

City of Melbourne
CO2 Performance Ladder
Feasibility Study

Report Ref

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Draft

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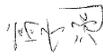


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Executive Summary

This is the final report for a feasibility study into adapting the Dutch CO2 Performance Ladder low carbon procurement tool for use by local governments in Australia.

Project background

Current approaches used for measuring and managing emissions have resulted in two key shortfalls:

- the inconsistent use of energy management tools by local governments – these tend to be voluntary, rather than through a structured and mandatory process
- the relevance and value of energy management tools to large, medium and small enterprises – businesses tend to perceive such systems as too difficult to implement

By adopting a common tool across the local government sector, there is the potential to minimise costs, enhance uptake and measure impact more robustly across suppliers.

The potential of the CO2 Performance Ladder

The CO2 Performance Ladder is a carbon management standard and procurement tool. It aims to help companies reduce their greenhouse gas emissions in projects and their supply chain.

Key features of the scheme include:

- A 5-level ‘ladder’ structure that allows for and rewards continuous improvement by the assessed companies.
- As companies move up the ladder, the procuring organisation applies a discount on the submitted tender price, and thus advantages the supplier through the procurement process.

In order to understand the potential benefits to Victoria of introducing the scheme via local government procurement, we took the quantified outcomes noted in Section 2.3 and applied it to local government expenditure.

The reductions available are substantial. For example, even applying 50% uptake within the four partner councils, 110,000 tonnes CO₂ per annum is more than the entire greenhouse inventories of the four partner councils.

Stakeholder interests and concerns

From interviews, we found that all councils are interested in investigating potential barriers in order to embed the CO2 Performance Ladder in council processes. Despite weighting non-financial criteria in tenders, council procurement decisions currently tended to be based on value for money.

Amongst suppliers, there is generally an interest in improving their carbon management. Large and medium suppliers requested a collaborative approach and support from council. In fact, having a strong and established relationship with council is considered critical to establishing a partnership approach. Small organisation may require additional support, tracking emissions seemed 'overwhelming'.

Comparable tools

Having assessed a range of comparable carbon tools, we believe that the CO2 Performance Ladder is the most appropriate low carbon procurement scheme. The major risk is in establishing its local presence. It may be possible to mitigate this risk by adapting a local software tool like GreenBizCheck to the CO2 Performance Ladder standard.

Implementation pathway

The implementation of the CO2 Performance Ladder (or similar) in Australia would require:

- The establishment of an Australian administrative body
- A strategy for market engagement and support

This study considered a range of options for the administrative body. Each has advantages and disadvantages.

Our suggestion is to work with an existing independent organisation to licence CO2 Performance Ladder with SKAO. This organisation might be an energy foundation, industry-based association (e.g. Green Building Council of Australia) or a not-for-profit.

We recommend that the organisation be carefully chosen for its complementary mission, services, skills, client base, partner network and revenue streams. Ideally, by taking on the CO2 Performance Ladder, this would enhance the robustness of the organisation's business.

We recommend building market engagement into the implementation plan. As the most fundamental level, it would include inviting suppliers to participate in the scheme's governance to ensure it addresses suppliers' interests and concerns.

Other strategies include:

- Commitment – clearly stating a long-term commitment to the scheme to signal the value of the scheme to the commissioning parties
- Bringing in common customers from sectors other than local government – for example, councils may share cleaning contractors with the health sector, so a commitment by the health sector to the scheme would be advantageous.
- Bringing in common customers from the same region as the council – this would make the scheme more attractive, especially for small and medium organisations serving multiple organisations in the same area (e.g. council plus the local university).

- Providing technical or financial support to suppliers – this would improve the benefit-cost consideration for suppliers
- A clear roadmap for implementation over time – this enables suppliers to prepare, trial and learn.

Potential stakeholders for a market engagement strategy include:

- Other Victorian local councils – either directly or through the Municipal Association of Victoria
- Local councils from other states
- The Green Building Council of Australia and Infrastructure Sustainability Council of Australia – both bodies are developing sustainable procurement credits for their schemes
- State Government commissioning bodies – e.g. Department of Health & Human Services, Level Crossing Removal Authority
- Major businesses in the geographical area of the partner councils of this project

A low carbon procurement scheme is a new initiative and there would be a need to build capacity within council and within suppliers. We recommend a staged introduction of the scheme to allow parties to test and learn. It also provides more time for the founding parties to bring together common customers that will build the buying power of the scheme.

Next steps

The next steps from this project are to:

1. Engage with potential commissioning parties
2. Engage with potential administration partners
3. Continued engagement with SKAO
4. Outline implementation and business model
5. Market testing with current and potential suppliers
6. Prepare business case

1 Introduction

1.1 Project aims

Arup has prepared this report on behalf of the Northern Alliance for Greenhouse Action (NAGA), the Cities of Melbourne, Port Phillip, Moreland and Yarra. It is the final report for a feasibility study into adapting the Dutch CO2 Performance Ladder low carbon procurement tool for use by local governments in Australia. The study is funded by the Collaborative Council Sustainability Fund Partnership Grants 2017.

The findings of this report informs the development of a preferred implementation pathway and business case for a low carbon procurement tool.

Why focus on greenhouse gas emissions?

There are many factors to consider in sustainable procurement, such as environmental impact, economic development and social justice. This project focuses on quantifying greenhouse gas emissions as a proxy for environmental impact in particular, as emissions are an objective and standardised measure of resource consumption.

Greenhouse gas emissions is a cross cutting indicator that touches on a number of significant sectors including waste, transport and energy use.

For suppliers, there is potentially a return on the investments made into reducing greenhouse gas emissions, such as lower energy costs, innovation drivers, reduced materials and waste-related costs and mitigation of future carbon pricing risks.

Why focus on procurement?

This project focuses on low carbon procurement in particular because:

- historically, councils have focused on reducing greenhouse gas emissions from planning, buildings, transport, waste and through working with the community
- most councils have a strong understanding of their Scope 1 and 2 corporate emissions, and some councils are now looking for reduction opportunities in their Scope 3 (supply chain) emissions, and
- there is an increase in sustainable procurement across business and government, as shown by the recent release of ISO 20400:2017 Sustainable procurement – Guidance and the new sustainable procurement category in the Infrastructure Sustainability scheme.

Most importantly, due to the significant buying power of Councils, there is an opportunity to use procurement incentives to influence greenhouse gas emissions

reductions in sectors beyond local government. Victorian local government spends \$7-8 billion on goods and services.¹

Why consider a carbon management tool?

Current approaches used to measuring and managing emissions have resulted in two key shortfalls:

- the inconsistent use of energy management tools by local governments – these tend to be voluntary, rather than through a structured and mandatory process
- the relevance and value of energy management tools to large, medium and small enterprises – businesses tend to perceive such systems as too difficult to implement

