Department of Health

DH Estates and
Facilities Division,
Knowledge &
Information
Quarry House,
Quarry Hill,
LEEDS LS2 7UE

Tel: 0113 254 5000
Direct: 0113 2545255

12th February 2007

To: NHS Trusts and PCTs

Dear Colleague,

Re: Energy and Sustainability Capital Fund - £100 million

I am pleased to acknowledge receipt of your Expression of Interest and enclose the following details that will enable you to progress your bid:-

- Bidding Framework – 4 stages
- Bidding Proforma (suitable for Stage 1 and Stage 2)
- Scheme Progress Monitoring Form
- Schedule of Dates for Application Reviews
- Contact points –
    - DH Estates & Facilities Division (DH EFD), and
    - List of Strategic Estates Contacts
    - Financial Guidance
    - Carbon Trust
- Question and Answer paper

Process and Procedure

Timescales

This is a 3 year programme announced by MS(DQ) on 4 January 2007. However, delays in the announcement caused slippage on the project commencement and therefore Fund allocations are to be carried over into the remaining financial years.

The final bid process and associated scheme(s) will be required to complete by 31st March 2009.

Initial outline (Stage 1) bids can be submitted at any time during the funding period with responses provided within one month of receipt date.

Firm (Stage 2) bids will be considered for approval by a central panel on a quarterly basis commencing with the first meeting to be held on 31 March 2007. A minimum of three hard copies of Stage 2 bids should be provided at least 3 weeks in advance of the next central approval panel meeting.

Trusts would not be limited to one bid and one bid does not need to be completed before another bid can go ahead.

Protocol

This capital fund is for the NHS in England only and is made available from 1st January 2007 until 31st March 2009 in the total sum of £100m to support energy efficiency and carbon reduction schemes.

As an NHS trust you are required to submit your Initial Bid (Stage 1) and subsequent final Stage 2 bid to your local SHA Estates contact (refer to attached list). The Bid must receive SHA support before being forwarded to the Department of Health Estates and Facilities Division (DH EFD) as part of the formal review process.

Foundation Trusts are required to submit Initial (Stage 1) and Firm (Stage 2) Bids directly to the DH Estates and Facilities Division, however, it is suggested that the Divisional lead Strategic Estates contact be alerted to the proposed bid and assistance provided where appropriate.

Trusts might wish to seek assistance from the Carbon Trust in developing Bids, applications or Business Case submissions.

Finance

There is no lower financial limit for bids but an upper funding limit of £5m per scheme has been set, which may be reviewed by exception and on a case by case basis.

From 1st April 2007, the mechanisms for payment of capital to NHS Trusts are to change to a loans based system for which central guidance is being promulgated to Trust Directors of Finance. The capital allocated from the Energy & Sustainability fund will be available from the 1st April 2007 to NHS Trusts and FT's through Public Dividend Capital (PDC) with the exception of PCT's who will receive allocations as under the old, pre-loan system as a direct payment. This does not require Trusts to repay the interest payment on the capital element as with the new loans regime, although it is understood capital charges will still apply. Any such charges and depreciation costs should therefore be fully taken into account when evaluating the affordability and cost benefit of the scheme.

Bids that are successful will receive formal notification in the form of a letter which will contain further details from DH finance colleagues. Trusts will be able to draw down PDC payment when required through normal central procedures. Wherever possible, Trusts should aim to complete schemes and payments within the financial year of approval.

Trusts with successful bids will be required to mandatory submit Project Progress Monitoring returns to DH EFD at key milestone stages for each approved scheme

Capital bids submitted for approval should include the total of all capital outlay i.e. enabling costs, design/project fees, equipment, building works, appropriate VAT, etc but will be exclusive of ongoing revenue costs.

Initial survey costs should be included in the Bid, but Trusts should note this cost will be at their own risk if the Bid is unsuccessful.

Trusts should also note that the fund will not take on-board capital or affordability/revenue risk after approval of capital following a successful Bid.

Bid Evaluation

The Funding Panel will consider the Energy & Sustainability Capital fund being used in conjunction with other funding routes (e.g. grant opportunities available from other Government Departments such as Defra).

The focus of evaluation will be to demonstrate value for money and ensure maximum benefit in terms of carbon emission savings, energy efficiency improvements and sustainability issues.

