18 December 2014

Dear Finance Director

ASSESSING AND DOCUMENTING SUSTAINABLE DEVELOPMENT IN BUSINESS CASES FOR PROCUREMENT PROJECTS

Purpose

1. This letter is to remind you that Sustainable Development must be considered at the outset of any procurement process and then throughout the life of the project; and that social clauses (or “community benefit clauses”) must be included in all public procurement contracts.

2. It clarifies how to record these factors in a proportionate manner in business cases and introduces a checklist to be included in all business cases for procurement projects requiring DoF approval at SOC and OBC stages.

Background

3. There is a statutory duty on public authorities to promote Sustainable Development, under the Northern Ireland (Miscellaneous Provisions) Act 2006. Sustainable Development can be defined as “development which meets the needs of the present without compromising the ability of future generations to meet their own needs”. It is not just about protecting the environment, it is about ensuring stable social and economic growth for all. It has three main pillars: Social (People); Environmental (Planet); and Economic (Prosperity). It aims to bring viability, stability and opportunity to all social, economic and environmental activities and programmes.

4. The current Sustainable Development Strategy “Everyone’s Involved” (OFMDFM (now TEO), May 2010) reinforces the Executive’s commitment to Sustainable Development and sets out a number of priority areas and strategic objectives. It makes a commitment to ensure that policy, strategy, procurement and investment decisions taken by government are based on strategic consideration of their ‘whole life’ consequences and to measure this against the
achievement of long-term economic, social and environmental impacts.

5. This guidance refers specifically to public procurement projects, whether they involve capital or revenue spending or both. It does not apply to non-procurement expenditures such as, for example, departmental revenue spending proposals and grants to the non-Government sectors (i.e. the private, voluntary and community sectors). However, such expenditures may also give rise to sustainability issues and these should be screened and assessed where they are considered relevant and significant.

**Sustainable Development – A Key Consideration in Every Procurement**

6. **DAO(DFP)05/08** introduced guidance on *Equality of Opportunity and Sustainable Development in Public Sector Procurement*. Its purpose was to embed consideration of Equality of Opportunity and Sustainable Development into procurement practice. It made clear that Sustainable Development must be considered at the outset of any procurement process and then throughout the life of the project, paying particular attention to it at decision-making moments. This requirement still applies to every procurement.

**Best Value for Money**

7. The primary objective of procurement is to achieve Best Value for Money (VFM). In November 2010 the NI Procurement Board defined this as “the most advantageous combination of cost, quality and sustainability to meet customer requirements”. The purpose was to stress that VFM does not mean lowest price. Any procurement must give due consideration to Sustainable Development to be deemed good quality and fit for purpose.

8. This letter focuses on assessment of the sustainability dimension of VFM. Overall VFM is achieved by applying all the relevant guidance. This letter should therefore be read in conjunction with the existing relevant guidance including, for example, current CPD guidance and the Northern Ireland Guide to Expenditure Appraisal and Evaluation (NIGEAE).

**Business Cases**

9. General guidance on business cases is provided in the NIGEAE business case section. Procurement projects are typically developed in three key stages, SOC, OBC and FBC i.e. Strategic, Outline and Full Business Case.

10. Sustainable Development is to be considered from the outset of any procurement. The initial planning stage offers the widest scope for including
Sustainable Development goals and the maximum potential for impact. It should be given preliminary consideration at SOC stage. Detailed consideration should be conducted at OBC stage. Most relevant considerations should be completed by OBC stage, but FBCs should report any significant updates or considerations that were not completed at OBC stage.

11. At both SOC and OBC stage, there are two main steps of project appraisal at which Sustainable Development should be considered:

   i. **At the earliest stages, when determining the strategic context, the need for the project, and the objectives i.e. NIGEAE Steps 1 to 3.** Sustainability should be addressed at the outset by including relevant social, environmental and economic considerations in the project needs, objectives and constraints. In some cases sustainability issues may be central to the project in view, in others they may be of secondary importance, but for all projects the business case should demonstrate that sustainability has been given due consideration at these early stages of project definition.

   ii. **When assessing the costs and benefits of alternative options.** Social, environmental and economic impacts should be considered when weighing up the non-monetary costs and benefits of options (NIGEAE Step 7). This should include screening for sustainability impact and, where appropriate, conducting sustainability impact assessment. Where there are significant differences in impact between options, these should be identified and assessed.

