

# HOW DO WE LEVERAGE TOWNS' PROCUREMENT PROCESSES TO SUPPORT THEIR NET ZERO AIMS?

*29 July 2022*

## Document verification

Job title		Towns Fund Delivery Partners Programme		Issued to	
Document title		How do we leverage Towns' procurement processes to support their Net Zero aims?			
Document ref					
Revision	Date	Filename			
		Description			
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## 1. ABOUT THE TOWNS FUND DELIVERY PROGRAMME AND THE NET ZERO PROCUREMENT BRIEF

In September 2019, the government invited 101 places to develop proposals for a Town Deal, as part of the £2.35 billion Towns Fund. The Towns Fund is part of the government's plan for levelling up the UK economy. Towns across England work with the Government to address growth constraints and to ensure there is a course of recovery from the impact of COVID-19. The overarching aim of the Towns Fund was to drive the sustainable economic regeneration of Towns to deliver long term economic and productivity growth.

The Towns Fund Delivery Partner is a consultancy support team, appointed by DLUHC to support invited Towns to successfully access the Towns Fund. A learning programme for all Towns was a key part of this support, and in 2022 as part of the second phase of the Towns Fund, a Net Zero Programme was rolled out to support Towns in embedding net zero and sustainability goals within their Towns Fund projects.

The Towns Fund Net Zero programme supported Towns in four key areas: retrofit, new build, transportation and nature and greening. Experts provided detailed technical insights, supported knowledge exchange amongst Towns and encouraged service requests to address very particular technical and implementation challenges. 47 participants across 21 Towns took part across a series of 11 webinars and group calls.

In the context of the Towns Fund Delivery Partner programme, it has become clear that the procurement process is a critical and underutilised lever that local authorities possess to both decarbonise major projects within their local area as well as to significantly reduce their own organisational emissions. As a landowner, project instigator, and one of the largest operating entities in the area, local authorities have an advantageous position to leverage procurement to support net zero aims; in fact, the procurement regulations framework requires a consideration of the impact of public sector procurement on the local area.

Whilst a context-specific approach is necessary in order to reflect significant variability in the degree of influence a local authority has over the supply chain across different projects and sectors – e.g. depending on market competition, contract length, ability of SMEs to respond, material availability and affordability – this document sets out some general guidance to help local authorities leverage their procurement processes in their transition to net zero in the context of their Towns Fund projects. This guide is not intended to provide comprehensive recommendations on all aspects of a local authority's procurement, but should provide a starting point to consider how to incorporate net zero into procurement. Over time, this guide could be updated based on lessons learnt from Towns and best practices demonstrated. It is recommended that Towns work carefully with their procurement teams to develop the best approach for their specific project and Town.

## 2. WHAT DO WE MEAN BY NET ZERO?

To achieve **net zero** is to reduce greenhouse gas emissions (GHGs) and/or to ensure that any ongoing emissions are balanced by removals<sup>1</sup>. At a project level, the definition can be read as a reduction in the demand for energy and materials to a level that can be met solely by sources that do not emit greenhouse gases<sup>2</sup>. The UK government has set a legally binding commitment to reduce all GHGs to net zero by 2050, with an interim target to cut emissions by 78% by 2035. A local authority's own net zero targets should be in line with – or more ambitious than – this target. Furthermore, all Towns' projects should be plotted against this trajectory for a number of reasons, including to support the

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<sup>1</sup> <https://netzeroclimate.org/what-is-net-zero/>

<sup>2</sup> Arup & WBCSD (2021), "Net zero buildings: where do we stand?", <https://www.arup.com/perspectives/publications/research/section/net-zero-buildings-where-do-we-stand>

achievement of the local authority's net zero targets, as well as prepare the Towns and their projects for 'transition risks' (defined as societal and economic shifts towards a low-carbon future) including policy and regulatory risks, technological risks, market risks, reputational risks and legal risks<sup>3</sup>.