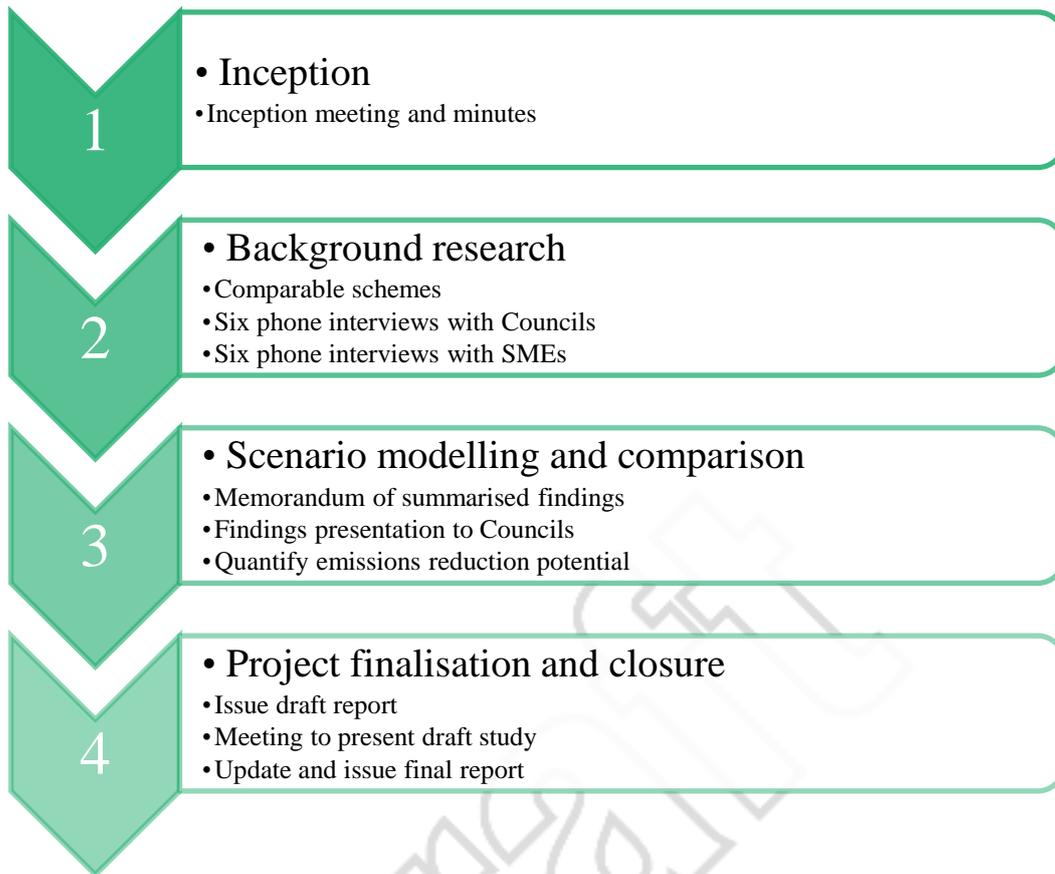
By adopting a common tool across the local government sector, there is the potential to minimise costs, enhance uptake and measure impact more robustly across suppliers.

1.2 Arup's approach

Figure 1 summarises our approach to the feasibility study. More details are available in Appendix B for detailed methodology. In summary, we have based our analysis and findings on information from stakeholder interviews, workshops with councils and economic modelling.

¹ VAGO - Local Government: 2015-16 Audit Snapshot

Figure 1 Overview of study approach

**Box 2 Structure of this report**

Section 3 provides the council context to the study

Section **Error! Reference source not found.** details the interests and concerns of suppliers

Section 5 investigates comparable schemes to the CO2 Performance Ladder

Section 6 provides pathways for implementation of the CO2 Performance Ladder

Section **Error! Reference source not found.** provides recommendations on making a business case

Appendix A provides further detail on the CO2 Performance Ladder

Appendix B details the project methodology

Appendix C contains excerpts from council tender documents

Appendix D provides the scheme assessment results

Appendix E details the costs associated with the CO2 Performance Ladder

Appendix F details the council implementation process

Appendix G details the supplier implementation process

2 Background and benefits of the CO2 Performance Ladder

2.1 How the scheme works

The CO2 Performance Ladder² is a carbon management standard and procurement tool. It aims to help companies reduce their greenhouse gas emissions in projects and their supply chain.

Key features of the scheme include:

- A 5-level ‘ladder’ structure that allows for and rewards continuous improvement by the assessed companies.
- As companies move up the ladder, the procuring organisation applies a discount on the submitted tender price, and thus advantages the supplier through the procurement process.

This approach means that the procurer takes into account an organisation’s carbon management maturity at the value / price assessment phase, rather than through non-financial categories. This enables the consistent application of carbon criteria across the industry (e.g. by removing the use of different category weightings).

The CO2 Performance Ladder is accredited under the following international standards:

- Accredited management system under ISO 17021 Conformity Assessment and Continuous Improvement (PDCA-cycle).
- International standards and methods such as ISO 14064, ISO 50001 and the GHG-Protocol.

For further information on the structure of the CO2 Performance Ladder, refer to Appendix A.

2.2 History of the scheme

The scheme is owned and administered by the Foundation for Climate Friendly Procurement and Business (SKAO), which is a Dutch-based not-for-profit independent body with the aim of promoting sustainable procurement.

In 2009, the Dutch government rail network management agency ProRail created the CO2 Performance Ladder. ProRail identified procurement as the most significant lever available for reducing greenhouse gas emissions.

Arup understands that the infrastructure sector suppliers requested the development of the scheme. We are not aware of what aspects of the business

² <https://www.skao.nl/documents>

environment would lead to this request. We discussed this with Arup's Amsterdam office, who are at level 5 of the CO2 Performance Ladder. Prior to the introduction of the scheme, ProRail had not been requesting carbon management data. It is possible that with once ProRail foreshadowed its interest in such data, that suppliers saw that it would be beneficial to harmonise the requests for information and tender assessments through a scheme such as the CO2 Performance Ladder.

Due to ProRail's monopoly of the rail infrastructure market, the CO2 Performance Ladder was adopted by infrastructure companies.

In 2011, the CO2 Performance Ladder was handed over to SKAO's new board. The tool has expanded to include use by small and non-infrastructure related organisations. Over 800 organisations in the Netherlands have achieved certification through the scheme. Small to medium enterprises make up 60% of certified companies.

2.3 Outcomes of the scheme in the Netherlands

In 2016, Dr. Martijn Rietbergen of the University of Utrecht conducted a comparative study on the greenhouse gas emissions inventories of fifty construction companies certified on the CO2 Performance Ladder.³

The study identified the following outcomes:

- Organisations with a certificate on the CO2 Performance Ladder have an annual CO2 reduction of 3.2%.
- Organisations who hold a certificate on the CO2 Performance Ladder reduce their greenhouse gas emissions two times faster than the average pace of greenhouse gas emissions reduction in the Netherlands.

2.4 Modelling the potential benefits to Victoria

In order to understand the potential benefits to Victoria of introducing the scheme via local government procurement, we took the quantified outcomes noted in Section 2.3 and applied it to local government expenditure.

This modelling is based on a number of significant assumptions including:

- **The 3.2% reduction is applied to all categories of expenditure** – In fact, we would expect this to vary depending on emissions reduction opportunities. For example, an infrastructure management company may have more reduction potential than an office-based company, or a company new to carbon management would have more opportunities for reductions compared to a company who has already reduced its emissions.
- **The expenditure patterns of the four partner councils of this project (Melbourne, Port Phillip, Moreland and Yarra) is representative across Victorian councils** – In fact, we would expect peri-urban and regional

³ <https://link.springer.com/article/10.1007/s12053-016-9436-9>

councils to look substantially different to the inner metropolitan councils (e.g. more expenditure on roads)

- **The carbon intensity figures (tonnes CO₂ per \$ industry spend) is relatively stable over a five-year period** – our collaborator Lifecycle Strategies⁴ has derived these factors using economic input-output data from 2014. These factors may vary with economic activity and changes to Australia's energy inputs.

Taking into account the above, Table 1 shows the potential emissions reductions for 100% and 50% uptake by council suppliers in each spend category.

The reductions available are substantial. For example, even applying 50% uptake within the four partner councils, 110,000 tonnes CO₂ per annum is more than the entire greenhouse inventories of the four partner councils.

It is worth noting that the most carbon-intensive expenditure category is waste management and landfill. It is ten times more carbon intensive per \$ spend than the next most intensive category, Roads. The least most carbon intensive per \$ spend are general business services and community support and events.

While this may suggest that councils focus their influence on waste management and landfill in particular, there are other constraints on prioritising by category such as infrequent contract renewals or limited competition in a market (e.g. monopoly).