12. These are key stages for considering Sustainable Development. However, sustainability considerations should also be taken into account as appropriate at other steps of project appraisal e.g. when identifying risks and risk management measures, drawing up benefits realisation plans and making evaluation plans.

**Screening for Sustainability**

13. It is vital to screen projects to identify whether they are likely to have a significant sustainability impact. All options should initially be screened against potential social, economic and environmental impacts. The framework to be used for this initial screening is set out in *Workbook 4 of TEO's Policy Toolkit*.

14. Screening by reference to Workbook 4 should be undertaken in every case. It covers the most common types of impacts relevant to sustainability. However, where Departments identify any additional impacts relevant to their particular spending areas then these should also be screened.
15. Initial screening should be undertaken at SOC stage. This should be
developed further at OBC stage, when fuller details of the options are known.
Screening should be completed by OBC stage, so it is not generally relevant
at FBC stage. However, if there are any significant changes after OBC
completion, these should be reported in the FBC.

**Sustainability Impact Assessment**

16. Screening of options should identify those impacts which are significant enough
to deserve fuller sustainability impact assessment. Among the most commonly
required types of sustainability impact assessment are Equality Impact
Assessment (EQIA) and Environmental Impact Assessment (EIA) but others
may be necessary. Various further possible impacts are indicated in Workbook 4. Some others are covered at the HM Treasury Green Book Supplementary
Guidance page.

17. Workbook 4 provides introductory advice on how to carry out impact
assessment. However, it will often be necessary to refer to more specialised
guidance. For instance, the Equality Commission has published detailed
guidance on how to carry out EQIAs; and the Green Book Supplementary
Guidance includes guides to assessment of various specific impacts including
health, environment and transport among others. In some cases, NI
Departments may have their own specialised guidance which can be used in
addition to these sources.

18. Departments should generally employ internal resources to conduct
sustainability impact assessment, drawing on personnel in the relevant
spending areas and using specialists such as departmental economists or
others as appropriate. If it is considered necessary to engage external
consultants, any such proposal should be processed in accordance with the
latest relevant DoF guidance, which is available online at the AFMD Use of
Consultants page.

19. Where detailed sustainability impact assessment is deemed necessary, it
should normally be conducted and reported at OBC stage. It should generally
be completed by OBC stage, but if there are any significant subsequent
changes, they should be reported in the FBC.

20. Proportionate effort should be applied. The effort to be put into sustainability
impact assessment should reflect the scale and importance of the proposal and
the impacts under consideration. Options should always be screened for
sustainability impacts, but detailed impact assessment should only be carried
out where the effort is judged worthwhile in relation to the significance of the
impacts in view. Where different options have different impacts on sustainability,
the assessment should make the differences clear.
Sustainability Screening Checklist

21. The appendix to this letter contains a checklist which should be used to assist preliminary screening at SOC stage and further screening at OBC stage as required. The checklist should be used by reference to the detailed guidance in Workbook 4 of TEO’s Policy Toolkit, from which it is taken.

22. DoF now requires this checklist to be completed and included in all SOCs for procurement projects above delegated limits, accompanied by suitable commentary. It should also be included, suitably updated, in all OBCs for such cases. Screening should normally have been completed by OBC stage so it is not necessary to include the checklist in the FBC, unless there are significant changes to report.

Social Clauses (or “Community Benefit Clauses”) in Contracts

23. The Programme for Government includes a commitment to “include social clauses in all public procurement contracts for supplies, services and construction”. Procurement Guidance Note PGN 01/13 “Integrating Social Considerations into Contracts” enlarges on this. Clauses are typically included to reflect requirements for fair employment, health and safety, training and employment, among other issues.