Procurement can support the achievement of net zero across the local authority, as well as for a particular project.

### ***Local Authority Level Emissions***

Many local authorities have net zero targets, and many of these would incorporate what is known as Scopes 1, 2 and 3. Scope 1 emissions result from activities directly under a Town's control e.g. fleet vehicle emissions; Scope 2 emissions are resulting from energy purchased by your Town for operations e.g. power in local authority owned buildings; Scope 3 emissions are those that occur indirectly as a result of the authority's activity, e.g., emissions that are a consequence of the authority's operations that occur at sources the authority does not own or control and that are not classed as Scope 2 emissions<sup>4</sup>.

### ***Capital Project Level Emissions:***

The emissions associated with a project will vary depending on the type of project, but it would typically include operational emissions (the ongoing emissions from energy use) and embodied emissions (emissions from the material and construction processes of a project). Together, operational emissions and embodied carbon emissions constitute what is known as Whole Life Carbon. Nature based solutions in the context of a capital project could contribute to sequestration, or carbon removal – which would reduce the overall carbon emissions of a project.

## **3. HOW DOES THE PROCUREMENT POLICY FRAMEWORK ENABLE NET ZERO?**

This briefing note explores the policy levers Towns can use to drive net zero outcomes through the procurement process, supporting net zero both directly and indirectly. Understanding the Procurement Policy Framework is essential for embedding net zero.

The Procurement Policy Framework is the patchwork of adopted policies and regulations that set the requirements for public sector procurement. While the procurement policy framework comprises numerous treaties, procurement directives (set at the European Union level and still complied with post-European exit) and national policy notes, there are several key documents that are particularly relevant to embedding net zero.

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<sup>3</sup> <https://www.gresb.com/nl-en/products/transition-risk-tool>

<sup>4</sup> <https://www.local.gov.uk/climate-change-reporting-guidance-local-authorities#:~:text=The%202021%20LGA%20Climate%20Change,3%20for%20their%20own%20operations.>

