

'Cross-portfolio performance audit of green office procurement in Australian Government agencies'

Background

1. The Australian Government has indicated that it aims to be at the forefront in environmental purchasing practice through:

- buying goods and services that seek to minimise possible environmental impacts;
- working with industry to encourage continuous reduction in the adverse environmental impact of goods and services; and
- assessing the environmental impact of goods and services against informed and internationally recognised standards and methods.¹

2. Procurement of goods and services by Australian Government agencies was valued at over \$17 billion in 2003-04². This makes the Australian Government a significant purchaser of a range of goods and services, from office supplies through to building management services. The impact of government procurement practices can include greenhouse gas emissions from energy consumption in buildings and vehicles, waste to landfill from paper, equipment and office refurbishments as well as the over consumption of scarce natural resources such as fresh water. For the purposes of the audit, the Australian National Audit Office (ANAO) considered green procurement to be procurement activity that takes into account environmental impacts.

3. The Australian Government has introduced (or agreed with the States and Territories) a range of policy measures to improve energy efficiency in buildings, reduce vehicle emissions and packaging waste and report on aspects of sustainability in its own operations. The National Strategy for Ecologically Sustainable Development provides broad strategic directions and framework for governments to direct policy and decision-making. The Strategy facilitates a coordinated and co-operative approach to ecologically sustainable development (ESD) and encourages long-term benefits for Australia over short-term gains. A range of guidance on good practice has also been provided through the Greening of Government website and specific publications such as the Environmental Purchasing Guide.

4. The objective of the audit was to assess and report on the progress being made by agencies subject to the *Financial Management & Accountability Act 1997* and entities subject to the *Commonwealth Authorities & Companies Act 1997*:

- in realising value for money from the procurement process, with a specific focus on buildings, services and products using whole of life cycle assessments; and
- in the consideration and management of environmental impacts in specifications and contracts.

¹ Greening of Government website <<http://www.deh.gov.au/industry/agency-performance/purchasing/policy.html>>

² The \$17 billion figure is sourced from Finance database on contracts. It includes information from FMA Act agencies but there is no aggregate information on the value of purchasing contracts from CAC Act entities.

5. The emphasis of the audit was on green office procurement and sustainable business practices and the value for money within this context. As such, the audit report provides a status report on the implementation of ESD within the office environment of the Australian Government.

Methodology

6. The audit used a survey approach in conjunction with selected audit investigations to obtain information across 71 agencies and entities selected on the basis of materiality in procurement and coverage across large, medium and small organisations. The agencies selected represented approximately 35 per cent of all government bodies and over 95 per cent of all procurement spending noted on the Department of Finance and Administration (Finance) database on contracts.

7. The audit considered the procurement practices of government agencies in the following areas:

- agency awareness of and compliance with Australian government policies and guidance, particularly in relation to whole of life cycle assessments and mandatory energy policies;
- an assessment of how useful central agency guidance has been;
- the implementation and impact of EMSs;
- the quality of reports to Ministers and Parliament on green procurement issues;
- actual practices in energy and water efficiency and conservation, the procurement of equipment and services, waste management and office vehicles; and
- an assessment of barriers to the implementation of green procurement.

8. An overview of some of the organisations included in the audit is set out below in table 1.2.

Table Error! No text of specified style in document..1

Examples of agencies included in the audit by size

	Examples of organisations	Suppliers (Expenses from ordinary activities) \$'000 ³	Environmental Management System (EMS)	Total Energy Use (Giga Joules) ⁴
Large organisations (25)	Centrelink	646 092	Yes – one EMS covering 0.25 per cent of Centrelink office sites and 1 per cent of full time equivalent staff, a corporate EMS is under development	449 116
	Defence	5 302 089	Yes – covers approximately 2 per cent of sites plans to have EMS covering all major sites by 2008	16 506 172
	Australian Tax Office	753 106	Yes – covers the 35 major sites	329 843
Medium organisations (19)	Health Insurance Commission	204 698	No EMS – Plans to implement by mid 2006	96 190
	Dept of the Prime Minister and Cabinet	20 158	No EMS – Plans to implement in early 2007	9 391
	Civil Aviation Safety Authority	34 954	No EMS – no plans for implementation	14 795
Small organisations (27)	Australian Public Service Commission	14 026	Yes – one EMS covering 16 per cent of sites	2 142
	Great Barrier Reef Marine Park Authority	10 734	No EMS – plans to implement in 2006	11 667
	Australian Sports Drug Agency	3 978	No EMS – no plans to implement	1 568