Bids that attract funding will be expected to include sub metering to all buildings greater than 1,000 sq.m. within the area affected by the bid. The cost of this work should be included in the scheme bid.

It is unlikely that the following issues will be supported:

- Bids providing a less than a revenue neutral position
- Bids relating to a PFI capital development scheme
- Bids to bring buildings in compliance with Building Control requirements
- Bids involving unproved or experimental new technology
- Research and Development type bids
- Evaluation studies
- Training and awareness initiatives

Key Issues

Bids will need to be approved by the Trust Board at all stages and evidence provided by way of a copy of the Board minutes.

The risk of capital cost over-runs and affordability/revenue consequences will be carried by the Trust.

Monitoring - ERIC

ERIC (Estates Returns Information Collection system) will be used to monitor the outcome of the benefits of the fund. You will be aware that under Building Control L2 there will be a need to monitor energy of any building over 1,000 m2.

Upon acceptance of funding, Trusts must ensure that scheme progress, monitoring and Post Project Evaluation returns are completed and submitted to DH on time as a mandatory requirement.

Post Project Evaluation (PPE) -

Monitoring should start at commencement of the scheme and be evidence based. Trusts should maintain an Energy Diary to demonstrate and explain fluctuations in energy use i.e. increased activity or theatre sessions etc

Trust Chief Executive will be expected to undertake a PPE as part of the funding requirements.

Ministerial reporting -
DH EFD will use evidence from PPE and monitoring to report to Ministers. DH will look for evidence of good practice and viable schemes to promote best practice throughout the rest of the NHS.

We look forward to receiving your bid details. In the meantime, should you require to discuss any aspect of the above, or need further detail please contact DH EFD (for Foundation Trusts) or your Strategic Estates contact (for NHS trusts), details of which are included in this.

Yours sincerely,

Rob Smith
Head of Gateway Reviews and
Director of Estates & Facilities Management

ENERGY EFFICIENCY SUSTAINABILITY FUND
BIDDING FRAMEWORK

A capital fund is made available from 1st January 2007 until 31st March 2009 in the total sum of £100 million to support energy/carbon saving schemes. Approved schemes will need to demonstrate recurring benefit to a Trust, contribute to the overall energy saving target set by SoS for Health in 2000 and raise the average energy performance level across all sectors of the NHS in England.

The Programme will be centrally managed by DH Estates & Facilities Division. DH will receive bids directly from the Foundation Trust involved, but individual project bids from NHS trusts must be submitted via the Strategic Estates Advisor of the SHA to ensure compatibility with the overall health plan and priority to maximise the benefit for the local health economy.

It is proposed that the project will have three significant stages:

Stage 1 (Initial bid)
Deadline for submissions – open – submissions will be accepted at any time

An initial outline bid submitted by the Trust via the SHA to DH E&F. This bid should include the following details, but it is not expected to be longer than two sides of A4 (12 point):

- Title of proposed energy saving measure and location;
- Introduction giving brief overview of Trust function and Estate, together with more detailed description of particular area to benefit from proposed energy saving measure;
- Description of proposed scheme including capital cost and timetable;
- Statement of estimated energy/cost saving including:
    - Current overall energy performance of Trust (2005/06)
    - Current energy performance of buildings to benefit from scheme (if different)
    - Initial estimate of total capital cost (inclusive of fees, VAT etc)
    - Projected energy/carbon/cost saving (per annum) of proposed scheme (at current energy contract value)
- Summary of overall scheme and any additional patient benefits that may be achieved by the scheme.

Stage 2 (Capital allocation)
Deadline for submissions – by 31st March 2007 and Quarterly thereafter

On confirmation of progress to stage 2, the Trust shall complete the required forms and submit robust cost details, fully worked energy/carbon benefit analysis, project timetable and monitoring arrangements. Details to be submitted electronically followed by three hard copies.

In recognition of the fact that this is investment to achieve savings in energy and the costs of buying energy over the long term, but not to support legislative requirements such as the Building Regulations, successful schemes will be funded under the Public Dividend Capital arrangements, with no fixed repayment required.

Allocations will be granted on a fixed sum basis. Any additional financial requirements will be at the risk of the organisation concerned.