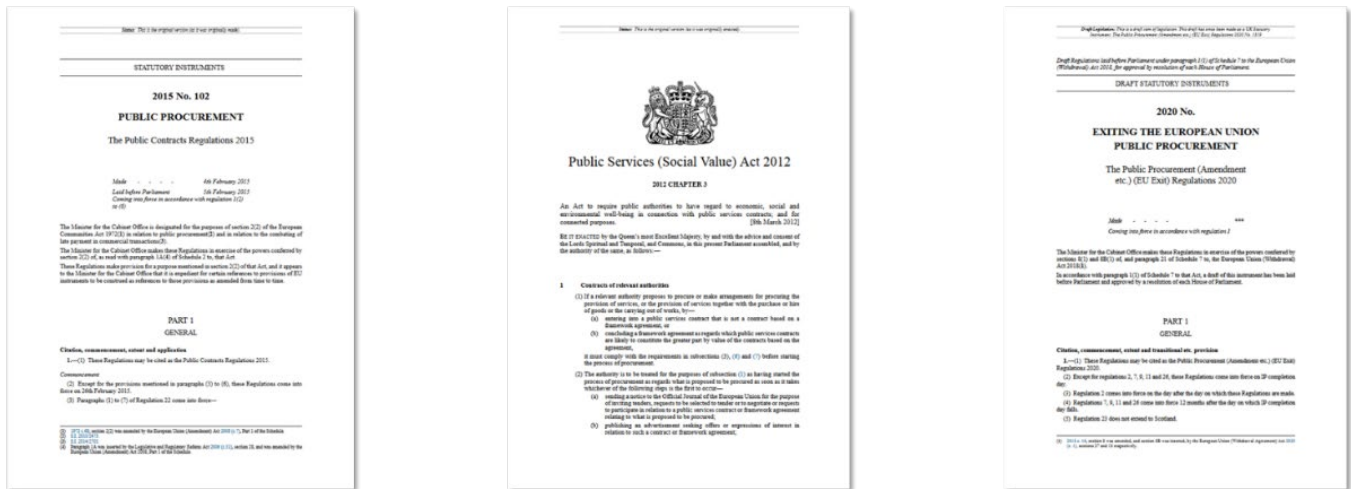


Figure 1 A picture of the three key policies referred to below<sup>5</sup>

Until the UK left the EU, The *Public Contracts Regulation 2015 (PCR2015)* (and subsequent amendments in 2016) was the primary document that regulated public procurement. This document set financial tender thresholds: above a certain value of tender, additional tendering requirements (such as publishing on a portal, advertising through the *Official Journal of the European Union (OJEU)*, or publishing lists of appointments over the financial year) come into force. In all procurements, contracting authorities are expected to “apply the principles of non-discrimination, equal treatment, transparency, mutual recognition and proportionality”<sup>6</sup>, regardless of the size or complexity of procurement.

As part of the European Exit, the *Public Procurement (Amendment etc) (EU Exit) Regulations 2020* is the document that supplanted the Public Contract Regulations. This document upheld the principles originally outlined within the PCR 2015, while adapting certain elements (such as where to public procurements) to a national rather than European database.

Both of these documents emphasised the need to ensure that tenderers are assessed on the basis of the Most Economically Advantageous Tender (MEAT)<sup>7</sup>, which looks beyond price towards wider economic benefits. In effect, this enables an authority to incorporate quality as well as price into their evaluation criteria.

The final critical document is the *Public Services (Social Value) Act 2012*, which requires that “at the pre-procurement stage you consider how what is to be procured may improve the social, environmental and economic well-being of the area”<sup>8</sup>. This means that public sector bodies have not just the ability but the obligation to act positively for the wellbeing of the area, including supporting net zero through procurement processes.

Collectively, these documents provide a policy and regulation basis to enable local authorities to incorporate net zero ambitions into their procurement processes. The rest of this note explores some of the most effective ways to do so.

<sup>5</sup> <https://www.legislation.gov.uk/>

<sup>6</sup> Crown Commercial Service, <https://www.gov.uk/guidance/public-sector-procurement-policy>

<sup>7</sup> Post-Brexit, this terminology has been updated to ‘Most Advantageous Tender’. <https://www.gov.uk/guidance/public-sector-procurement-policy>

<sup>8</sup> Crown Commercial Service, <https://www.gov.uk/guidance/public-sector-procurement-policy#the-legal-framework---international-obligations>

## 4. WHAT COUNCIL POLICIES AND APPROACHES CAN HELP SUPPORT A NET ZERO PROCUREMENT?

The documents outlined above are the national- and European-level documents that create the framework for procurement. At a local level, most Councils have several documents that can provide additional levers to support a net zero procurement approach:

- **Contract Standing Orders** will normally be adopted in line with the Council's constitution. This will outline the circumstances and internal processes relating to commissioning. There is an opportunity to incorporate requirements around social value (including net zero) into Council-wide processes, thus embedding it into day-to-day operations.
- **Social Value Guidance** has evolved as a best practice approach towards managing social value expectations. This guidance is often a several-page document that can be issued as an addendum to a tender to clearly set out the Council's interests and priorities for suppliers in terms of social value delivery. This may, for example, include a social value charter with key metrics or aspirations for the area. This type of document can be helpful market signalling for tenders, particularly when the desired social value outcomes are perhaps not as well understood as other, more common, outcomes (such as apprenticeships).

Incorporating net zero into Social Value guidance provides a clear indication that the Council is interested in newer, innovative approaches to supporting net zero projects. Central government has an expectation that a minimum weighting of 10% is given to social value as part of the evaluation criteria, and this will soon increase to 20% in 2023<sup>9</sup>. While this is only mandatory for central government departments, it is considered best practice for local and regional authorities.