Table 1 Potential reduction from applying CO₂ Performance Ladder benefits in Victorian local government procurement

	Scenario: 100% uptake		Scenario: 50% uptake	
	Four partner councils	All Victorian local governments	Four partner councils	All Victorian local governments
Figures are in tonnes of carbon dioxide per annum				
Total	110,000	910,000	55,000	455,000
Roads	16,000	130,000	8,000	65,000
Construction and Operations	15,000	130,000	7,500	65,000
Parks and Gardens	7,900	68,000	3,950	34,000
Community support and events	4,300	37,000	2,150	18,500
Repairs and maintenance	14,000	120,000	7,000	60,000
HR Services	7,300	63,000	3,650	31,500
Waste Management and Landfill	5,100	44,000	2,550	22,000
IT and telecoms	4,600	39,000	2,300	19,500
Facilities management	5,600	48,000	2,800	24,000
Business services	2,200	19,000	1,100	9,500

⁴ <https://www.lifecycles.com.au/>

	Scenario: 100% uptake		Scenario: 50% uptake	
Energy and utilities	7,800	67,000	3,900	33,500
Advertising and media	1,400	12,000	700	6,000
Parking	2,800	24,000	1,400	12,000
Cleaning	1,000	8,800	500	4,400
Library Services	990	8,500	495	4,250
Office Related supplies and services	1,500	13,000	750	6,500
Plant and vehicles	2,100	18,000	1,050	9,000
Insurance	470	4,100	235	2,050
Travel	840	7,200	420	3,600
Postage and Freight	680	5,800	340	2,900
Subscriptions and memberships	200	1,700	100	850
Water and sewage	3,800	32,000	1,900	16,000

3 Council context

3.1 Overview

This section sets out the findings of interviews we conducted with partner councils in October and December. It outlines the current approaches to managing greenhouse gas emissions, the use of non-financial criteria in procurement processes and the perceived benefits and barriers of a scheme like the CO2 Performance Ladder.

3.2 Organisational carbon management

The partner councils all measured their own organisational emissions (Scope 1 and 2) and significant supply chain emissions (Scope 3). Table 2 summarises the range of approaches and tools.

All four councils maintain carbon neutral certification through the Australian Government's National Carbon Offset Scheme. Typically, councils measured and offset the following Scope 3 emissions:

- paper use
- electricity and gas (buildings)
- liquid fuel (transport)
- water (embodied emissions)
- street lighting (electricity).

In addition to the four project councils, we additionally interviewed Benalla Rural City Council. Benalla Rural City Council is not using a carbon reduction tool in procurement or measuring its Scope 3 emissions. However, council expressed an interest in doing so.

Table 2 Summary of councils' carbon management

	City of Melbourne	City of Yarra	City of Moreland	City of Port Phillip	Benalla Rural City Council
Standard	NCOS carbon neutral certification	NCOS carbon neutral certification	NCOS carbon neutral certification	NCOS carbon neutral certification	None
Tools	Kinesis CCAP tool to input and analyse organisational carbon emissions	Kinesis CCAP tool to input and analyse organisational carbon emissions	None – maintain own GHG inventory	None - maintain own GHG inventory	None

3.3 Carbon in local government procurement

Councils consider greenhouse gas emissions as part of overall sustainable procurement processes. Table 3 summarises the criteria used by the councils we interviewed. In addition, excerpts from council tender documents are provided in Appendix C.

Table 3 Summary of councils' sustainable procurement

City of Melbourne	City of Yarra	City of Moreland	City of Port Phillip	Benalla Rural City Council
Tender document asks tenderers questions on carbon, data provision and offsetting	Sustainability checklist for tenders – mandatory 10% weighting to environmental sustainability considerations	Scores tenders on environment, sustainability and social outcomes with 5% weighting	Engaged ECO-buy to advise on sustainable procurement Sustainability officer involved in larger tenders in order to weight selection criteria	Tender document asks tenderers if they have an environmental management system

Examples of non-financial tender criteria that councils currently consider include:

Environmental sustainability

- Is your organisation carbon neutral?
- Is your organisation willing to offset greenhouse gas emissions?
- Is your organisation willing to provide environmental performance data?
- Does an environmental management policy/system exist? And is this certified and audited by an external authority?
- Outline how your company reduces its environmental impacts.

Social sustainability

- Does your organisation have a policy that address purchasing ethical and fair trade goods?
- Does your organisation have employment practices which create opportunity for the employment of disadvantaged people?
- Does the tenderer have an Equal Employment Opportunity policy?
- Does your organisation have a written and/or published policy regarding Social Sustainability or CSR?

Aboriginal and Torres Strait Islander Engagement

- Does your organisation have employment practices which create opportunity for the employment of Aboriginal and/or Torres Strait Islander people?

Economic development

- Does your organisation have a commitment to generate local employment through procurement, service provision or otherwise?

3.4 Council interests and concerns about a low carbon procurement tool

From interviews, we identified the following interests and concerns of implementing the CO2 Performance Ladder in the procurement process.

Across all councils

All councils are interested in investigating potential barriers in order to embed the CO2 Performance Ladder in council processes.

Despite weighting criteria in tenders, council procurement decisions tended to be based on value for money.

City of Melbourne

City of Melbourne is interested in suppliers taking ownership and responsibility for their offsets

Suppliers are already accustomed to supplying environmental data on request. Any future schemes would need to have a simple process for requesting information

City of Port Phillip

City of Port Phillip highlighted potential internal barriers to the CO2 Performance Ladder as including a reduced pool of vendors, therefore resulting in a cost implication for council

City of Port Phillip voiced concerns about small organisations facing barriers to participation due to the costs involved.

City of Moreland

Similar to City of Port Phillip, City of Moreland was concerned that small organisations would face barriers to participation due to the costs involved.

City of Moreland is interested in a scheme that would address broader sustainability issues, beyond greenhouse gas emissions.

Benalla Rural City Council

Benalla Rural City Council supported a staged approach for the potential introduction of the CO2 Performance Ladder in order to make the scheme accessible for small/medium suppliers.

Benalla Rural City Council expressed an interest in passing on information about this feasibility study to the Hume procurement group of councils in order to broaden discussion.

4 Supplier context

4.1 Overview

Arup interviewed six suppliers of Councils (Table 4) in order to identify any potential barriers or opportunities associated with adopting the CO2 Performance Ladder.

The six suppliers interviewed as part of this process represent a sample only, and were selected by the NAGA project manager in consultation with councils. The sample represent a range of organisational sizes across three sectors: waste, engineering and catering.

Table 4 Suppliers interviewed by Arup

Organisation sector	Size of organisation	Role of person interviewed	Date of communication
Catering	Medium	Victorian and NSW State Manager Leisure Sports and Entertainment	8/11/2017
Waste	Large	Executive Operations Victoria	9/11/2017
Waste	Medium	Project Manager	20/11/2017
Engineering	Medium	Regional Manager	24/11/2017
Catering	Small	Catering Manager	12/12/2017
Engineering	Medium	-	12/12/2017

4.2 Drivers

The suppliers nominated a range of drivers for participating in a low carbon procurement scheme. These included:

- bringing innovation to the contract
- becoming more progressive
- cost savings in energy use
- being a good corporate citizen, as emissions are currently high on the agenda for larger organisations.

Larger organisations tended to be tracking their greenhouse gas emissions in some form already, whether as a part of a contract or for internal operations (i.e. tracking power usage).

4.3 Barriers

Suppliers nominated cost as the most significant barrier to participating in a scheme. They would be looking for reliable information about the costs and benefits (financial and non-financial).

Suppliers indicated that they understood price to be the main factor for winning a local government tender, despite environmental weighting criteria. However, if

implementing the CO2 Performance Ladder was a contract requirement and councils were willing to incur the associated increased costs to the proposal, suppliers were willing to participate.

In addition, suppliers believed that providing emissions data could be difficult in some aspects. Suppliers may request assistance from council to reduce carbon emissions.

4.4 Capability

Large organisations tended to have a good understanding of carbon management, as they were already tracking emissions as part of several contracts.

Small and medium organisations tended not to be tracking greenhouse gas emissions directly, but rather, monitoring key indicators such as gas, electricity and fuel usage.

Suppliers understood the benefits to include upholding corporate social responsibility and potential savings in gas, electricity and fuel usage.

The small caterer indicated that energy costs (i.e. electricity) were not prohibitively expensive and as such, reducing carbon may not offer large savings. As a small not-for-profit, the organisation indicated that despite good intentions, they do not currently have the knowledge of carbon management or staff resources (paid and volunteer) to track greenhouse gas emissions.

