

# Creating social value through strategic infrastructure procurement

**With over \$52 billion worth of infrastructure projects planned across our cities and regions in the next decade, the infrastructure sector will be a key driver of economic growth across Australia and New Zealand.**

**The sector has the potential to create enormous social value – to reduce inequalities and improve economic participation, and social inclusion - in addition to delivering growth and productivity in our economy. Social and ethical procurement offers great potential to deliver these benefits.**

**Social and ethical procurement can help address unique local and regional challenges and effectively respond to the Federal and State governments' social and community development objectives. The scale of planned infrastructure projects means that sustainability impacts, both domestically and globally will be significant.**

**As the world works collectively towards the 2030 Agenda for Sustainable Development, the infrastructure sector in Australia and New Zealand has a unique opportunity to proactively influence sustainable business practices and industry innovation. This article provides direction on how to think about and practically consider these risks and opportunities in infrastructure procurement planning.**

## Opportunities for the infrastructure sector

The Commonwealth Budget 2016-17, announced in May 2016, commits \$50 billion to infrastructure projects in Australian cities and regions over the next ten years. This investment targets roads, bridges, airports, and rail to reduce congestion in our cities, improve safety and better connect domestic and international markets. Similarly, New Zealand Treasury announced a \$2.1 billion package in their 2016 Budget, to support a stronger, more productive economy and deliver better public services, including rail and tourism infrastructure. These infrastructure investments intend to create a multiplier effect by spurring jobs and national economic growth as well as the productivity of our cities and regions.

In addition to driving economic growth, large-scale infrastructure projects can create greater social value by reducing inequalities and improving social inclusion, workforce participation, living standards,

and broader community wellbeing. The Productivity Commission argues that social cost-benefit analysis can show whether a project accounts for both positive and negative economic, social, and environmental impacts, and generates a net benefit to the community.

Managing procurement strategically offers great potential to address sustainability impacts and create social value through public sector projects. The Federal and State governments have long realised the potential of infrastructure projects to generate community- and economy-wide benefits.

However, value for money is a guiding principle underpinning Australian Federal Government procurement. In traditional terms, value for money (VfM) is about selecting the best option at the best price considered over an asset's life cycle. Minimising environmental impacts and achieving greater efficiency in resource consumption is now

*With the scale of planned infrastructure projects nationwide, the discussion around 'value for stakeholders' now needs to take centre stage to maximise positive social, economic and environmental outcomes*

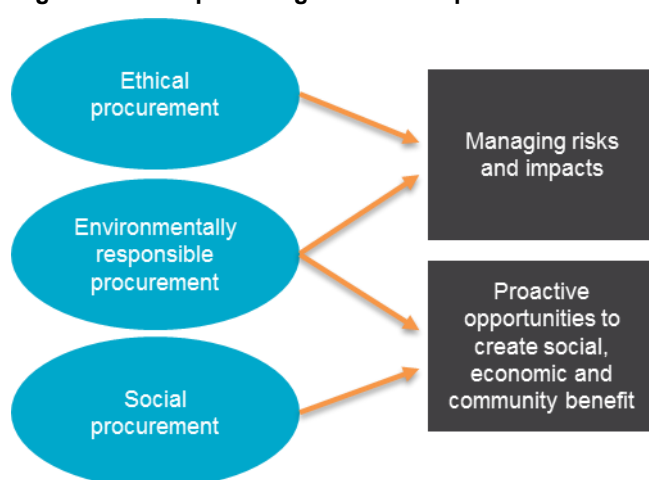
accepted as an effective way of achieving VfM in building and maintaining an asset. As a result, much of Australia's sustainable procurement guidance places a heavy focus on environmental impacts over the whole of life of goods and services, and the inputs of natural resources like energy, water, and materials.

Value is often defined in terms of price and cost savings. In contrast, social value - from economic participation, social inclusion, community access and health and wellbeing - is often considered as additional, non-quantifiable benefit. With the scale of planned infrastructure projects nationwide, the discussion around 'value for stakeholders' now needs to take centre stage to maximise positive social, economic and environmental outcomes for stakeholders. Value analysis should be based on all stakeholders involved in and affected by a project or asset, weighted against the significance of the impact to them.