Social value is larger than net zero and should incorporate elements such as inclusive economic growth, representative and enriching culture and heritage, and accessible and quality homes, transport and technologies.

## 5. HOW DO WE INTEGRATE A NET ZERO APPROACH INTO OUR PROCUREMENT?

Ultimately, a Town will want to encourage their suppliers to contribute towards a project level and/or overall local authority level net zero target, at no or minimal additional cost to the local authority. In order to do this, this section specifies how net zero can be embedded into the procurement process.

### The Procurement Process

The following diagram demonstrates a typical procurement process for a UK local authority:



Figure 2 Typical procurement process for a UK local authority

One of the key elements for a successful procurement is to ensure that, from the outset of the procurement process, a Town is clear on the expectations for bidders and consistent in how those expectations are communicated. Stakeholders should be identified at each stage of the process and early engagement is encouraged.

<sup>9</sup> [Guide-to-using-the-Social-Value-Model-Edn-1.1-3-Dec-20.pdf \(publishing.service.gov.uk\)](#)

This guide focuses on three key elements of the process: writing the brief / specification; engaging with the Council procurement team; and response and evaluation. Specific recommendations about these steps are outlined below.

## Writing the brief / specification

All public sector procurements must have a specification or briefing document that clarifies what the Council wants to buy. Procurement might relate to supply of products or services for a local authority overall, or for a specific project, and the net zero specification or briefing document may vary depending on the type of procurement.

Overall, there are two potential approaches to take, which would be defined at the brief/specification stage – both approaches could be used in combination, or one could be chosen depending on the context:

- **Requiring suppliers to set a corporate level target and greenhouse gas disclosure:** Specifying a corporate net zero level target and requiring disclosure on greenhouse gas emissions (GHG) reductions – a Town could use relevant aspects of the UK Cabinet Office Procurement Policy Note, as outlined in Figure 3 overleaf. The new UK policy is set for contracts over £5 million, so consideration should be given to the size of the contract, the type of company being procured (SMEs vs. large corporations) and achievability of the targets. As outlined in section 5.4, it is not advised that these specifications contribute to a ‘pass/fail’ in evaluation, but rather are considered as part of the quality evaluation using a point-score that corresponds to the quality of the response. This would provide incentive for companies without automatically excluding companies and potentially SMEs which have not yet set net zero targets.
- **Setting service or product level targets:** Specifying a project level emissions reduction target or emissions disclosure for a particular product or service, as well as potentially wider sustainability indicators. A Town could use relevant aspects of the National TOMs – Themes, Outcomes and Measures – which is a framework for delivering excellence in measuring and reporting social value, particularly the Core Environmental measures in the [2022 National TOMS update](#) as outlined in Table 1 overleaf. The 2022 update to the National TOMs (NT2022) has a key revision around decarbonisation against a specific benchmark. This includes a and they have a support tool in the form of a spreadsheet to enable users to work out GHG (greenhouse gas) emissions savings – available from the [Social Value Portal](#).

Additionally, Towns could consider developing wider sustainability metrics over and above what is recommended in the TOMs which could inform procurement, incorporating renewable energy procurement, whole life carbon accounting, biodiversity net gain (BNG) targets, electrification of transport, and more.

When procuring for a built-environment project, there are a number of net zero intervention areas that could be developed and so should be thought about for the specification, including: cooling systems; heating systems; energy efficiency; energy sources; space requirements; transport; waste and resources. At this stage of the procurement process it will be beneficial to consult a subject matter expert for the goods or services the Council is procuring to ensure that the specification is aligned to the objectives of the Council, including the net zero and wider sustainability targets set.



