Infrastructure Sustainability Council

Challenges and Opportunities in the Procurement of Sustainable Products and Services in Infrastructure

Contents

Acknowledgements

The Infrastructure Sustainability Council would like to acknowledge the support and guidance of the Principal Partners of the Western Australia Connect conference, Infrastructure Western Australia and the Office of Major Transport infrastructure Delivery.

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Main Roads Western Australia
Public Transport Authority

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Office of Major Transport Infrastructure Delivery

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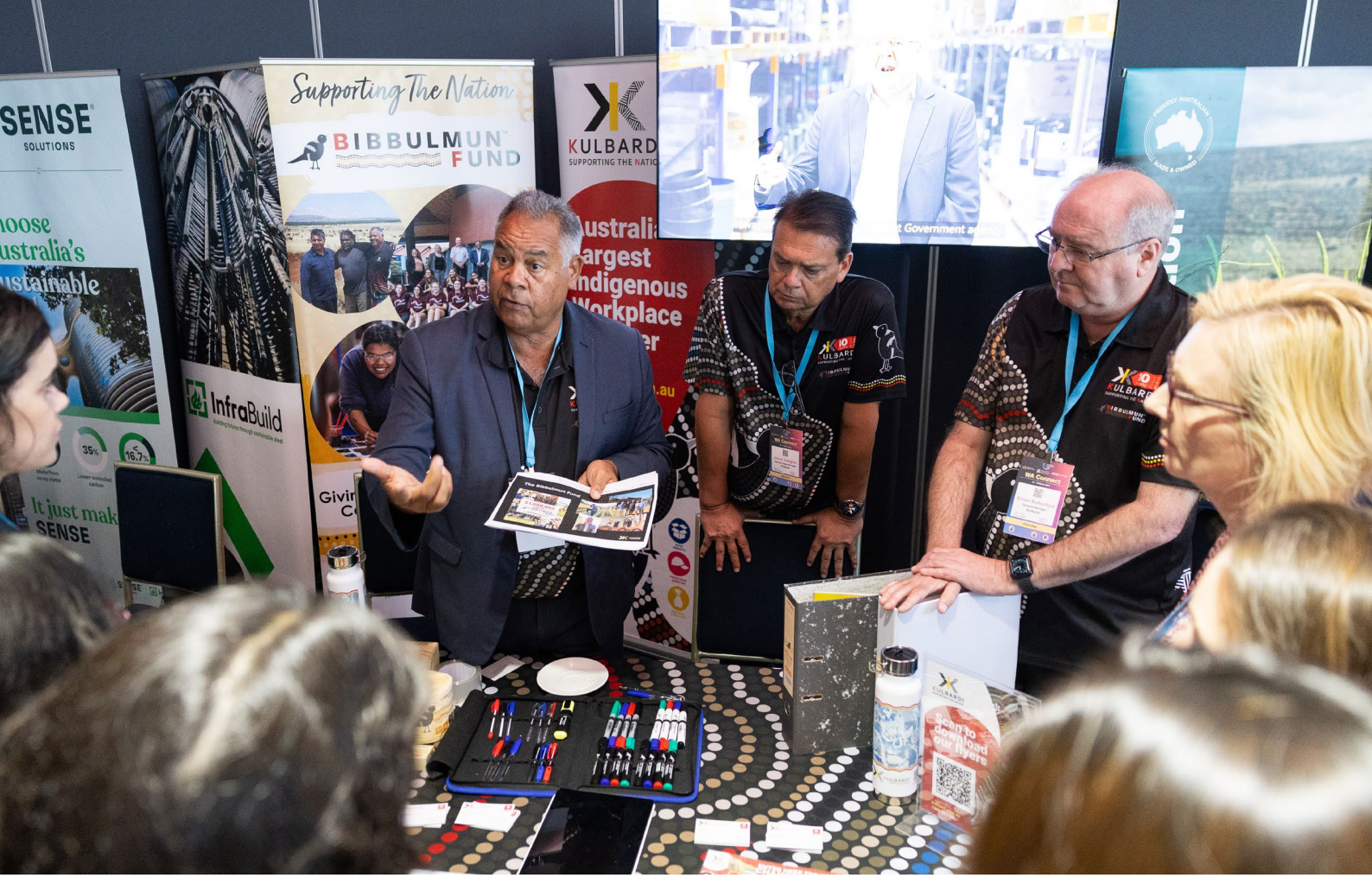