Stage 3 (On completion of scheme) – Case Study/Evaluation
Confirmation of scheme completion and financial summary, including actual costs and energy summary including performance details. Trusts will be expected to submit at this stage of the bid a Case Study/Evaluation.
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Stage 4 (Post Project Evaluation)
Planned for approximately one year after completion when energy performance details of scheme are available. Future consideration be given to publishing details of completed schemes to advertise best practice and innovation.

Further details of Stages 2-4 will be issued to successful Trusts from Stage 1.

SCHEDULE OF DATES FOR APPLICATION REVIEW

13 February 2007

16 March 2007

17 April 2007

CONTACT POINTS

DH Estates and Facilities Division:
Chris Holme
Principal Engineer
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Dennis Bastow
Principal Building & FM Services Engineer
Dennis.bastow@dh.gsi.gov.uk 0113 254 5531

Lorraine Brayford
Sustainable Development Programme Manager
Lorraine.brayford@dh.gsi.gov.uk 0113 254 6328

Strategic Estates Advisors/Divisional Leads

North of England	Nigel Dunstan	Nigel.dunstan@shaest-n.nhs.uk
East of England	Stuart Denham	Stuart.denham@eoe.nhs.uk
South East England	John Herbert	John.herbert@shaestates-se.nhs.uk
London	Simon Greenfield	Simon.greenfield@dh.gsi.gov.uk
South West England	Alan Grynyer	Alan.grynyer@swpsha.nhs.uk
West Midlands	Robert Nettleton	Robert.nettleton@shaestm.nhs.uk

Finance
Mr John Doran john.doran@dh.gsi.gov.uk 01123 254 6657

Carbon Trust
Tom Cumberlege Tom.Cumberlege@CarbonTrust.co.uk 020 7170 7046

How the scheme will work in practice?

1. In the current climate of NHS re-organisation and financial control, strong management of this fund will be required to ensure it is fully utilised and produces the expected outcomes. To ensure this occurs, the fund will be initiated as follows:

- Chief Executive's Bulletin (CEB) entry;
- Briefing note to Strategic Health Authority (SHA) Chief Executives and Strategic Advisors, and;
- Email direct to Directors of Estates and Facilities at every Trust.

2. Providing additional funds to Trusts with poor performance could be considered as rewarding failure however it is likely that the Trusts with the poorest performance are those most likely to need assistance. As part of the process, account will be taken of future plans, such as reconfiguration or new building. This will ensure that funds are not targeted at Trusts where there are already plans to improve their energy performance.

3. The project will be administered by DH Estates & Facilities Division, but schemes must be submitted via the Strategic Health Authorities (SHAs) to ensure compatibility with the overall SHA health plan and priority to maximise the benefit of regional improvement.

4. It is proposed that the project will have four stages:

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(A gigajoule (GJ) is 1,000,000,000 joules and is a unit of energy.)

- Summary of overall scheme and any additional patient benefits that may be achieved by the scheme.

Stage 2 (Capital allocation)
On confirmation of progress to stage 2, the Trust shall submit confirmed cost details based on tender values, fully worked energy/carbon benefit analysis, project timetable and monitoring arrangements.

Stage 3 (On completion of scheme)
Confirmation of scheme completion and financial summary including actual costs.

Stage 4 (Post Project Evaluation)
Planned for approximately one year after completion when energy performance details of scheme are available. Future consideration will be given to publishing details of completed schemes to advertise best practice and innovation.

Further details for stage 2-4 will be issued to successful Trusts from stage 1.

QUESTIONS & ANSWER

How will the scheme work in practice?

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5. Data on energy usage have been collected from the NHS using the Estates Related Information Collection (ERIC) on an annual basis since 2000. All Trusts, including Foundation Trusts, enter data through a website which performs automatic and immediate calculations, showing current/historic performance indicators such as energy per cubic metre and carbon dioxide emissions per metre squared. Benchmarks are produced for different types of Trusts allowing them to identify areas of strength and where improvement is needed.

How will this money help the NHS to meet energy targets?

6. Approved schemes will need to demonstrate recurring benefit to a Trust, contribute to the overall energy saving target set by SoS for Health in 2000 and raise the average energy performance level across all sectors of the NHS in England.

Shouldn't this money be spent on deficits instead?