Table 1 The Core Environmental Measures of the National TOMs Framework

NT ref #	Measure description	Unit
NT31	Savings in CO2e emissions on contract achieved through decarbonisation (i.e. a reduction of the carbon intensity of processes and operations, specify how these are to be achieved) against a specific benchmark	CO <sub>2</sub> e (tonnes)
NT82	(New) Carbon emissions reductions through reduced energy use and energy efficiency measures – on site	CO <sub>2</sub> e (tonnes)
NT32	Car miles saved on the project as a result of a green transport programme or equivalent (e.g. cycle to work programmes, public transport or carpooling programmes, etc.)	car miles saved
NT85	(New) Resources (on the contract) dedicated to creating green spaces, improving biodiversity or helping ecosystems	£ invested
NT86	(New) Volunteering time for environmental conservation & sustainable ecosystem management initiatives	# volunteering hours
NT87	(New): Total volume of reduced plastics against a relevant benchmark	plastic saved (kg)
NT72	Hard to recycle ("H2R") waste diverted from landfill or incineration through specific recycling partnerships (e.g. Terracycle or equivalent)	H2R waste saved (tonnes)
NT88	(New) Reduce waste through reuse of products and materials	£ equivalent value

### **UK Cabinet Office Procurement Policy Note 06/21 (2021)**

The UK Cabinet Office Procurement Policy Note 06/21 (2021)<sup>10</sup> for central government departments, executive agencies, or non-departmental public bodies (In-Scope Organisations) ensures that for all contracts worth more than £5 million (excluding VAT), bidders must commit to reaching Net Zero by 2050. Additionally, bidders must provide a [Carbon Reduction Plan \(CRP\)](#). This CRP includes:

- Confirming the bidding supplier's commitment to achieving Net Zero by 2050 for their UK operations.
- Providing the supplier's current emissions for the sources included in Scope 1 and 2 of the GHG Protocol, and a defined subset of Scope 3 emissions.
- Providing emissions reporting in CO<sub>2</sub>e (Carbon Dioxide Equivalent) for the six greenhouse gases covered by the Kyoto Protocol
- Setting out the environmental management measures in effect, including certification schemes or specific carbon reduction measures adopted, and to be applied when performing the contract and that support achieving Net Zero by 2050
- Publication of the CRP on the supplier's website.

Figure 3 UK Cabinet Office Procurement Policy Note 06/21 (2021)

<sup>10</sup> PPN 0621 Taking account of Carbon Reduction Plans Jan22.docx (publishing.service.gov.uk)

## Engage with the Council procurement team

When the first draft of the brief is written and a Town understand its needs, it is critical to engage early with the Council procurement team, as they (in conjunction with the legal team) will be best able to advise on the appropriate procurement route for the specific need and finalise the procurement documents (including the brief / specification).

One of the common discussions in early procurement conversations for built environment projects is the merits of traditional versus design and build contracts (noting that these are only two of a number of potential contract options). In a traditional contract (sometimes referred to as '*design bid build*') the client appoints consultants to design the project, and prepare the tender documentation. A contractor is then appointed but is not responsible for the design of the building. In a design and build contract, the main contractor is appointed to design and construct the works. Some considerations to inform a discussion should include:

- What is the best contract procurement route to ensure that the supplier will be on board with sustainability ambitions?
- How can we leverage supplier delivery knowledge on sustainability into this project?
- How do we ensure that the employers' requirements have the correct level of specification to support our net zero aims?
- How do we monitor that these aims are being met through the contract?
- Would a pre-construction services agreement enable earlier detail on the integration of our sustainability requirements into the design?

Following this conversation, Towns may decide to revise the specification to account for the procurement approach and to provide clarity on the form of contract.

It is during this time that Towns should work with their procurement officer in terms of the social value approach to ensure it is properly interwoven in the tender documents. The adoption of a net zero approach as part of the social value consideration is most easily created through an explicit social value document issued with tender packs (see Section 4 above for more detail).

## Response and Evaluation

While an explicit social value document will make the Council's preferences and priorities clear, it is critical that this is accompanied by the incorporation of social value (including net zero approaches) as part of procurement evaluation criteria.