Introduction

In the lead up to the Western Australia Connect conference that was hosted in March 2024 in Perth, Australia, the Infrastructure Sustainability Council (ISC) issued a survey to suppliers in the Western Australian market that aimed to identify the specific barriers and obstacles to sustainable procurement in the infrastructure sector, as perceived from the suppliers' perspective.

This quantitative research was supplemented by qualitative input derived from a workshop facilitated by the ISC during the Western Australia Connect conference itself. Over 150 participants representing proponents, consultants, contractors and suppliers who are active in the region's infrastructure value chain contributed to the session. Together, they identified the most material impediments and opportunities they faced with respect to sustainable procurement.

The key findings of these two activities are outlined below, followed by a summary of significant developments in government policy and the ISC's own market insights.

Finally, this White Paper concludes with a set of recommendations to guide industry towards more impactful policy and practice in this important aspect of infrastructure sustainability.

Supplier Survey

A survey was circulated to West Australian-based suppliers in advance of the WA Connect conference. 21 organisations responded and these included suppliers of products and services to the horizontal and vertical infrastructure sectors. The key findings are set out below.

1. 60% of respondents identified as a Senior Leader/Business Owner.
2. Respondents provided a wide range of products and services; the top four categories were consultancy (26%), plastic products (20%), concrete and metals (both 13%).
3. 72% of respondents were active in the WA market, all were active in Australia.
4. 67% of respondents rated their product or service offering as highly sustainable.
5. 100% of respondents rated the importance of sustainability in conversations as “extremely important or very important”.
6. 73% of respondents have had experience with the IS Rating Scheme.
7. 53% of respondents rated their knowledge of the IS Rating Scheme at 6 and above, suggesting there is some level of knowledge gap for suppliers.
8. 60% of respondents claimed that procurement departments do not engage with them when sourcing sustainable infrastructure suppliers.
9. 84% expressed significant interest in learning more about how to engage with the supply opportunities around IS Rated infrastructure projects.

Top 5 challenges:

1. Cost-based, short-term decision-making that is undertaken too late in the project.
2. Lack of awareness about opportunities to raise awareness and visibility of more sustainable products and services.
3. Prescriptive tenders that are too restrictive with respect to specifications and don’t incentivise innovation.
4. Mixed signals and a lack of consistency in policy from jurisdiction to jurisdiction.
5. Lack of understanding regarding product certification and what is required to build market confidence in an innovation.

Top 5 opportunities:

1. Global leadership – prioritise local production to high Australian standards using Australian resources and ingenuity.
2. Early-stage planning – Embed sustainability with clear targets as a project priority from the outset.
3. Third-party assurance – Undergo broadly recognised, independent certifications and infrastructure ratings to provide reliable metrics and verified outcomes.
4. Culture change – Share knowledge, raise awareness, profile sustainability leaders.
5. Government leadership and consistency – advocate for alignment across all levels of government and commit to measurement and reporting. Incentivise R&D and reward sustainability performance.

WA Connect Conference Workshop

Delivered in Perth on 13 March 2024, this workshop presented an analysis of the findings from the survey and was followed by a facilitated dialogue intended to gather qualitative feedback to supplement the quantitative findings of the survey. In contrast to the survey, the workshop drew on the experiences and knowledge of a broader spectrum of the infrastructure value chain, going beyond suppliers to also include the insights of government procurers, sustainability consultants, construction contractors and operators. Notwithstanding the greater diversity of perspectives represented, the broad themes are generally consistent between the Supplier Survey and the Conference Workshop. Below is a distillation of the discussion that ensued:

Impediments:

1. Risk Management

The reluctance of procurers and delivery agencies to bear the risk associated with innovation hurts the adoption of sustainable products in infrastructure projects. Stakeholders are cautious about potential uncertainties and liabilities, particularly around proposing the use of new products, which can impede progress towards sustainability goals.