## Defining social, ethical and sustainable procurement

Strategic social and ethical procurement can enable infrastructure assets to create more social value for a wide range of stakeholders. Social Procurement is “the choice by organisations to generate social value through the inclusion of wider social objectives in their purchasing and procurement processes”. Ethical Procurement, on the other hand, ensures that organisations respect fundamental international standards on human rights and ethical conduct and makes progressive improvements to the lives of people who contribute to the supply chain. In simpler words – social procurement is about creating social and economic opportunities while ethical procurement is about risk management and good business practice.

**Figure 1: Conceptualising sustainable procurement**



Source: ACCSR, October 2016

Sustainable procurement is a broader and more holistic concept that encompasses aspects of ethical, social and environmentally responsible procurement. Although many organisations have recorded achieving whole-of-life efficiency and total cost ownership, including environmental impacts, many organisations are still in uncharted territory when it comes to addressing social impacts and promoting positive employment practices in their supply chains.

Organisations are strongly encouraged by groups like Supply Nation and the Walk Free Foundation to adopt practices that are socially and ethically sound and do more than just business as usual.

Both social and ethical procurement enable organisations to better manage risks and sustainability impacts (including human rights) linked to their supply chains and take more proactive initiatives to enhance social inclusion, economic participation and community development.

## Creating community benefits through social procurement

Proactive, well-planned social procurement helps government at all levels, their agencies and other organisations meet social and economic development objectives. Social procurement can reduce exclusion of disadvantaged/marginalised populations, ensure fair access to procurement opportunities for minority businesses, small and medium enterprises (SMEs) and social enterprises, stimulate local economies by supporting local suppliers, and ensure health and safety of communities.

Commonwealth and State government agencies have put in place various mechanisms to realise these benefits. They have created regulations that mandate social procurement obligations in government contracts, including requirements for Indigenous employment, apprentice training, local content and supporting minority suppliers.

The Commonwealth government has a suite of Procurement Connected Policies with the specific aim to drive better socioeconomic outcomes through the instrument of procurement. This includes, the Commonwealth Procurement Rules, Indigenous Procurement Policy, Workplace Gender Equality Procurement Principles and User Guide, Australian Industry Participation Plans for Government Procurement. State governments also developed similar policy instruments like the Victorian Industry Participation Plan and the NSW Aboriginal Participation in Construction Guidelines. These policy frameworks make social procurement a legislative requirement to ensure that organisations maximise social value benefits for communities.

*For many organisations, addressing social impacts and promoting positive employment practices in their supply chains is uncharted territory*

In practice, ensuring social access, inclusion, and participation comes with multiple challenges. Many organisations face significant difficulties in engaging minority suppliers and ensuring that they have the right skills and capabilities to deliver the required goods and services.

Local and state governments in Victoria and NSW have developed special guidance to help organisations undertake social procurement. While social procurement is not a new concept in Australia, these frameworks support more systematic integration of social value into broader procurement processes. They offer a great starting point to develop organisational culture, systems, and processes for social procurement, and to incorporate it into the general procurement life cycle.

# 3

## social procurement considerations for your infrastructure project

1. Engage with Indigenous businesses and meet Federal and State government regulatory requirements
2. Provide opportunities for commercially viable social enterprises and small medium enterprises that can generate positive social and financial benefits
3. Provide apprenticeships and traineeships to people with disabilities, long-term unemployed and other disadvantaged groups to build skills in the community.

In Australia, many market intermediaries help organisations procure goods and services from diverse supplier groups. These include groups such as Social Traders, Australian Disability Enterprises (ADEs), Social Firms Australia (SoFA), Supply Nation, Australian Indigenous Minority Supplier Council (AIMSC), as well as local councils and chambers of commerce.