As outlined earlier, central government has an expectation that a minimum weighting of 10% is given to social value as part of the evaluation criteria, and this will soon increase to 20% in 2023<sup>11</sup>. While this is only mandatory for central government departments, it is considered best practice for local and regional authorities.

There are two key approaches to incorporating net zero into evaluation:

1. Incorporate the requirement have a net zero approach as part of the pass-fail qualification questions at the beginning of a tender. (See central government requirements for net zero procurements & evaluation criteria in Figure 3 above for more details).
2. Incorporate net zero considerations as part of the overarching quality evaluation, either by:

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<sup>11</sup> [Guide-to-using-the-Social-Value-Model-Edn-1.1-3-Dec-20.pdf \(publishing.service.gov.uk\)](#)

- a. Having a separate net zero quality evaluation question with a standalone weighting, or
- b. Incorporating into the social value evaluation (which forms a subset of the overall quality evaluation).

It is recommended that Towns adopt the second approach for contracts under £5 million in particular to ensure that suppliers are not automatically excluded, but rather are encouraged to work towards net zero targets and GHG reduction disclosure. A pass/fail approach in line with the UK Cabinet Office Policy could be considered for larger contracts of over £5 million, as prospective companies are more likely to be prepared for the requirements under the Cabinet Office Policy.

## **6. WHAT OTHER APPROACHES COULD BE CONSIDERED?**

In addition to the approaches outlined above, there are further actions that a Town can take to ensure their procurement and related processes are working towards net zero.

Towns could also consider:

- Targeting ISO 20400 compliance (Sustainable Procurement)
- Developing a methodology guidebook for integration of carbon considerations into procurement processes
- Developing a carbon focussed Supplier Code of Conduct
- Working with other local authorities to develop a consistent approach to procurement across the region
- Ensuring enough environmental standards are written into leases
- Developing a supplier engagement and monitoring programme, which could build towards the strengthening of procurement approaches related to net zero – as outlined in section

### **Supplier Engagement and Monitoring**

There is an important opportunity to work with suppliers post-appointment to monitor net zero performance through the delivery and operation of the project or contract. This will mostly revolve around monitoring of greenhouse gas emissions from the project. This could be written into the early specifications or could become a part of a voluntary supplier engagement programme.

This early dialogue around monitoring is still nascent amongst local authorities for most contract types and goes beyond the central government procurement requirements set out in the UK government's Procurement Policy Note 06/21 (see Figure 3). Despite this, moving towards the collection of suppliers' project-level carbon emissions data will enable local authorities to improve the transparency of their Scope 3 emissions and identify opportunities for further reductions.

Depending on the project/contract type, local authorities could integrate greenhouse gas disclosure requirements into their supplier onboarding process from the outset, or require emissions to be reported at regular intervals. This could also be incorporated as part of a voluntary programme, to support suppliers in progressing towards more stringent future requirements in procurement.

It is recommended that suppliers are engaged during the development of any monitoring processes, in order to ensure their capacity and willingness to respond to disclosure requests, and to align processes with suppliers' existing data collection methods to the extent possible to reduce the labour intensity of their reporting. This could be done either through holding direct engagement sessions with a selection of

suppliers and/or through collecting their feedback through a questionnaire. Internal local authority resource to manage collected data should also be carefully considered.

An example of how a County Council in Southern England has approached voluntary supplier engagement is outlined below.

**Example: Council Scope 3 supplier engagement**

Arup recently carried out supplier engagement and the development of a supplier questionnaire as part of a Scope 3 emissions assessment for a County Council in Southern England. Questionnaire questions were selected to enable the council to better understand their suppliers':

- Existing carbon reporting methodologies, frameworks and scope of emissions reporting
- Capacity and governance of emissions data collection
- Existing commitments and aspirations around Net Zero

Willingness and capacity to respond to future project-level carbon emissions disclosure requests.