The small caterer has a sustainability policy. We reviewed the policy and note that it covered sustainable produce, packaging, but not greenhouse gas emissions. The organisation said that tracking emissions was 'beyond comprehension'.

One medium sized engineering company nominated by councils declined to participate in an interview. The company did not see a connection between their business and the reduction of carbon emissions.

4.5 Wider sustainable procurement context

Part of the challenge of introducing a low carbon procurement scheme is that suppliers are rarely asked to quantify non-financial impact. This is a challenge that goes beyond greenhouse gas emissions.

Aside from this current study by local government, suppliers might participate in or seek support from a range of other programs and organisations. The Victorian Industry Participation Policy (VIPP) requires government departments and agencies to consider competitive local suppliers, including SMEs, when awarding contracts valued at:

- \$1 million or more in regional Victoria, or
- \$3 million or more in metropolitan Melbourne or for state wide activities.

In November 2017, the VIPP was reformed in order to ensure greater opportunities for small and medium enterprises and to boost local jobs, with a key

change including an introduction of a formal minimum 10 per cent local content weighting as part of project tender evaluation.⁵

A number of organisations are active in supporting sustainable procurement for Victorian local government (Table 5). Previous interactions with these organisations might enable suppliers to build up their capability to respond to a low carbon procurement scheme.

Table 5 Organisations active in sustainable procurement for Victorian local government

Organisation	Role in procurement
Industry Capability Network (ICN)	Administers the Victorian Industry Participation Policy (VIIP) and liaises with government agencies and bidders to match local SMEs with business opportunities.
Regional procurement excellence networks for local government	Supports local governments in joint procurement and other collaborative activities.
Procurement Special Interest Group	Provides input and representation to other levels of government and industry on priority procurement opportunities and challenges and establishes sector wide procurement training.
Municipal Association of Victoria (MAV) Procurement	Focuses on achieving better procurement outcomes for local government and helps councils to minimise compliance risk.
State Government	Provides supplier programs (i.e. VIIP) and best practice guidelines in order to assist in the procurement process
Procurement Australia	Competes with MAV and serves as a bulk buying body for many sectors, facilitating public tenders and establishing contracts for members.
ECO-Buy (subsidiary of EY)	Provides sustainable procurement advice and support based on international best practice.
Sustainability Victoria	Supplier code of conduct describes the minimum expectations in a range of areas as a commitment to ethical, sustainable and socially responsible procurement.

4.6 Summary of findings

Motivation

There was generally an interest in carbon management across all suppliers, with the exception of medium-sized engineering company, who did not participate in the interview (considered likely to be due to lack of understanding of how greenhouse gas emissions relate to their organisation).

⁵ <https://economicdevelopment.vic.gov.au/victorian-industry-participation-policy>

Barriers

There is a consensus across suppliers that the major barriers to implementation of the CO2 Performance Ladder are costs and the requirement to provide data on carbon emissions.

Capability

The main difference identified across categories was in terms of the capability of small versus large suppliers (rather than different sectors), as the latter tended to be tracking their greenhouse gas emissions in some form already.

Support required

Large and medium suppliers requested a collaborative approach and support from council. In fact, having a strong and established relationship with council is considered critical to establishing a partnership approach.

However, small organisation may require additional support, tracking emissions seemed overwhelming.

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5 Schemes comparable to CO2 Performance Ladder

5.1 Overview

As part of understanding the feasibility of introducing the CO2 Performance Ladder in Victoria, we assessed the suitability of comparable schemes that councils might adopt to support low carbon procurement.

This section outlines the short list that we assessed and the results of that assessment.

5.2 Short listing tools for assessment

We reviewed:

- Standards – best practice requirements, specifications, guidelines or characteristics that can be used consistently to ensure a system being considered is fit for their purpose.
- Tools – assist with the implementation of a standard, specification or an outcome.

These standards and tools vary in their:

- Scope of assessment – e.g. wider sustainability criteria versus greenhouse gas emissions
- Unit of assessment – e.g. building, product or organisation
- Pricing
- Level and location of support and administration – e.g. Australian or international
- Certification process – e.g. third party, self-assessed

In determining the eligibility of tools and schemes for inclusion in the assessment process, we looked for a scheme that:

- Covers carbon and can quantify carbon benefits
- Addresses carbon at the organisational level
- Can be independently certified

Table 4 shows that four schemes met the eligibility criteria. These were:

- CO2 Performance Ladder – a combined standard and tool
- Carbon Trust Standard – a standard
- National Carbon Offset Standard – a standard
- GreenBizCheck – a tool

Table 6 Eligibility of tools and schemes for assessment in this study

	Quantifies carbon savings	Addresses organisational level performance	Independent certification
CO2 Performance Ladder	✓	✓	✓
Carbon Trust Standard	✓	✓	✓
National Carbon Offset Standard (NCOS)	✓	✓	✓
GreenBizCheck	✓	✓	✓
GHG Protocol (Scope 3 Standard)	✓	✓	✗
ISO 20400: 2017	✓	✓	✗
ISO 50001: 2011	✗	✓	✓
Built Environmental Sustainability Scorecard (BESS)	✗	✗	✗
Take 2 Pledge	✗	✓	✗
Good Environmental Choice Australia (GECA)	✗	✗	✓

5.3 Assessment criteria

To assess the four short listed tools, we developed an assessment framework comprising of a number of criteria, a scoring key and visual summary. The framework provides a systematic approach to assessing the schemes in terms of:

- Fee for applicants
- Resourcing required by Council
- Resourcing required by supplier
- Availability of support
- Relevance to procurement
- Quantification of carbon
- Ability to rank suppliers based on maturity of approach or carbon outcomes
- Certification process

Table 7 shows the assessment criteria. We used a 5-point scoring system to indicate the performance of each scheme against the criteria. The colours used in the assessment indicate:

- Red – low level of compliance with criterion (score 1-2)
- Yellow – medium level of compliance with criterion (score 3-4)
- Green – high level of compliance with criterion (score 5)

We assessed each criterion individually and have not aggregated the results. This allows stakeholders to consider the strengths and weaknesses of each scheme, without the assessment weighting one criterion over another.

Table 7 Assessment framework

Criterion	Rating	Definition of rating
Fees for applicants	Red	Low – high fees associated with the scheme (\$7000+). This may include a certification or licencing fee.
	Yellow	Medium – some fees associated with the scheme (\$1000-7000).
	Green	High – no or low costs associated with the scheme, which may be one-off (\$0-1000).
Resourcing required by Council	Red	Low - a substantial time commitment is required by Council staff to participate in the scheme application.
	Yellow	Medium - Council’s involvement in applying the scheme is moderate (a few days).
	Green	High - Council’s involvement in applying the scheme is minimal.
Resourcing required by supplier	Red	Low - a substantial time commitment is required by the supplier to use the scheme and complete the assessment.
	Yellow	Medium - a moderate time commitment is required by the supplier to use the scheme and complete the assessment (5-10 days).
	Green	High – the scheme can be rapidly applied.
Availability of local support	Red	Low – the scheme only has an international presence.
	Yellow	Medium – the scheme has a presence in Australia.
	Green	High – the scheme has a strong local presence in Australia.
Relevance to procurement	Red	Low - the scheme is not directly relevant to procurement and would be difficult to apply.
	Yellow	Medium – the scheme may be applied to procurement, despite not being developed for this purpose.
	Green	High – the scheme was specifically developed for use in procurement.
Quantification of carbon	Red	Low – the scheme does not quantify carbon.
	Green	High – the scheme allows for quantification of carbon.
Ability to rank suppliers based on maturity of approach or carbon outcomes	Red	Low – the scheme does not allow ranking of suppliers.
	Yellow	Medium – the scheme allows for some differentiation of suppliers.
	Green	High – the scheme easily ranks suppliers based on maturity of approach.
Certification process	Red	Low – Self assessment.
	Yellow	Medium – May either be self-assessed or certified independently.
	Green	High – Requires independent certification.