7. It is intended that this funding will be given out as Capital to fund energy efficiency projects and it cannot used be as Revenue. NB This does not apply to Foundation Trusts. However Both Trusts and Foundation Trusts will be expected to spend the funds on the scheme as proposed and will be monitored on its progress. Trusts will be able to use any savings from the schemes for whatever they want, including reducing the deficit if they consider it the most appropriate use.

Why will the money take 3 years to spend?

8. The delivery of capital schemes can take considerable planning and development, especially in the NHS where service continuity must note be effected. By issuing the amount over a longer period we are supporting not just those Trusts which have schemes that can be delivered quickly but also those that will require considerable planning and that could not be carried out if funding was only available in a single year.

Is £100m enough to meet NHS energy targets?

9. The £100 million will help the NHS meets its energy targets but it is there primarily to support the NHS as part of the global commitment to meet the climate change programme. It is recognised that not all of the NHS, due to local circumstances, have the same opportunity as others. This funding will assist those trusts that require additional support and assistance.

Why has the NHS not met energy efficiency targets?

10. Between the reporting years of 1989-90 and 1999-2000, the NHS successfully achieved a 20% reduction in energy use. The new targets were subsequently introduced to fit in with the Government's Climate Change Programme to reduce energy consumption across the board. However, to provide more healthcare services to an increased number of patients, the size of the NHS buildings and estate has increased. This in turn has led to increased energy usage. Since 2001-02, the situation has started to improve as the NHS has responded to the introduction of targets and the recent investment in buildings has replaced older less efficient buildings. Further detail can be found in Chapter 7 of the report.

How well has the NHS done in energy efficiency to date? What more can trusts do?

11. The total energy performance of the NHS improved by approximately 6% over the period of 1999-2000 to 2004-05. By 2009-10, it is predicted that energy performance will have improved by 10%.
• There is an increasing number of NHS sites whose energy performance is categorised in the acceptable 'Estatecode' A and B rankings. In 2004-05 approximately 70% of all NHS trusts reported they were within the category A or B energy performance rankings.
• Total carbon and CO_2 emissions increased by 11% from 1999/00 to 2004/05, mainly due to increases in the size of the estate and amount of electricity consumed. However, it is forecast that by 2009/10 carbon and CO_2 emission will have reduced by approximately 10% (from 1999/00 figures).

What do you expect trusts to do?

12. In the light of the report, Trusts should review their energy usage and potential savings, utilising the figures from the report as benchmarks where appropriate, with regard to their future strategic estate plans. Where

improvements can be made, they should consider how they can best be implemented, preferably in an innovative way. Where additional funding is needed, the Energy Fund should be considered.

Why are 30% of NHS trusts not in the acceptable category? what will happen to trusts who continue to remain in this category?

13. Of the 30% of Trusts that have not achieved Estatecode Categories A or B (acceptable or better), some will have only just failed while others will have considerable improvements to make. It is important to note that we are only half-way through the timeframe of the targets and much of the new investment in energy efficient buildings has yet to be built.

What about CHP plants?

14. In light of the significant increase in electricity consumption the use of Combined Heat and Power (CHP) plant can be an important factor in reducing overall CO_2 emissions as CHP locally generated electricity produces fewer CO_2 emissions. The DH recognises the positive contribution of CHP plant, where it is environmentally and economically feasible as well as the improvements it brings to resilience of electrical supplies. However, recent high rises in gas prices and potential changes in legislation coupled with an awareness and acceptance that environmental improvements can come at a cost, leaves scope for future expansion and use of CHP plant. As part of the this fund, NHS Trusts will be able to introduce CHP plant if they are suitable for their local circumstances.

What targets have been set for the NHS?

15. There are currently two energy efficiency targets applying to the NHS:

- Reduce the level of primary energy consumption by 15% or 0.15 MtC (million tonnes carbon) from March 2000 to March 2010;

- Achieve energy efficiency levels (delivered energy) of 35–55 GJ per 100 cubic metres for new developments, major redevelopments and refurbishments, and 55–65 GJ per 100 cubic metres for existing facilities by 2010.

These targets were announced to the NHS in a Ministerial letter in April 2001.

What is being done to help the NHS meet the targets?

16. Apart from the impetus provided by the targets themselves, there are

Guidance

- In 2004, “Carbon/energy management in healthcare” was published which provides best practice advice for the NHS in meeting the NHS targets.