24. It is important to give early consideration to the scope for inclusion of social clauses in contracts in order to maximise the social benefits delivered. Departments should give this issue initial consideration at OBC stage in consultation either with CPD or with the relevant other Centre of Procurement Excellence (CoPE).

25. Once the OBC has been completed and expenditure approval has been obtained, Departments should work with CPD or the relevant other CoPE to consider in detail what social clauses to include in the contract, and to incorporate them into a suitable specification for the procurement.

Summary of Business Case Requirements

26. SOC stage:
   - Preliminary consideration of the opportunity to build relevant social, environmental and economic considerations into the project needs, objectives and constraints;
   - Preliminary screening for sustainability impact, including checklist and commentary; and
   - Preliminary identification of the need for any detailed sustainability impact assessments.
27. **OBC Stage:**

- Inclusion of relevant social, environmental and economic considerations into the project needs, objectives and constraints;
- Final screening of options for sustainability impact, including checklist and commentary;
- Completion of any necessary sustainability impact assessments;
- Initial consideration of the social clauses to be incorporated within the contract, including reference to advice provided by the relevant CoPE;

**NB:** The OBC should include a separate section on Sustainable Development summarising how it has been addressed.

28. **FBC stage:**

- Consideration of sustainability issues should be complete by OBC stage and need not be repeated in the FBC. However, if there have been any substantial changes since the OBC, these should be reported in the FBC.

- The FBC should include a summary of the social clauses to be incorporated into the contract.

**Action**

29. This letter should be read in conjunction with the existing relevant guidance on procurement and business cases. Departments should ensure that it is applied in all business areas including Agencies, NDPBs and other sponsored bodies, with immediate effect.

30. The guidance is designed primarily for relatively large procurement projects and should be applied fully to all cases above delegated limits. However, Sustainable Development should be considered for all procurements and Departments should make arrangements to ensure that this is carried out with proportionate effort.

**Transition**

31. DoF recognises that some business case documents may have been recently completed or may be nearing completion. Under the existing guidance, they should all demonstrate that sustainability issues have been properly addressed. However, they may not comply fully with the revised requirements stated in this letter. A transitional period of three months from the date of issue of this letter will apply. After that, DoF will expect all documents to comply fully with the revised guidance.
Enquiries and Advice

32. General queries on this letter and the revised guidance should be directed in the first instance to Ken McConville (telephone 028 9090 9342 or 81342 internally) of DoF’s Strategic Policy Division, FinTrU House, Belfast.

33. DAERA oversees the implementation of the Sustainable Development Strategy across Government. See the DAERA Sustainable Development page for details. Relevant advice may be obtained from DAERA’s Sustainable Development Unit in Goodwood House (sustainable.development@daera-ni.gov.uk).

34. DoF’s Central Procurement Directorate (CPD) and the Centres of Procurement Expertise (CoPEs) have a key role to play by assisting the public sector to embed Sustainable Development considerations into spending and investment decisions. The CPD Sustainable Development page provides a number of relevant resources. Relevant advice is available from CPD’s Procurement Policy Branch in Clare House (telephone 028 9081 6518 or 76518 internally).

Yours sincerely

[Signature]

COLIN SULLIVAN

cc  Permanent Secretaries
     SPAR/PSD HoDs
     Ken McConville
APPENDIX

Sustainable Development: Outcome of Screening Exercise

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SOCIAL IMPACTS

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ECONOMIC IMPACTS

| Economic Appraisal            |                                      |        |
| Economic Assessment           |                                      |        |
| Regulatory                   |                                      |        |
| State Aid                    |                                      |        |

ENVIRONMENTAL IMPACTS

| Environmental                 |                                      |        |
| Strategic Environmental       |                                      |        |

SUSTAINABLE DEVELOPMENT IMPACT


NB This table should be used in conjunction with *Workbook 4* of the TEO Policy Toolkit.