### Promoting good business practices through ethical procurement

Ethical Procurement is about doing better business. It can help your business conduct itself a fair and ethical manner, and identify and mitigate negative social and environmental impacts in your supply chain. This may involve ensuring that supply chains uphold internationally recognised labour standards and human rights, or having mechanisms to eliminate bribery, corruption, and unlawful conduct. Ethical procurement helps you manage risks (both reputational and financial) and potential conflicts, and promote responsible business conduct throughout your value chain.

Global supply chains are complex. It is challenging to gain visibility into the social (including labour and human rights), environmental and governance practices of far-away, lower-tier indirect suppliers. According to the Global Slavery Index developed by Walk-free Foundation, there are 45.8 million people in modern slavery. The largest proportion is in industries such as agriculture, construction and manufacturing. The infrastructure sector is exposed to inherent, and potentially material, sustainability risks through their supplier chains, as various goods and raw materials are increasingly sourced from developing countries.

Many international frameworks can help

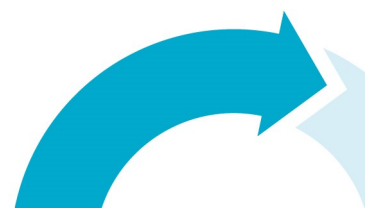
organisations set up procurement and purchasing functions to navigate through the complexities of global supply chains. The United Nations Global Compact's *Supply Chain Sustainability: A Practical Guide for Continuous Improvement* (2015), *Buying for a Better World - A Guide to Sustainable Procurement for the UN System*, and *Ethical and Sustainable Procurement* (2011) developed by the Chartered Institute of Purchasing & Supply are some notable examples. They all require an understanding of risks and sustainability impacts, and provide tools, scoring systems and frameworks to help address material risks at each stage of the procurement and contract management process.

### Addressing risks and opportunities through sustainable procurement

Sustainable procurement in infrastructure projects requires management of adverse impacts and risks, as well as proactive ways to maximise social, environmental, and economic benefits to stakeholders.

The scale and diversity of infrastructure investment by both federal and state governments means that government agencies, and typically the first tiers of their supply chain, have a unique chance to create new employment opportunities and stimulate economic growth locally, regionally, and nationally. The benefits of that growth can be maximised by ensuring employment and economic participation and access, and training and skills enhancement. At the same time, projects need to be planned, constructed, and maintained in a manner that reduces adverse social and environmental impacts across the value chain and life cycle.

Therefore, what the infrastructure industry really needs is a flexible procurement framework that



# 3

## ethical procurement considerations for your infrastructure project

1. Establish governance systems and processes to integrate ethical standards and sustainability considerations into your organisational decision making procurement planning
2. Identify any negative human rights impacts in your supply chain, and work with your suppliers to meet internationally recognised labour and human rights standards
3. Understand inherent risks and implement controls that aim to eliminate any form of corruption, bribery, fraud, money laundering, obstruction of justice, and undue influence through manipulation and intimidation.

helps identify material risks and impacts, as well as opportunities to create social value. The industry needs to be conducive to the regulatory requirements to generate community benefits, but also responsive to unique issues and opportunities

*...the infrastructure industry really needs is a flexible procurement framework that helps identify material risks and impacts, as well as opportunities to create social value.*

presented in each region.

The new International Standards Organization (ISO) Draft Standard on Sustainable Procurement (ISO/DIS 20400) currently provides the best guidance on how to practically integrate sustainability into the procurement process so that it captures both risks and opportunities. This Draft Standard encourages organisations to consider three key elements in procurement planning: sustainability risks and opportunities, sustainability aspects of business needs, and supply market's sustainability capability.

The 'due diligence' approach is a key element of the Standard, where organisations can identify risks or opportunities that are unique to different categories of goods and services, considering technical specifications, sourcing locations and supply chain structures. Then, identified risks and opportunities can be prioritised, based on their significance to the organisation and the project.