5.4 Results and recommendation

A full copy of the assessment results using the framework is provided in Appendix D. A summary of the key findings from the assessment is provided in Table 8. Appendix E also includes data on the cost of participation in the CO2 Performance Ladder in the Netherlands.

Our key findings are:

- The CO2 Performance Ladder is designed to facilitate low carbon procurement. This makes it relatively low risk for use in this context.
- Other schemes like the Carbon Trust Standard and NCOS could be used in the same way, as they focus on carbon across organisations.
- A significant barrier to the Carbon Trust Standard is the requirement for two years' worth of energy data. In comparison, the CO2 Performance Ladder enables newcomers to tackle Level 1.
- A significant barrier to NCOS is that certification is only available for carbon neutrality. Intermediate stages are not recognised or certified, so it is not possible to differentiate and reward improvements in performance.
- As GreenBizCheck is an Australia-based tool, it may be possible to adapt it to a preferred standard (e.g. CO2 Performance Ladder) so that it is part of a locally served low carbon procurement scheme.

Taking into account the tool assessment, we believe that the CO2 Performance Ladder is the most appropriate low carbon procurement scheme. The major risk is in establishing its local presence. It may be possible to mitigate this risk by adapting a local software tool like GreenBizCheck to the CO2 Performance Ladder standard.

Regardless of which is the preferred scheme, we believe that its success rests largely on factors aside from the scheme architecture. We believe that this will depend mainly on:

- Councils' willingness to reward engagement with the scheme – giving substantial price discounts or category weighting to suppliers achieving success in the scheme)
- Market readiness for the scheme – capability and resourcing
- Council buying power in particular sectors – scale provides incentive for participation
- Market confidence that the scheme has a long term future – this reassures suppliers that it is worth adopting new practices and upskilling
- Level of support for suppliers – technical advice, guidance, financial support
- Ability for council to demonstrate minimal negative impact on value for money for constituents

Table 8 Summary of key assessment results

Tool	Key Assessment Results
CO2 Performance Ladder	<p><u>Strengths</u> Specifically designed for procurement and emissions Quantifies carbon Ranks suppliers based on maturity of approach (5 levels) Independently certified</p> <p><u>Weaknesses</u> Significant time associated with set up for suppliers Relatively high costs (please refer to Appendix E for further break down of costs provided by SKAO) Not established in Australia</p>
Carbon Trust Standard	<p><u>Strengths</u> Quantifies carbon Independently certified International benchmark</p> <p><u>Weaknesses</u> Organisations need to provide 2 years' worth of energy data Not specifically designed for procurement Not established in Australia</p>
National Carbon Offset Standard (NCOS)	<p><u>Strengths</u> Quantifies carbon Independently certified Councils are already NCOS certified</p> <p><u>Weaknesses</u> Certification is only available for carbon neutrality; therefore, intermediate levels are not recognised and suppliers are unable to be differentiated Not specifically designed for procurement</p> <p>Note: The Australian Government is currently reviewing the fee structure for NCOS</p>
GreenBizCheck	<p><u>Strengths</u> Interactive and customisable interface which provides tailored action plans for suppliers Local presence in Australia and potential to be adapted into a local government procurement version Broad consideration of sustainability and social issues Aligned with ISO 20400 framework Option to become certified by Bureau Veritas</p> <p><u>Weaknesses</u> Requires resourcing from Council to score and weight different components</p>

6 Pathways for implementation of a low carbon procurement scheme

6.1 Overview

The establishment of the CO2 Performance Ladder (or similar) in Australia would require:

- The establishment of an Australian administrative body
- A strategy for market engagement and support

This section provides our assessment and recommendations on the two above challenges.

Once the scheme is established, Appendix F and Appendix G provides further detail on how individual councils and suppliers could adapt their processes to make use of the scheme.

6.2 Administrative body

The responsibilities of the scheme administrator would include:

- Interpreting the standard
- Developing guidance
- Revising the scheme and making improvements to meet the needs of commissioning parties and suppliers
- Certifying suppliers
- Resolving disputes or issues
- Keeping a register of certified bodies
- Fundraising

Table 9 outlines a range of options for an administrative body. Each has advantages and disadvantages. We believe the key concerns would be:

- How the body is initially funded and is underpinned in the long term
- Ability to demonstrate independence and avoid conflicts of interest
- Capability in the governance, technical and software aspects of the scheme
- Synergies with existing activities

Each of these options require extensive discussion with partners before councils come to a preferred business model.

Our suggestion is to work with an existing independent organisation to licence CO2 Performance Ladder with SKAO. This organisation might be an energy foundation, industry-based association (e.g. Green Building Council of Australia) or a not-for-profit.

We recommend that the organisation be carefully chosen for its complementary mission, services, skills, client base, partner network and revenue streams. Ideally,

by taking on the CO2 Performance Ladder, this would enhance the robustness of the organisation's business.

It may even be that without the CO2 Performance Ladder, the organisation might face viability challenges. In that case, the establishment of the low carbon procurement scheme, with a committed group of council commissioning parties, would be a win-win for all stakeholders.

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Table 9 Options for administrative structure

Option	Precedent	Rationale	Advantages	Disadvantages
Within one or more council	Built Environment Sustainability Scorecard (BESS), initiated by Moreland, now administered by CASBE	Councils would be the one the first primary adopters of the scheme. Hosting the scheme within a council would minimise start up challenges, as there is an existing organisational structure.	Retain control of the scheme Rapid deployment, drawing on existing structures Councils have a high degree of trust within business and community	Resourcing may be unsustainable May conflict or distract from other organisational priorities
New organisation	Infrastructure Sustainability Council of Australia, hosting ISCA	A new body could draw in representatives from founding commissioning parties (e.g. councils), hold initial funding contributions, and drive the difficult start-up phase of the scheme.	Primary focus on the scheme, enables drive Contains risk to a single body Allows equal participation from a range of partners Opportunity to innovate	Administrative burden of setting up a new body No existing brand awareness to draw on Inefficiencies in starting anew
State Government agency	Sustainability Victoria and Green Star, ProBuild and CO2 Performance Ladder	The State Government could host the scheme and it may spin out into a standalone body. This would minimise start up challenges, as there is an existing organisational structure.	Rapid deployment, drawing on existing structures Potential for more funding State Government endorsement and therefore industry awareness	Councils may lose control of the scheme May conflict or distract from other organisational priorities
SKAO Australia	Carbon Trust Australia, which became Low Carbon Australia	SKAO is experienced in rolling out the scheme to other jurisdictions, so the establishment of SKAO Australia could draw on the lessons learned previously.	Draw on global support, resources and tools Low risk with known ways of working Contains risk to a single body	Administrative burden of setting up a new body No local brand awareness
Existing organisation	Positive Charge by the Moreland Energy Foundation	An existing not-for-profit organisation could take on the administration of the CO2 Performance Ladder as a service to a range of founding commissioning parties. This would minimise start up challenges, as there is an existing organisational structure.	Access to potentially complementary local skills and knowledge Rapid deployment, drawing on existing structures Draw on existing brand	May conflict or distract from other organisational priorities

Option	Precedent	Rationale	Advantages	Disadvantages
Municipal Association of Victoria	CASBE	As the association for local government in Victoria, MAV could host a low carbon procurement scheme on behalf of councils.	Access to existing council network Draw on existing brand Rapid deployment, drawing on existing structures	May conflict or distract from other organisational priorities
Victorian Local Government Association				
Local Government Professionals (LGPro)				

6.3 Market engagement

To maximise uptake of the low carbon procurement scheme (and therefore its impact), the founding commissioning parties (including councils) will need to make participation attractive to suppliers.