Source: ANAO survey of green office procurement

Audit methodology and structure

9. The audit was undertaken using a combination of: a survey and a validation of a sample of 12 Australian government agencies, a series of case studies on green procurement issues and statistical information gathered from Finance and the Department of the Environment and Heritage (DEH).

10. The audit surveyed most materially significant agencies as well as a representative selection of other medium and smaller sized agencies. Some agencies were not included because:

- the agency had already been covered in a recently tabled audit or had been included in an audit on procurement currently in progress;

³ Extracted from Departmental Annual Reports 2003-04 (Suppliers; Expenses from ordinary activities)

⁴ Extracted from Energy Use in Australian Government Operations 2003-04.

- the agency had been restructured or was now being incorporated into a department;
 - the agency was a specialist agency not typical of office administration; or
 - the agency was a trust fund or tribunal with no significant office environment.
11. Where agencies such as Defence and the Australian Customs Service had a mix of office and other activities that are difficult to separate, the audit sought to focus on materially significant areas with large office components. In Defence, the audit included all major office sites as well as Defence Establishments (for energy use).
12. A sample of total agency responses was validated through an examination of 12 government agencies, representing 17 per cent of responses. In addition to the survey response, contracts and tenders were reviewed in a selection of the larger agencies, and interviews were conducted with relevant officers and contractors. This additional information was used to develop a more complete and accurate understanding of the office procurement processes in agencies.
13. The survey was developed in consultation with DEH and Finance. The survey questions were tested with seven agencies, prior to the survey, to ensure questions were technically accurate and answerable. These agencies were also surveyed. The ANAO also consulted with the Office of Sustainability in the Chief Minister's Department of the Australian Capital Territory (ACT) because of the significance of Australian Government practices in this area to the ACT. The survey format was designed, conducted and collated by ORIMA Research Pty Ltd.

Key findings

Chief Executive Instructions (CEIs) and internal policies (Chapter 2)

14. CEIs and internal policies can provide the priority and impetus relating to the standards expected of Australian Government officers when making decisions for procurement of goods and services. They provide important agency-specific support for the whole of government Commonwealth Procurement Guidelines (CPGs). From the ANAO survey, most respondents (92 per cent) stated that they had high-level documentation in their CEIs or internal policies relating to value for money in procurement. While whole of life cycle costing principle is integral to the CPGs, half of respondents indicated that they did not have instructions or internal policies in relation to whole of life cycle costing.
15. In addition, less than half of respondents had references to minimising environmental impacts and compliance with government policies and targets. This is an important reporting requirement for Australian Government agencies under the *Environment Protection and Biodiversity Conservation Act 1999*.
16. The ANAO appreciates the need to avoid CEIs or internal policies becoming too large and unwieldy. However, 25 per cent of respondents commented that green procurement policy was not sufficiently clear or precise in terms of what is required. Some 10 per cent of respondents also considered that green office procurement was not a priority in their agency. Clear internal guidance on these matters would assist in providing leadership and giving higher priority to important compliance issues in Australian Government bodies and assist with its integration into operational decision making.

Guidance to agencies (Chapter 2)

17. The audit examined the extent to which guidance from the Greening of Government website and other specific guidance (such as in relation to Finance procurement advice) had been beneficial to procurement practice. From the ANAO survey, the majority of respondents (68 per cent) considered that current guidance useful. However, over a quarter of respondents did not find the guidance useful (27 per cent).⁵ Some 38 per cent of respondents also found identifying 'green' products or 'green' suppliers difficult and time-consuming. Expanding purchasing guidance to provide further information on suitable products that would meet the requirements of the CPGs and have environmental attributes (such as being produced with lower greenhouse gas emissions or cleaner production methods) would assist Australian Government bodies in this area.

