts.

The UK Chartered Institute of Purchasing and Supply (www.CIPS.org) suggests that the whole life costing should cover:

- purchase and all associated costs (delivery, installation, commissioning etc)
- operating costs, including energy, spares and maintenance
- end of life costs such as decommissioning and removal

These costs can be considered at the Tender Evaluation stage and will contribute to determining the 'most economically advantageous tender'. By doing this goods and services with a better environmental performance will be found, as the process will reveal costs of resource use and disposal that may otherwise have been hidden.

Examples of Life Cycle Costs:

Water and Energy Use – the advantage is that the savings are easily quantifiable; the contracting authority will be able to easily determine how improved environmental performance offered by a particular good, service or work will reduce their energy and fuel costs.

Waste Disposal costs – disposal costs are easily forgotten when procuring a product or service, the emphasis is obtaining the goods or service rather than what to do when the good or service is no longer needed. Increasingly waste disposal is governed by legislation and the premise that the ‘polluter must pay’.

Maintenance costs and costs of parts – it is important to also consider maintenance and replacement of plants, which can be substantial over the lifetime of a product and may vary significantly from product to product, but which are not visible in the purchase price - e.g. printer cartridges, length of guarantee, reparability etc

4 CASE STUDIES

1. The Relief Project: <http://www.iclei.org/europe/ecoprocura/relief/>
2. Leicester City Council Guide to Environmentally Friendly Purchasing
<http://www.leicester.gov.uk/departments/page.asp?pgid=2794>
3. The UK Chartered Institute of Purchasing www.CIPS.org
4. The Canny Buyer: <http://www.cannybuyer.com/guidebook/sample-questionnaire.shtml>
5. ‘Interpretative Communication’ (2001/C 333/07)
www.europa.eu.int/comm/internal_market/en/publproc/general/environment.htm
6. London Borough of Lewisham: Procurement Code of Practice
7. UK Environment Agency: www.environment-agency.gov.uk
8. The Office of Government Commerce (OGC) ‘Joint Note on Environmental Issues in Purchasing’ www.ogc.gov.uk/index.asp?id=400