There is a range of scenarios that would make participation attractive to suppliers:

- Opportunity to bid on significant contracts (i.e. council buying power).
- Other clients or purchasers have made the same or similar requests (i.e. the cost of fixed investment in emissions management could lead to success across the organisation)
- Opportunity to differentiate in a competitive environment (i.e. where services are commoditised and a supplier wants to compete on factors aside from price)
- Opportunity to demonstrate existing capability (e.g. companies that already participate in CO2 Performance Ladder in their Netherlands office or are already NCOS certified)
- Where a long-term contract is now up for renewal, so it is worth making an investment now to secure the long-term relationship
- Alignment with current or potential future risks or reporting obligations (e.g. carbon pricing)

We recommend building market engagement into the implementation plan. As the most fundamental level, it would include inviting suppliers to participate in the scheme's governance to ensure it addresses suppliers' interests and concerns. This is part of the role of SKAO's Procurement Platform (see Appendix A).

Other strategies include:

- Commitment – clearly stating a long-term commitment to the scheme to signal the value of the scheme to the commissioning parties
- Bringing in common customers from sectors other than local government – for example, councils may share cleaning contractors with the health sector, so a commitment by the health sector to the scheme would be advantageous.
- Bringing in common customers from the same region as the council – this would make the scheme more attractive, especially for small and medium organisations serving multiple organisations in the same area (e.g. council plus the local university).
- Providing technical or financial support to suppliers – this would improve the benefit-cost consideration for suppliers
- A clear roadmap for implementation over time – this enables suppliers to prepare, trial and learn.

Potential stakeholders for a market engagement strategy include:

- Other Victorian local councils – either directly or through the Municipal Association of Victoria

- Local councils from other states
- The Green Building Council of Australia and Infrastructure Sustainability Council of Australia – both bodies are developing sustainable procurement credits for their schemes
- Stage Government commissioning bodies – e.g. Department of Health & Human Services, Level Crossing Removal Authority
- Major businesses in the geographical area of the partner councils of this project

A low carbon procurement scheme is a new initiative and there would be a need to build capacity within council and within suppliers. We recommend a staged introduction of the scheme to allow parties to test and learn. It also provides more time for the founding parties to bring together common customers that will build the buying power of the scheme.

It may be possible to introduce the scheme over a number of years (e.g. 1-3 years). Having established the scheme, broad steps to approach the market could be:

1. Notify existing suppliers and past suppliers across all expenditure categories that Council will be request quantitative energy and emissions information as part of tenders by 2019. From 2020, council will be rewarding involvement in the scheme. Commit to having the scheme in place for at least five years.
2. From 2019, participation is optional. The scheme is available as a resource for reducing greenhouse gas emissions. Release support material and resources. Articulate the business case of the scheme, such as fuel and materials savings, risk management and innovation.
3. Implement the incentive in 2020.
4. Bring in other commissioning parties as soon as they are ready to participate.
5. Report results annually including updated case studies.

The staging plan above is based on introducing the scheme across all council expenditure categories. As different sectors will have different opportunities, level of knowledge and contract structures, we expect the scheme to initially be more successful in some categories. This is useful to understand, as it will allow councils to understand what contributes to scheme uptake by the market.

7 Next steps

This report will inform the development of a preferred business model and the associated business case. Here we outline broad steps to build on this study.

1. Engage with potential commissioning parties

This includes speaking to major procurers such as the Level Crossing Removal Authority and Department of Health & Human Services. If they are interested in being founding commissioning parties to the scheme, then their early involvement in shaping the scheme will be useful and necessary.

2. Engage with potential administration partners

The costs, logistics and effectiveness of the scheme will partly depend on who is administering the scheme. Therefore, the business case must account for the preferred administration structure. As outlined in Section 6.2, there are a range of organisations to approach as potential hosts of the scheme.

3. Continued engagement with SKAO

SKAO has provided a high degree of knowledge and encouragement through this project. There will be critical financial and uptake data to transfer over to the business case, as the project progresses.

4. Outline implementation and business model

Work with stakeholders to outline the preferred implementation models. Identify sources of revenue and costs in order to understand the range of fees and support available to suppliers.

5. Market testing with current and potential suppliers

Set a baseline for supplier willingness to adopt. This includes questions like:

- If the scheme provided a certain level of price advantage, how much would your company be willing to invest in carbon management?
- If the scheme provided a certain level of support, would that address your concerns?

6. Prepare business case

Analyse the costs and benefits of the preferred implementation model and compare with alternatives that could meet councils' sustainability goals. The business case should account for a range of direct and indirect tangible and intangible benefits and costs.

Benefits

- Direct emissions reduction benefits, similar to that quantified in Sections 2.3 and 2.4
- Organisational capacity building and readiness for future constraints in carbon

- Risk management, such as reduced reliance on energy resources
- Achievement of councils' community emissions reduction target goals

Costs

- Direct and indirect to council
- Direct and indirect to suppliers
- Distribution of costs and benefits to different types of organisations (e.g. disproportionate costs to small organisations)

Alternatives

- Acknowledgement that 'business as usual' is not a realistic scenario for achieving council goals.
- Acknowledgement that the majority of emissions reductions would not appear on councils' organisational or community greenhouse gas inventories.

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Appendix A

Further detail on CO2
Performance Ladder

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The CO2 Performance Ladder has five levels, with requirements coming from four different angles:

- Insight - compiling carbon emission inventories;
- Reduction - setting and achieving emission reduction targets;
- Transparency - ensuring transparency of the company's carbon footprint and energy performance; and
- Participation - collaborating with supply chain partners to reduce supply chain emissions.

The five certification levels (illustrated in Figure 2 below) indicate the maturity of the company's energy and carbon management system. Levels 1 to 3 deal with GHG emission within the company (Scope 1 and 2) and levels 4 and 5 considers GHG in the supply chains (Scope 3).

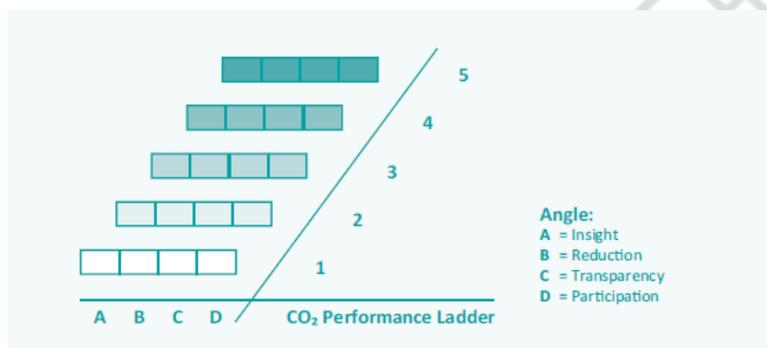


Figure 2 Schematic illustration of CO2 Performance Ladder

For each level, requirements are defined for the company (i.e. organisational boundary and size) and its projects.

The CO2 Performance Ladder is currently used by over 75 local authorities and national governments in the Netherlands as a green procurement tool. With the use of this instrument in tenders, organisations can encourage suppliers to reduce greenhouse gas emissions, by favouring companies with stronger emissions reduction performance.

An independent audit by a third party organisation is conducted to verify whether the requirements meet the aspired certification level, and the company is awarded a certificate aligned to the achieved level. This audit is repeated annually to ensure continuous improvement. The level that a company has reached on the CO2 Performance Ladder is translated into a so-called 'award advantage'. The higher the level on the CO2 Performance Ladder, the higher the advantage for the company in the tender, in the form of a fictitious notional discount on the tender price.

Appendix B

Methodology

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Stage 1: Inception

Arup consulted with council to confirm project objectives, methodology and deliverables. A scope change notification was issued to the project manager regarding alterations to the meeting schedule and inclusion of a regional council in the interview process.

Stage 2: Background research

1. Arup conducted initial research on existing tools in the Australian market, ranging in focus from carbon to broader sustainability initiatives. On consultation with the project team, eligible schemes for inclusion in the assessment process had to meet the following criteria:

- Covers carbon and can quantify carbon benefits
- Addresses carbon at the organisational level
- Can be independently certified

Four short listed tools were then assessed against the following criteria:

- Fee for applicants
- Resourcing required by Council
- Resourcing required by supplier
- Availability of support
- Relevance to procurement
- Quantification of carbon
- Ability to rank suppliers based on maturity of approach or carbon outcomes
- Certification process

Assessment criteria is further detailed in Section 5.3.