18. From the survey responses there was clearly a considerable interest in the Greening of Government Website and most respondents had used the material in addition to the CPGs. The main criticism from respondents was that the information on the Greening of Government website was hard to locate or access. A number of respondents commented about the need to consolidate environmental purchasing information into a single 'one-stop-shop' with clear links between the Department of the Environment and Heritage (DEH) and Finance websites.

Environmental Management Systems (Chapter 2)

19. The Government's policy in relation to Environmental Management Systems (EMS) is that agencies and entities were encouraged to develop and implement an EMS based on the internationally recognised ISO 14001 or an equivalent standard by December 2002 and accredit at least one of their larger sites to ISO 14001 or an equivalent standard before December 2003. Secretaries and Chief Executives were to report by March 2002 to their Ministers (copied to the Minister for the Environment and Heritage) if there were particular circumstances such as the costs of taking up the actions significantly outweighed the benefits.

20. The ANAO survey indicated that 32 respondents (45 per cent of respondents) had an EMS in place. Only seven respondents (10 per cent) indicated that they had an EMS certified to ISO 14001. Only one agency had been sufficiently 'encouraged' to advise their Minister (copied to the Minister for the Environment and Heritage) if there were particular circumstances preventing action in this area. The survey indicated that 39 agencies had not followed this policy requirement. Where respondents had implemented an EMS there was a significantly better environmental performance. Those respondents with an EMS: identified less barriers to green procurement, set more environmental targets, had undertaken more energy and water saving initiatives, had a greater knowledge of the waste produced and were more active in recycling. These findings demonstrate some of the benefits in having an EMS, and some examples of good practice in relation to energy performance targets are outlined in this report.

⁵ Five per cent of respondents did not comment on this question. The lack of response generally reflected a new person taking over the position or the absence of a person with enough familiarity with the guidelines to meaningfully comment.

Reporting (Chapter 2)

21. Under section 516A of the *Environment Protection and Biodiversity Conservation Act 1999* Australian Government agencies are required to 'report on the effect of their actions on the environment and identify any measures to minimise the impact of these actions on the environment'. Less than half of the 71 survey respondents (41 per cent) indicated that they had reported the effect of their procurement actions on the environment. Given that the Australian Government spent \$17 billion on procurement in 2003-04, this should logically be an area for inclusion in the reporting from larger agencies in particular. In addition, some 80 per cent of respondents identified measures they were taking to minimise the impact of their actions on the environment. Reporting on environmental performance is likely to improve in some Australian Government bodies in the future with 11 respondents indicating that they were planning a triple bottom line report within the next three years. Currently only two agencies produce triple bottom line reports. Such a report aims to provide more detailed information on the social, economic and environmental performance of the organisation.

Office stationery (Chapter 3)

22. In providing a diverse office environment for some 131 000 employees, the Australian Government consumes a significant amount of paper, stationery supplies and information and communications technology equipment. The government procures over \$20 million of paper each year. From the ANAO survey, 42 per cent of respondents stated that they use recycled products. Some 21 per cent also indicated that they use environmentally friendly products such as 'environment choice'. Almost 30 per cent of respondents indicated that they use environmentally accredited suppliers. This 'supply-chain' management approach to purchasing is an important mechanism to encourage more sustainable practices in the market place. However, the tensions between sustainable business practices and value for money are illustrated through the result that paper with a recycled content cost respondents, on average, 12.4 per cent more per ream.

Office equipment (Chapter 3)

23. Office equipment accounts for an estimated 15 per cent of the Australian Government's tenant light and power consumption giving rise to about 60 000 tonnes of carbon dioxide equivalent greenhouse gas emissions. The ANAO survey found that in relation to specifications or tenders for the procurement of office equipment such as photocopiers and printers:

- 63 per cent of respondents gave higher consideration to multifunctional devices over single function machines;
- 61 per cent of respondents used whole of life cycle costing assessments as standard procedure;
- 55 per cent of respondents required energy management options to be activated on their computers; and
- 83 per cent of respondents had energy management options on office equipment that enabled office equipment to power down during non-use periods.