2. Budget Constraints

Limited financial resources pose a barrier to integrating sustainable products into infrastructure projects. Higher upfront costs or ongoing maintenance expenses associated with sustainable materials may exceed allocated budgets, leading to hesitation in their adoption.

3. Logistical Complexities

The intricate logistics involved in sourcing, transporting, and implementing sustainable products add complexity to project planning. Dealing with multiple suppliers, ensuring product quality and compliance, and coordinating delivery schedules can create challenges for procurers.

4. Lack of Visibility

Insufficient awareness or understanding of available sustainable products and their benefits contributes to a lack of visibility in the market. Procurement professionals may not be fully informed about sustainable options, leading to the underutilization of these products in infrastructure projects.

5. Policy Certainty, Pipeline Certainty and Access to Capital to Scale Sustainable Products

Government policies that shift over time and differ across jurisdictions carry two levels of risk. First they affect certainty about the pipeline for infrastructure developments. Second they upset the business models for the capitalisation of development and scaling of sustainable materials and products.

Proposed Solutions:

1. Education

Providing education and training initiatives to stakeholders can enhance understanding and awareness of sustainable products. By offering insights into the benefits, performance, and implementation of sustainable solutions, education can empower decision-makers to make informed choices.

2. Alignment

A consistent direction of policy evolution towards the fulfilment of Australia's Net Zero goals that includes alignment of policy and regulation across states and territories will materially reduce risk for developers of sustainable materials and their investors.

3. Incentivisation

Introducing incentives or rewards for the adoption of sustainable products can stimulate interest and investment in these alternatives. Financial incentives, tax breaks, or recognition programs can motivate stakeholders to prioritize sustainability in their decision-making processes.

4. Early Inclusion

Incorporating sustainability considerations early in project planning and design stages can facilitate smoother integration of sustainable products. By involving sustainability experts and suppliers from the outset, project teams can identify opportunities, address challenges, and optimize the use of sustainable materials and practices.

5. Knowledge Sharing

Promoting the circulation of information about sustainable products, their benefits, availability, and best practices throughout the industry can help to facilitate higher sustainable product adoption. This could involve sharing knowledge through platforms, workshops, guidelines, or collaborative programs.

ISC and Industry Context

Procurement policies and practices in the infrastructure sector are experiencing a period of significant transition, spurred on by the application of IS Ratings as well as factors including new policy in support of Australia's decarbonisation targets, increased mandatory reporting requirements, and increased investor and shareholder scrutiny. In the context of this discussion, it is important to note a number of recent, significant developments and ongoing ISC initiatives that will continue to apply positive pressure and drive impact.

Federal and state/ territory government developments

In April 2024, the Department for Climate Change, Energy, the Environment & Water established a Federal reporting framework that will create a new baseline of environmentally sustainable procurement. This Environmentally Sustainable Procurement Policy (ESP) and the Sustainable Procurement Guide will be phased in over two years, with phase one directed at the procurement of Construction Services from 1 July 2024. The ESP has three focus areas: climate, the environment and circularity, or using existing resources for as long as possible, through refurbishment, reuse, repair, recycling, and alternative methods such as leasing/renting to achieve greater sustainability.

Suppliers will be required to report against the relevant metrics on all government contracts to which the ESP Policy applies – including for infrastructure projects with a procurement value threshold of $7.5 million. One of the metrics endorsed in the ESP Policy Framework to meet Australian best practice standards is for suppliers to show they have achieved a verified IS Rating from the Infrastructure Sustainability Council. More information including specific guidance for suppliers and buyers can be found on the DCCEEW Website.

Emerging multi-jurisdictional consensus on carbon pricing and sustainable procurement

From February to May 2024 Infrastructure New South Wales, Infrastructure Victoria and Infrastructure Australia, announced approaches for assessing the cost of carbon in the business case for major infrastructure projects in 2030. This important move to effectively price carbon in the early planning stages of infrastructure development is expected to increase the incentives to source low carbon products and solutions across the lifecycle of assets. It is hoped that other jurisdictions will follow suit.