2. Sustainability and procurement representatives from the four project councils (City of Melbourne, City of Moreland, City of Yarra and City of Port Phillip) were subsequently interviewed by Arup via phone in order to establish current sustainable procurement processes and the potential applicability of the CO2 Performance Ladder. A regional council was also interviewed by Arup to provide a different insight into any potential barriers or opportunities for implementation in a broader context.
3. Furthermore, a staff member in the Arup Amsterdam was interviewed in order to identify any barriers experienced in the Netherlands and the relevance of the CO2 Performance Ladder to the Australian market.
4. Arup interviewed six suppliers of Councils via phone in order to identify any potential barriers or opportunities associated with adopting the CO2 Performance Ladder. The six suppliers interviewed as part of this process represent a sample only, and were selected by the NAGA project manager in

consultation with councils. The sample represent a range of organisational sizes across three sectors: waste, engineering and catering.

Stage 3: Scenario modelling and comparison

Arup determined the carbon intensity for a range of spending categories for local councils within Victoria.

Table B1 Data sources

Element	Source
Spend per category	Data provided by Client - Provided for Moreland, Yarra, Melbourne and Port Phillip City Councils
Benchmarks	Data provided by Arup
Carbon Output Reduction Factor	SKAO
Scaling factor to all Victorian local governments	Based on confidential data held by Arup

A range of spending categories have been provided for the four local councils, using these categories an appropriate benchmark detailing the impact kg CO₂ per AUD has been applied. As the benchmarks are industry based, profit and tax are inclusive, thus no adjustment was necessary.

Not all the local government spending categories directly align to a benchmark, hence, an assumption that such categories would be aligned to the closest match. However, as spending on energy and utilities did not align to any of the provided benchmarks, it appeared most appropriate that a mean of all benchmarks would best represent the carbon impact.

The total carbon output has been rebased using two methodologies. As the benchmarks are provided in 2014 values, the spend per category has been rebased to 2014 for each of the years which have been analysed. The secondary method rebased benchmarks to 2017 consistent with CP as well as the spend for each year.

A reduction factor of 3.2% has been applied to the total carbon output in order to represent the impact of local government using only environmentally conscious suppliers. A factor has been applied to the carbon output for the four councils in order to represent the emissions across all Victorian councils. An assumption was made that local government income from taxation is equivalent to expenditure. This formed the basis of the factor which divided total Victorian Local Government taxation by the rates and charges collected by the four councils provided in 2015-2016.

Stage 4: Project finalisation and closure

Arup issued a draft report to the project team, with a meeting to present and discuss findings to follow.

Appendix C

Excerpts from council tender documents

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Figure C1 Excerpt from City of Melbourne invitation to tender document

Environmental Sustainability		YES	NO
1	Is your organisation carbon neutral? A carbon neutral organisation may be certified under the National Carbon Offset Standard or purchase offsets equivalent to externally verified greenhouse gas emissions. If you answered Yes, please provide details: Click here to enter text.		
2	If you answered No to question 1, is your organisation willing to offset the greenhouse gas emissions associated with the provision of this service?		
3	Will your organisation be willing to provide environmental performance data to Council if requested? For example, carbon emissions, carbon offsets purchased energy usage, water consumption, waste generation and data on other material environmental impacts.		

Figure C2 Excerpt from City of Yarra sustainability checklist for tenders

1 Environmental Sustainability	YES	NO
1.1 Do you have a written company Environmental Management System (EMS), and/or other policies, strategies, initiatives, accreditations or certifications, voluntary memberships etc in place to reduce the environmental impact of your business? If yes, please attach a copy of relevant documents.	<input type="checkbox"/>	<input type="checkbox"/>
1.2 How is this commitment embedded practically in your organisation and communicated to staff (e.g. training, procedures, manuals etc)? []		
1.3 Do you audit and/or report on your environmental performance (e.g. through the Global Reporting Initiative or other)? If so, please briefly outline details and attach or link a relevant example. []	<input type="checkbox"/>	<input type="checkbox"/>
1.4 Please briefly outline some of the key highlights of how your company reduces its environmental impacts and/or generates positive impacts in general, or specifically related to the kind of work described in this tender, making reference to past initiatives if applicable. Mark irrelevant categories N/A.		

Figure C3 Excerpt from City of Moreland tender document

3.9B Environmental Management Policy

Select the option that best describes your company

An environmental management policy does exist	<input type="checkbox"/> Yes <input type="checkbox"/> No
An environmental management policy exists and is certified and audited by an external authority	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> In progress (provide evidence)
An environmental management policy exists and is certified and audited by an external authority and the organisation is carbon neutral or approaching carbon neutral	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> In progress (provide evidence)

Figure C4 Excerpt from Benalla Rural City Council Environmental Management Questionnaire

1 Environmental Policy and Management		Yes	No
1.1	Is there a written company environmental policy? <i>If yes provide a copy of policy.</i>	<input type="checkbox"/>	<input type="checkbox"/>
	<i>Comments:</i>		
1.2	Does the company have an Environmental Management System certified by a recognised independent authority (e.g.: Aust Standards, VicRoads)? <i>If Yes provide details:</i>	<input type="checkbox"/>	<input type="checkbox"/>
1.3	Is there a company Environmental Management System manual or plan? <i>If yes provide a copy of contents page(s).</i>	<input type="checkbox"/>	<input type="checkbox"/>
	<i>Comments:</i>		

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Appendix D

Scheme assessment results

Draft

Refer to excel

Draft

Appendix E

Costs associated with CO2 Performance Ladder

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Costs associated with the CO₂ Performance Ladder which council/suppliers would incur if they were to become certified include an initial registration cost to the secretariat, consultant costs to obtain certification, and ongoing costs of annual re-audits. The CO₂ Performance Ladder takes approximately 7-8 months to set up.

Discussion with SKAO and information from a study of 18 large organisations in the Netherlands (2016/2017) indicated that the average cost associated with setting up and maintaining the CO₂ Performance Ladder was between:

- \$7,500 AUD and \$32,000 AUD

The average cost was dependent on several factors, including the following:

- The size of the organisation
- The complexity and activities of the organisation
- The level of certification (1-5)
- The year of implementation of the system (the costs tended to decrease over the years).

Further based on the research within 18 organisations in 2016/2017, data provided by SKAO indicated that the costs were distributed as follows:

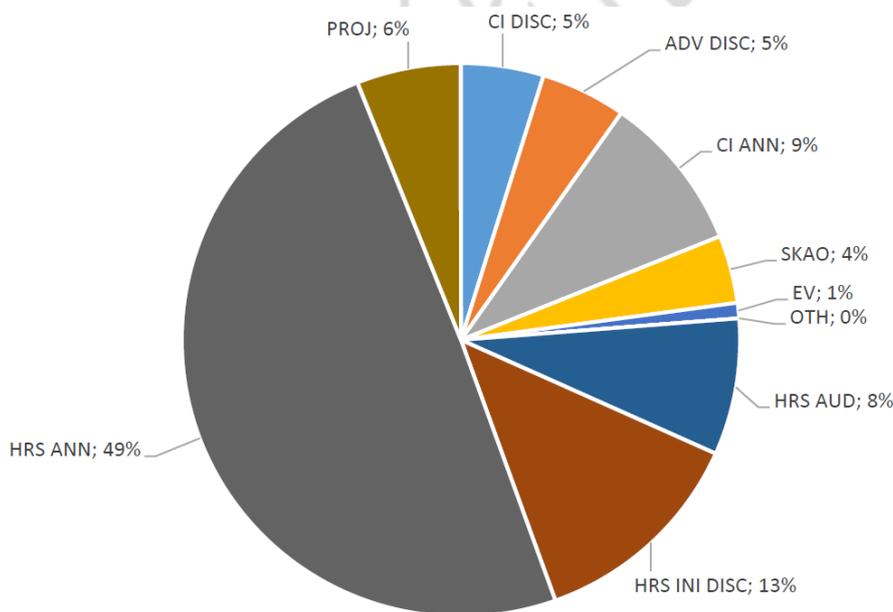


Figure E1 Distribution of costs associated with the CO₂ Performance Ladder as per research conducted within 18 organisations in 2016/2017