24. While energy efficiency has significantly improved for office equipment over time, all FMA Act agencies and CAC Act entities should ensure that purchasing decisions meet government policy requirements in this area – particularly in terms of applying whole of life cycle costing and the active application of energy management options.

25. From the ANAO survey, only 24 per cent of respondents specify in their information and communication technology (ICT) purchasing contracts provisions for the recycling or reuse of computers. Computers can contain lead, cadmium, mercury and brominated flame retardants in the plastics which are a known health hazard. Evidence from a variety of studies indicates that in 2005, some 731 500 computers will go to landfill and this will involve 19 751 tonnes of material and some 7 400 tonnes of hazardous waste. However, the number of computers becoming obsolete annually in Australia will continue to grow every year, to the point where in ten years, 1.77 million personal computers will require end-of-life management every year.⁶

26. Advice from respondents during the course of the audit indicated that Australian Government computers are either leased from private sector providers or in the case of a small number of agencies, owned by the agency itself. Advice from respondents and providers is that obsolete computers are usually auctioned or provided to not-for profit organisations at the end of their economic life. In the longer term, computer and ICT waste is likely to be a major environmental problem. To address this the ANAO has suggested that product stewardship guidelines and specifications be introduced to reduce the potential waste stream in this area.

Motor Vehicles (Chapter 3)

27. The Australian Government has set a target that requires the Government fleet to contain at least 28 per cent of vehicles in the top half of an emissions rating system - the Green Vehicle Guide (GVG) by December 2005. The target was voluntary but was aimed at the entire Commonwealth fleet, although it did not include the Department of Defence's (Defence) commercial fleet of fit for purpose and passenger vehicles (5 761 vehicles). Since the introduction of the policy, the number of vehicles in the Australian Government Fleet has reduced from 8 000 to 7 311 (June 2005). An analysis of passenger vehicle greenhouse gas emissions indicates that since 1997-98, Australian Government fleet emissions have decreased 17.3 per cent, which is in line with a similar drop in fleet numbers.

28. Since the target was introduced, the proportion of vehicles achieving the GVG target (that is the objective of the policy) has decreased from 17.9 per cent to 12.5 per cent, as at June 2005. Consequently, it is unlikely that the GVG target has had any significant impact to date and the 2005 target is unlikely to be met. The Australian Taxation Office (ATO) is an exception and is one of the very few agencies with large fleets that are likely to meet the target set for 2005.

29. Some of the main reasons for the lack of success were:

- financial discounts of up to 30 per cent for larger, less fuel-efficient motor vehicles;
- the voluntary nature of compliance with the target: and

⁶ Meinhart Infrastructure & Environment Pty Ltd report for multimedia Victoria (March 2004); Electronic Waste Recycling Development Strategy for Victoria.

- a limited range of medium sized motor vehicles over 2 litres available for lease.

30. The fleet target is planned for review in December 2005. The ANAO has suggested that agencies review the energy efficiency of their fleets and consider measures to improve their GVG scores in future lease contracts. A range of measures to reduce greenhouse gas emissions, such as emissions offsets programs that are already being implemented by a small number of Australian Government agencies, could be considered. These programs offset emissions through tree planting or investment in other projects that reduce greenhouse gas emissions.

Water efficiency (Chapter 4)

31. With water restrictions in place throughout much of Australia during 2005, Government agencies should be aware of their water consumption and the need for conservation measures. While there is currently no policy requirement, it is clearly an area where agencies can potentially lead by example to reduce consumption and lower their costs and impact on the environment.

32. The ANAO survey found that most agencies had done little to reduce water consumption although a number of respondents had taken positive steps such as flow reduction measures (30 per cent), leak detection (35 per cent) and installing water metering (28 per cent). More positively, 59 per cent of agencies had installed water efficient dishwashers. While measuring actual water use remains an issue, research for the Department of the Environment and Heritage has estimated water use of Commonwealth bodies at approximately 19 100 ML/year and potential savings of 2 300 ML/per annum could be achieved if more agencies introduced water saving measures. If achieved, this would have the added bonus of providing financial savings of \$5.28 million per annum, although these savings would accrue throughout the supply chain (that is building owners and service providers as well as tenants).