The Australian Procurement and Construction Council's Guide to Best Practice: Pathway to Green Construction Procurement (2023) provides a high-level outline of issues relating to sustainable procurement by government agencies procuring construction works.

ISC Supplier Initiatives – ISupply

ISupply connects sustainable suppliers with projects and assets undertaking the ISC's Ratings Scheme.

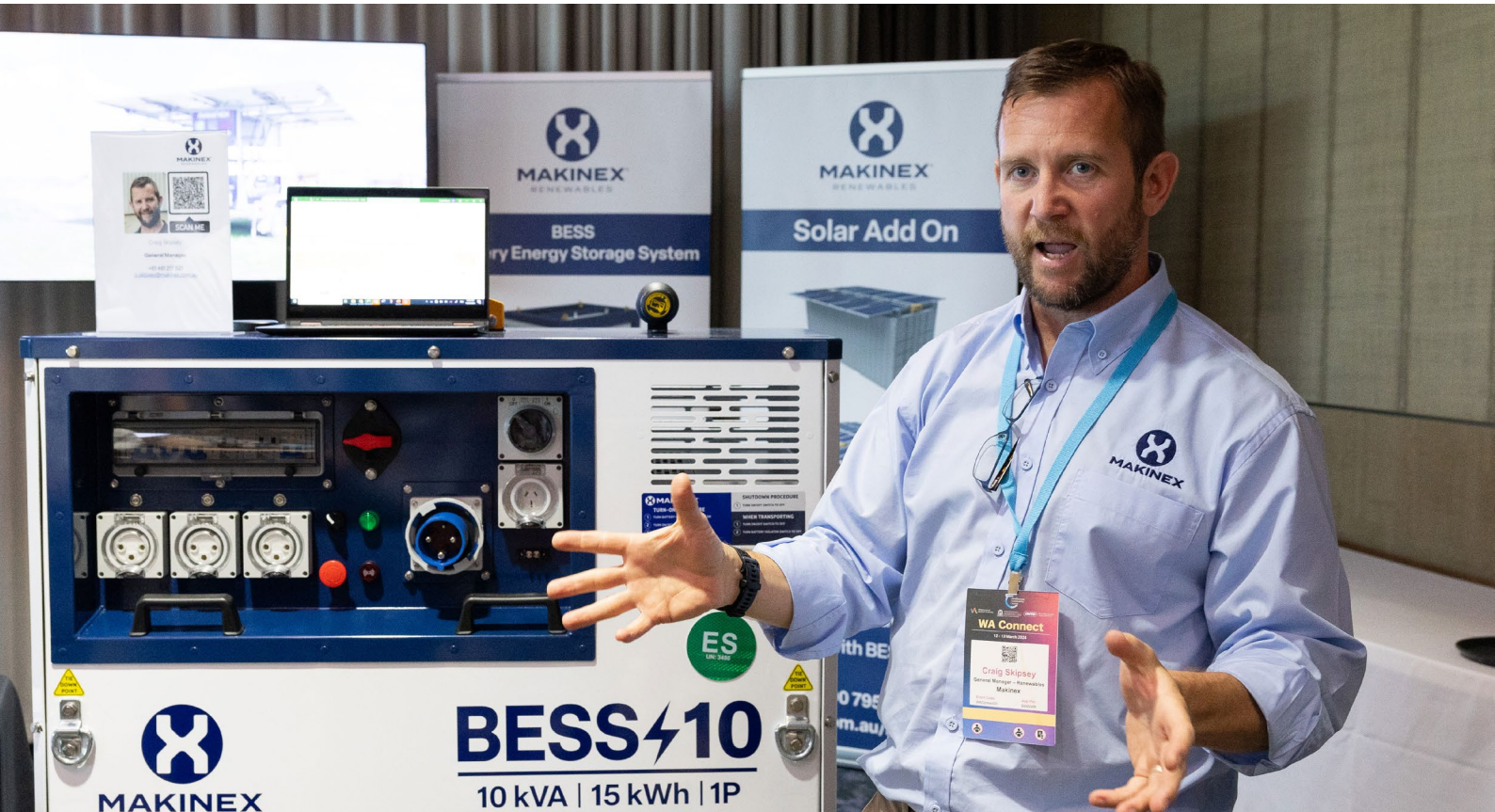
- The ISupply Directory offers procurers a one-stop-shop for infrastructure-related products and services that can support better sustainability outcomes. Each directory listing is directly linked to the credit areas within the IS Rating Scheme that the supplier is able to support. Procurers are encouraged to identify ISuppliers to collaborate with on their projects and are rewarded through the scheme for doing so.