Further opportunities can be identified by analysing the market – by understanding the capability of suppliers to support a project's sustainability needs. If identified as a significant opportunity during the

due diligence stage, market research could include local suppliers, SMEs and disadvantaged groups in the community. The Standard recognises that suppliers understand the market has changing needs and want to offer more creative and innovative products and services to their clients. Therefore, it is important to invite a diverse range of suppliers to determine if new technologies, products or advances in sustainable business practices could meet or exceed desired business requirements.

These assessments should inform a sustainable sourcing strategy that describes how to deliver the best outcome to the infrastructure project and stakeholders through procurement. Sustainability risks and opportunities can vary significantly from one product or service to another, and across different suppliers. Depending on the scale, nature, and location of infrastructure projects, sustainability specifications, could be a short one-page briefing note or considerably longer for a larger portfolio of projects and assets.

### Benefit realisation through good supplier relationships management

The second and most important part of sustainable procurement happens after contracts are signed with selected suppliers. This is not just about managing contracts for compliance. It is about good supplier relationships management (SRM) to ensure benefits realisation and drive further opportunities for innovation.

Investing in good SRM is key to addressing sustainability impacts and opportunities in the supply chain. Supply chains can be complex, so addressing sustainability risks undoubtedly requires the



cooperation of direct (tier 1) suppliers. Organisations can invest in supply chain development programs to improve suppliers' competence and capacity to deal with significant sustainability challenges. This can help better monitor, manage and continually improve sustainability performance over time.

Collaborative, long-term supplier relationships can go a long way. More importantly, long-term relationships encourage proactivity and initiative to create further opportunities and innovative solutions that deliver greater social outcomes and sustainability standards. Suppliers that successfully meet an organisation's sustainability and business needs can then be recognised for these contributory practices and regarded highly for future projects.

Infrastructure projects have huge potential to create wider societal benefits, but benefits realisation starts with good supplier relationships and collaboration across teams. It also goes without saying that strong and positive communication across all levels of a project, and amongst suppliers and wider stakeholders is also vital to success.

## Why is all this important now?

The 2030 Agenda for Sustainable Development adopted by more than a 190 countries, including Australia and New Zealand, aims to end poverty, protect the planet, and ensure prosperity for all. This is a collective effort, requiring governments, businesses, and civil society to build partnerships based on shared vision and goals.

Sustainability and innovation in the infrastructure sector have direct relevance to addressing our local, regional, national, and global challenges such as social exclusion, accessibility to economic opportunities. By considering these challenges during planning and design stages, and creating solutions through the different stages of their life cycles, infrastructure projects can create significant additional value through sustainable outcomes for their stakeholders.

There is also an exponential rise in expectations from all stakeholders – consumers, shareholders, voters – alike for organisations to understand their place in society and create greater social value. With the infrastructure sector being an important driver of economic growth, creating and sharing social benefits will become a centre stage consideration.

# 5 steps to make a positive social impact with your next infrastructure project

1. Conduct due diligence on your infrastructure project to understand whole-of-life risks, sustainability impacts and opportunities to create social value for communities
2. Develop a project or portfolio level procurement strategy to address material impacts and opportunities unique to your infrastructure project, based on its scale, nature and location
3. Understand your supply market's sustainability capability, and look for ways to include diverse suppliers in the tender process
4. Proactively manage supplier contracts in order to improve and manage their sustainability performance, and to collaborate on further opportunities for innovation
5. Don't do it alone – whatever your sustainability objectives are, a collaborative approach, with your suppliers, market intermediaries or industry groups could help you get there faster.



## References

Budget 2016-17. <http://www.budget.gov.au/2016-17/content/glossies/jobs-growth/html/jobs-growth-03.htm#IIAA>

Budget 2016. <http://www.budget.govt.nz/budget/2016/releases/r6-english-2-1b-investment-in-public-infrastructure.htm>

Productivity Commission. Australian Government. Productivity Update 2015. <http://www.pc.gov.au/research/ongoing/productivity-update/pc-productivity-update-2015>

Australia and New Zealand Government Framework for Sustainable Procurement 2007, Sustainable Procurement Guide (2013) by the Department of Sustainability, Environment, Water, Population and Communities (DSEWPC).