Waste minimisation (Chapter 4)

33. The ANAO survey identified some of the good practices being implemented by a small number of agencies in terms of reusing materials, reducing the waste stream and lowering cost overheads in office refurbishments. From the ANAO survey, only 12 agencies indicated that they conducted whole of life cycle costing assessment as a standard procedure when entering into contracts for office refurbishments. However, Defence and DIMIA have actively sought to achieve best practice in the recycling of building and demolition with over 90 per cent being achieved in two large building demolitions.

34. In more general waste management, the survey indicated that, 65 per cent of agencies were able to report on their waste management costs. The median cost of office waste management was \$43.50 per person in 2003-04. For many agencies, there was little or no information available on their waste costs or volumes and this remains a key constraint for progress in terms of more sustainable business practices in this area.

35. Nevertheless, all agencies surveyed stated that they recycled their paper waste and there were high levels of recycling of toner cartridges. However, agencies recycle very little of their co-mingled and green waste. Only 16 of the 71 agencies could specify any actions being undertaken to assist the Government to meet its

commitments to reduce packaging waste. As a minimum, agencies should consider inserting clauses in purchasing contracts to reduce packaging waste. This would assist the Australian Government in complying with its commitments to reduce waste under the National Packaging Covenant.

Whole of Government energy reporting (Chapter 5)

36. The Australian Government has had a long-standing policy to improve energy performance in Australian Government operations. The goal of the Australian Government's energy policy is to improve energy efficiency, and consequently, reduce the environmental impact of Government operations, and by so doing, lead by example.⁷

37. Since the introduction of energy efficiency measures, there is evidence to suggest that the energy intensity of Australian Government operations has improved substantially as agencies have undertaken a range of energy conservation measures. In terms of energy consumption for tenant light and power (which accounts for some 14 per cent of total energy consumption in the Australian Government):

- compliance has improved from 35 per cent of agencies complying with the Government's energy target⁸ in 1999-00 to 58 per cent of agencies in 2003-04; and
- average energy use per person has improved from 11 758 MJ/person in 1999-00 to 8 643 MJ/person in 2003-04.

38. As the largest energy-consuming agency, Defence has taken significant steps to improve its total energy use. While energy performance on Defence Establishments (which includes military bases and barracks) has improved from 1999-00 to 2002-03, it deteriorated in 2003-04 by almost 6 per cent. This is largely because of increasing Defence requirements, increases in personnel and improvements or expansion to Defence facilities. However, there are still substantial energy conservation measures outstanding from an earlier energy efficiency program. It would be highly desirable to offset increases in energy use with sub-metering and energy conservation measures in all major sites as soon as practicable.

39. In terms of the accuracy of the aggregate Australian Government energy use, the ANAO found that energy efficiency has improved over time and substantial savings have been achieved because of the policy. However, the 15 per cent improvement noted in the 2003-04 report did not take into account that Defence reclassified the majority of its diesel and petrol consumption into 'Defence Operations'; a category not included in aggregate government energy consumption reductions. This was done by Defence to provide a more accurate classification of their energy use but was not taken into account by the Department of the Environment and Heritage (DEH) in reporting the reduction in total energy consumption for 2003-04. Consequently, the ANAO considers that the published reductions in energy consumption should be adjusted by some 44 per cent (1997-98 to 2003-04). In other words, the total savings achieved have been closer to nine per cent than the reported 15 per cent. DEH has advised that greater emphasis will be given to energy intensity measures in future reports.

⁷ Department of the Environment & Heritage; Energy Use in the Australian Government's Operations; 2003-04 page 455.

⁸ The Government energy target for tenant light and power is 10,000 mega joules (MJ) per person

Energy efficiency initiatives in Australian Government agencies (Chapter 6)

40. Compliance with energy management requirements has been variable across the Australian Government. The ANAO identified that most respondents were undertaking some energy efficiency initiatives. However, this was not reflected in any depth across the range of total office spaces occupied by respondents. An analysis of responses indicated that 20 per cent of office tenancies had been energy audited and only 21 per cent of office tenancies had energy efficient lighting installed.