- The ISC's Impact Note on Circular Economy offers technical guidance on the application of IS Ratings to drive circular outcomes in infrastructure. The Scheme also rewards the use of products with a Material Circularity Index through an Innovation Challenge.

- The ISC's Impact Note on Low Embodied Carbon Materials offers technical guidance on the application of IS Ratings to reduce obstacles and effectively decarbonize embodied carbon in materials used on infrastructure projects.

- The ISC convenes a range of hosted spaces, both online and via live events, for suppliers and procurers to connect and collaborate for impact:
    - The **WA Connect Conference Suppliers Workshop** is one such example, where 18 suppliers had the opportunity to directly pitch their offerings to the regional infrastructure sustainability community of practice.
    - The **Suppliers in the Spotlight Webinar Series** is a bi-monthly supplier showcase hosted by the IS Council. The series began in February 2024, and each edition features six unique suppliers. A YouTube recording and a copy of the presentation are uploaded to the ISC website after each event:
        - 1 February 2024
        - 22 March 2024

The next event will be held on 30 May 2024. Please note the link for the recording will only appear on the Event Recordings page once the event is completed.



Recommendations

Market education

Promoting the circulation of information about sustainable products and the benefits, performance, and implementation of sustainable solutions can empower decision-makers, especially procurement departments, to make informed choices.

Introducing incentives or rewards

Performance-based tendering, financial incentives, tax breaks, or recognition programs for the development, certification and adoption of sustainable products, can improve demand for sustainable products and motivate stakeholders to prioritize sustainability in their decision-making processes.

Third party assurance

Third party assurance of the outcomes achieved provides a robust evidence base for the effectiveness of these incentives, and can accelerate the mainstreaming of effective incentives with decision-makers throughout the supply chain.

Early and informed engagement

Involving sustainability experts and suppliers early in project planning and design stages can facilitate better considered and smoother integration of sustainable products. Allow time and resources for pilots and trials, particularly on relatively low-risk projects, in order to build the case for the application of alternative materials at scale.

Regulatory alignment

Maintaining the momentum towards aligning sustainability-related policy and regulation will increase certainty and reduce complexity for organisations operating in multiple states and territories. Aligning with policy and regulation in other jurisdictions will also accelerate the process of introducing regulatory drivers for enhancing sustainability.

Assess risks and opportunities of emerging policy and regulation

Keep abreast of the suite of emerging policies and regulations from Federal and State/ Territorial Governments, their advisory agencies, and infrastructure delivery agencies that aim to improve the sustainability of infrastructure and which will create significant new opportunities for suppliers of sustainable products.

About the Infrastructure Sustainability Council

The Infrastructure Sustainability Council (ISC) is a for-purpose organisation that has certified sustainability performance across Australia and New Zealand since 2012. We assess infrastructure assets across the full spectrum of the asset lifecycle and we measure impact across the quadruple bottom line of economic, environmental, social and governance.

The IS Rating Scheme is Australia and New Zealand's only comprehensive rating system for evaluating economic, social, environmental and governance performance of infrastructure across the planning, design, construction and operational phases of infrastructure assets. The scheme can assess the sustainability performance of infrastructure at the individual assets level, for portfolios or networks, or even at a regional scale. Since 2012, over $400b worth of infrastructure projects and assets have either completed ratings or are currently under rating through the IS Rating Scheme.

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