Regan, Michael, "Value for money in project procurement" (2014). Faculty of Society and Design Publications. Paper 120. [http://epublications.bond.edu.au/fsd\\_papers/120](http://epublications.bond.edu.au/fsd_papers/120)

Social Procurement Action Group (SPAG). 2012. Social Procurement in NSW: A guide to Achieving Social Value through Public Sector Procurement [http://knode.com.au/wp-content/uploads/Knode\\_SocProcurementNSW\\_E1LR\\_90p.pdf](http://knode.com.au/wp-content/uploads/Knode_SocProcurementNSW_E1LR_90p.pdf)

Adapted from Chartered Institute of Purchasing & Supply (CIPS), Ethical and Sustainable Procurement (2013). [https://www.cips.org/Documents/About%20CIPS/CIPS\\_Ethics\\_Guide\\_WEB.pdf](https://www.cips.org/Documents/About%20CIPS/CIPS_Ethics_Guide_WEB.pdf)

Department of Planning and Community Development (DPCD), State Government of Victoria. 2010. Social Procurement: A Guide for Victorian Local Government. <http://www.dtpli.vic.gov.au/local-government/strengthening-councils/social-procurement>

Department of Finance. Procurement Connected Policies. <https://www.finance.gov.au/procurement/procurement-policy-and-guidance/buying/policy-framework/procurement-policies/principles/>

Social Procurement – Guide for Victorian Local Government (DPCD 2010) and Social Procurement in NSW: A guide to achieving social value through public sector procurement (SPAG 2012)

Walk Free Foundation. The Global Slavery Index 2016. <http://assets.globalslaveryindex.org/downloads/Global+Slavery+Index+2016.pdf>

Chartered Institute of Purchasing and Supply (CIPS). 2013. Ethical and Sustainable Procurement. [https://www.cips.org/Documents/About%20CIPS/CIPS\\_Ethics\\_Guide\\_WEB.pdf](https://www.cips.org/Documents/About%20CIPS/CIPS_Ethics_Guide_WEB.pdf)

The ISO/DIS 20400 Draft Guidance can be purchased from this website: [http://www.iso.org/iso/catalogue\\_detail.htm?csnumber=63026](http://www.iso.org/iso/catalogue_detail.htm?csnumber=63026)



© 2016 Infrastructure Sustainability Council of Australia (ISCA)

Version 1.0

October 2016

This has been published by the Infrastructure Sustainability Council of Australia (ISCA). ISCA and IS are registered trademarks of the Infrastructure Sustainability Council of Australia. ISCA are pleased to allow this material to be reproduced in whole or in part for educational and non-commercial use, provided the meaning is unchanged and its source, publisher and authorship are acknowledged. For information about ISCA or the Infrastructure Sustainability (IS) rating scheme visit [is-ca.org.au](http://is-ca.org.au).

The information contained in this publication has been provided by Infrastructure Sustainability Council of Australia (ISCA) and the Australian Centre for Corporate Social Responsibility (ACCSR). The information contained in this publication has been compiled in good faith, exercising all due care and attention. ISCA does not accept responsibility for any inaccurate or incomplete information supplied by third parties. No representation is made about the accuracy, completeness or suitability of the information in this publication for any particular purpose. ISCA shall not be liable for any damage which may occur to any person or organisation taking action or not on the basis of this publication. This document is subject to revision without notice and it is up to the reader to ensure that the latest version is being used. Readers should seek appropriate advice when applying the information to their specific needs.

Published by:

Infrastructure Sustainability Council of Australia Pty Ltd

ABN: 53 131 329 774

[www.isca.org.au](http://www.isca.org.au)

Phone +61 2 9252 9733

Email [info@isca.org.au](mailto:info@isca.org.au)

PO Box R655 Royal Exchange NSW 1225

Suite 6.05, 220 George Street, Sydney NSW 2000