41. Respondents that had undertaken energy efficiency initiatives had improved their energy intensity significantly. Respondents with energy plans achieved reductions in energy consumption of 20 per cent as opposed to the 9 per cent achieved by agencies without these plans. Agencies that have undertaken energy audits, in at least one office space, achieved a 19 per cent reduction in energy consumption as opposed to the 10 per cent achieved for those that did not. Considerable gains were found by agencies that introduced timer switches on heating and lighting (32 per cent reduction in energy use compared to 2 per cent for those who had not taken this action) and in sensor switches (25 per cent reduction in energy use compared to 7 per cent for those who had not taken this action).

Overall audit conclusion

42. The audit has identified a small number of better practice examples of green office procurement across the Australian Government. However, overall there were significant shortcomings identified in terms of the application of whole of life cycle costing and in the management of the environmental impacts of procurement decisions. Compliance with Australian Government policy requirements has improved over time in areas such as energy efficiency in buildings with important greenhouse gas emissions and cost savings being achieved.

43. While green procurement in areas such as purchasing recycled paper can cost more, financial savings of almost \$10 million per annum could be achieved if agencies were more proactive in energy and water conservation in particular. However, it is noteworthy that over a quarter of surveyed agencies indicated to the ANAO that agency budgetary constraints or processes do not allow green office procurement even though this might produce longer-term financial savings for the agency.

44. Australian Government agencies as a whole have been successful in meeting the Government's expectations in improving energy efficiency in office buildings. Centrelink has been a leading agency in this regard. Agencies are well placed to meet future energy efficiency requirements. The actions taken by agencies such as Defence and DIMIA in the recycling of building and demolition waste have also been good practice.

45. However, performance in managing motor vehicle emissions, reducing or recycling general office waste and conserving water has been variable and in the majority of cases, poor. Implementing EMSs (one of the key management controls designed to improve environmental performance) has been slow and few agencies have met the timetable originally envisaged by the Government. In addition, the audit has highlighted the absence of specific requirements in areas such as waste management and water conservation and shortcomings in agencies meeting the

Government's stated objective to be at the forefront of environmental purchasing practices. As a consequence, sustainable development has not, as yet, been fully integrated into Australian Government operations.

46. Because of the scale of Australian Government operations, even small improvements in these areas are likely to have positive environmental impacts. The ANAO has made 16 recommendations that have been designed to enhance the performance of Australian Government agencies in green office procurement and sustainable development practices. The final recommendation aims to strengthen the sustainability framework for Australian Government operations through measures such as promoting best practice green office procurement and the measurement and mandatory reporting on progress towards sustainability targets.

Agencies' response

47. 43 agencies or entities responded to the audit. Generally, agencies and entities agreed with or were generally supportive of the recommendations. Qualifications were made by a small number of agencies to particular recommendations. In these cases, the qualifications related to a perceived need for further guidance, the relative size of an agency or to resource constraints. Two agencies disagreed with some parts of recommendations, (the Department of Defence and the Department of Health and Ageing). This was because of possible future changes in government policy (in one case) or conflicting administrative requirements or processes.

48. The lead agency responsible for much of the policy concerning green office procurement, the Department of the Environment and Heritage commended the ANAO for the work done on this audit. The Department considered that the audit report will assist them in their work of encouraging agencies to improve their environmental performance. The documented cost savings and performance benefits from initiatives pursued by agencies audited will also be of value to those still considering further actions.

49. The Department noted that while they generally support the recommendations, their capacity to achieve improvements in the environmental performance of other agencies was limited. Resources available for this work needed to be used strategically. DEH considered that environmental purchasing (and a commitment to improved environmental performance generally), needed to become standard practice across the Australian Government. While there is a strategic role for DEH in that process, primary responsibility for performance needs to rest with government agencies themselves.

50. To this end, DEH are proposing to develop a new policy framework for agency environmental performance in 2006, which will assist in setting priorities for future agency action. As part of this, the Department will develop a new website to allow content from DEH and from other agencies to be presented as a one stop shop for the public sector.⁹

⁹ Responses from the Department of the Environment and Heritage, the Department of Finance and Administration and the Department of Defence