- In January 2006, the Department of Health in partnership with the Carbon Trust, published “HTM 07-02: Encode” which provides best practice to ensure that everyone involved in managing, procuring and using healthcare buildings and equipment considered the implications of energy use. This acts as the primary guidance on energy efficiency in healthcare facilities. It covers:

    - Energy and Carbon Management
    - Procurement;
    - Energy considerations during the design process;
    - Technical notes for buildings services;
    - Practical examples of best practice.

- Copies of Encode are available free to the NHS on-line via the DH Estates and Facilities Knowledge & Information Portal (KIP).

Private Finance Initiaitve (PFI) and NHS Local Investment Finance Trust (LIFT) schemes:

- Under a PFI contract, the PFI contractor is contractually bound to achieve a level of energy performance specified by the Trust as being appropriate for the facility in question (i.e. a point on the 35 to 55 GJ/100m^3 range is chosen by the Trust and the contractor must achieve it.)

- If the PFI contractor fails to achieve the target when the scheme becomes operational, the Trust may (acting reasonably) require remedial works so that the target is met or require compensation for the higher costs to it of the higher than agreed energy usage.

- In NHS LIFT, the DH applies the same targets, but they may not necessarily be part of the LIFT contracts.

Traditional publicly funded builds including Procure 21:

- Trusts have, since 2001 been encouraged to put an energy performance target in the 35 to 55 GJ/100m^3 range in their output specifications and the contractors must produce designs capable of meeting this target. However ensuring that the specified level of energy performance is met in operation is dependent on the Trust and its advisors carefully vetting designs to improve energy conservation in support of achievement of the energy target.

- As a Procure 21 scheme is subsequently operated by the NHS organisation once the facility is operational, there may not be the same contractual remedies available as with PFI. It would be for

the Trust to ensure that the contractor designs and builds the facilities to allow achievement of the specified energy target or have appropriate contractual remedies in place.

How is the NHS progressing towards its targets?

17. At 2004-05, the halfway point for the NHS targets, the situation is:

- As a result of increased investment, the overall size of the NHS estate has increased by 14.1% to 25.4 million m^2;

- Energy efficiency performance has improved by approximately 6% to 1.76 GJ/m^2

- The number of NHS sites whose energy performance is categorised as acceptable or better has increased to 70%.

Total Carbon and CO2 emissions have increased along with the size of the NHS estate, however they are forecast to have reduced by 10% by 2010.

18. This forecast reduction is based on:

- The NHS estate becoming more efficient in future by increasing its efficiency in the face of the more challenging climate and NHS reforms;

- The proposed shift towards healthcare provided in more locally based facilities e.g. community hospitals which will be less technically demanding and reduce the energy usage of the NHS estate;

- Increased use of more energy efficient technology as part of the ongoing investment programme for the NHS compared to that used previously.

Will the funding be used to offset UK – ETS (Emissions Trading Scheme)?

19. The capital allocations cannot directly be used to buy carbon credits. However the resulting energy savings made from investment will help to lower carbon emissions.

20. The NHS as a key provider of services has embraced the government initiative for the public sector to lead on energy/carbon saving measures. This has been achieved in the face of increasing facilities and services being provided.

21. Trusts have managed their performance, unit allocations and overall energy/carbon position within the terms of the ETS. The NHS will continue to approach its own energy targets whilst accepting the challenge of increasing

use of equipment and technology within healthcare. Energy cost and efficient use will remain a key focus of attention and the availability of capital will help to bring forward some of the longer term schemes which will deliver real and lasting savings.

How will DEFRA's proposed Energy Performance Commitment (EPC) announcement in November 2006 affect the NHS? Doesn't this mean more hospitals will have to pay for carbon credits?

22. The EPC is just one of many options being proposed as part of a consultation initiated by DEFRA. We will be studying the consultation document and will respond to it by the due date of 31 January 2007.

We understand that the Department has just launched borrowing arrangements for the NHS. Will Trusts have to borrow and repay this "energy funding"?

23. No, in recognition of the fact that this is investment to achieve savings in energy and the costs of buying energy over the long term, this funding will in principle be made available under Public Dividend Capital arrangements, with no fixed repayment requirement.