The following comprises the CO₂ Performance Ladder costs illustrated in the pie chart:

Table E1 Distributed costs for CO2 Performance Ladder

HRS ANN	Annual costs for the organisation man hours for maintenance of the CO2PL
HRS AUD	Annual costs for the organisation man hours for audits (internal and external)
HRS INI DISC	Costs man hours for initial certification (spread over 5 years)
CI DISC	Costs for Certifying Body (CB) for initial audit/certification CO2PL (spread over 3 years)
CI ANN	Costs for CB annual audit
ADV DISC	Advisory costs certification CO2PL (spread over 3 years)
PROJ	Annual costs for administration projects with CO2-award advantage
SKAO	Annual contribution to SKAO
EV	Costs emission verification (optional)
OTH	Other costs

In providing these costs to Arup, SKAO highlighted the fact that costs of certain aspects vary strongly per organisation. This is dependent on whether or not the organisation already has aspects of the system set up (i.e. carbon footprint), or whether or not an external advisor is required. In addition, annual costs are not higher than for a comparable ISO 14001 environmental management system.

Annual contributions are also required from certified organisations, varying dependent on their size, to finance the ladder (see below the contributions SKAO requires in the Netherlands).

Year Contributions certified companies:

* Most (turnover € 500 million and more)	€ 7900
Very large (turnover € 200 - € 500 million)	€ 2,500
Large (turnover € 100 - € 200 million)	€ 1,575
Medium (turnover € 35 - € 100miljoen)	€ 1,100
Central (turnover € 15 - € 35 million)	€ 630
Middle small (turnover € 5 - € 15 million)	€ 500
Small (annual turnover of less than € 5 million)	€ 250
Webleden (sole proprietors)	€ 85

** A company (including its subsidiaries / companies) never have more than a total of € 8,315 to be paid to years of contributions which prevents companies that focuses on subsidiary level / operating company level to be certified to be hunted to high costs.*

Figure E2 Annual contribution costs to SKAO from certified companies in the Netherlands

Additionally, the administrator of the CO2 Performance Ladder in Australia would incur costs for set-up and implementation. For example, the CO2 Performance Ladder was recently set up in Belgium at a cost of 100,000 Euro.

SKAO, the administrator of the CO2 Performance Ladder in the Netherlands, currently allows an annual budget between 600,000 and 700,000 Euro, on a basis of 800 certificates issued compared to 70 in 2011.

Income is received from contributions from certified organisations, certifying bodies and commissioning parties.

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Appendix F

Council implementation process

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If the administrative structure is in place and suppliers have the capacity to implement the CO2 Performance Ladder, Council will be required to undertake the following process:

Step 1

- Engage with potential suppliers to understand their capacity to adopt the CO2 Performance Ladder, starting with those who already have an environmental management system in place
- Develop a procurement policy that determines what select contracts the CO2 Performance Ladder should be applied to
- Determine suitable CO2 level to be applied. Determine if CO2 performance ladder will be applied at project specific or organisational level
- Select contracts using the process outlined for prioritising sustainable procurement elements as per ISO 20400, considering relevance and significance

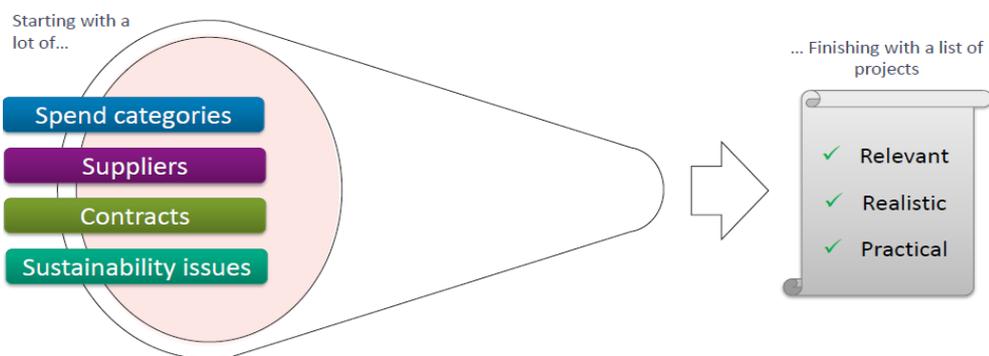


Figure F1 Different approaches to setting priorities

Step 2

- Engage with suppliers in order to take a desired partnership approach to implementing the CO2 Performance Ladder

Step 3

- Select a tender that fits sustainability and procurement policies
- Implement sustainable procurement guidelines to make a decision, which will demonstrate how the CO2 ladder compares to other environmental, social and economic considerations

Step 4

- Award the contract

Step 5

- Supplier implements the CO2 Performance Ladder and reports to Council
- Determine how Council will address non-compliance issues

Step 6

- The CO2 Performance Ladder focuses on continuous improvement, therefore monitor to improve the overall process

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Appendix G

Supplier implementation process

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The supplier will need to undertake the following process to implement the CO2 Performance Ladder for their organisation and/or project as summarised below:

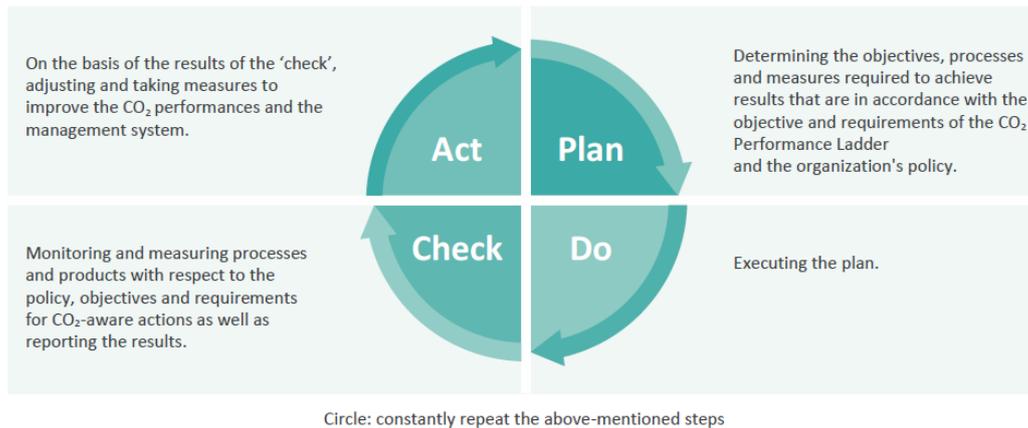


Figure G1 CO2 Performance Ladder Plan-Do-Check-Act cycle

Step 1 Leadership buy-in

- Requires management/leadership buy in especially for public reporting of CO2 performance ladder results
- Use internal staff or engage a consultant (with carbon management and management system expertise) to understand and implement the requirements of the CO2 Performance Ladder

Step 2 Set up management system

- Develop a sustainability policy which includes the application of CO2 management in place
- The CO2 Performance Ladder is part of a broader management system and therefore needs to be incorporated into any existing processes or existing processes needs to be changed to meet relevant CO2 performance ladder requirements (e.g. ISO environment standards)
- Establish reporting, documentation and archiving procedures.

Step 3 Insight - understand carbon emissions profile

1. Establish management team to implement CO2 performance ladder
2. Develop data management plan
3. Check data and process gaps to meeting CO2 performance ladder requirements
4. Develop a carbon emission inventory
5. Produce final inventory and report

6. Establish formal feedback to improve data collection, handling and documentation processes

Step 4 Reduction – carbon reduction action plan

- Develop carbon reduction energy management action plan in accordance with ISO 50001
- Use carbon tools to implement actions

Step 5 Transparency: Reporting

Step 6 Independent audit – ladder assessment

- Engage independent auditors (with carbon/management system audit skills) to audit organisational performance of CO2 Performance Ladder

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