

HefmA and the Carbon & Energy Fund

By Clive Natrass, CEO of the Carbon and Energy Fund

Many NHS Trusts would like to deliver upon their statutory targets for carbon reduction, but are prevented from doing so by the current economic conditions. That problem is now largely dealt with through the opening of the Carbon and Energy Fund, which is now available to assist NHS Trusts to implement Carbon and Energy projects in the NHS

Tim Litherland, National Chair for HefmA, stood in for Greg Barker at the IHEEM conference and announced the Carbon and Energy Fund (CEF) to the NHS on 1st November this year. The CEF has been operating since July 2011, with seven projects underway and 10 more readying for February 2012.

It was particularly fitting that Tim was able to announce the CEF as HefmA members have played an essential part in the pilot projects used to prove the CEF concept. In particular the work of Chris Needham with the Telford

and Shrewsbury projects, and Allan Morley with the Kingston projects comes to the fore, being three of the 29 pilot projects that preceded and piloted the CEF methodology and process.

- At Telford there have been three innovative energy projects, over the last 15 years that each contributed to the development of the CEF. These comprise the Volvo gas turbine installation, the subsequent boiler conversion, and the more recent replacement of the Volvo GT with a Cogenco reciprocating CHP unit.
- Shrewsbury Hospital had a comprehensive energy infrastructure upgrade which saw the upgrade of the site BMS, the installation of CHP, lighting and chilling.
- Kingston Hospital replaced its boilers, upgraded a number of major plant rooms and included a 1 Mw CHP and absorption chiller.

These three projects reflect an investment in 2011 terms of £17m and generated financial savings of £2m and carbon savings of 6,500 te in 2011. Looking at the bigger picture,

altogether the most recent 21 pilot projects for the CEF reflect an investment of £106m, revenue savings of £15.5m and carbon savings of 47,000 te, of carbon all based on 2011 figures

The CEF is charged by its trustees with the reduction of the NHS carbon footprint and the reduction of business risk for NHS Trusts through the reduction of backlog maintenance. The CEF has an initial allocation of £100m for that task, with a promise of much more funding to follow.

The CEF is much more than a funding vehicle, it is in fact a NHS partnership put together to address all aspects of completing carbon and energy projects in the NHS, namely, it provides a route that:

- It provides a route that
- requires zero capital outlay by the Trust
- Audits and guarantees revenue savings over term of contract
- Uses a NHS Framework which has been

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procured through NHS SBS CPS and has been through the OJEU procurement process

- Ensures best value offered through competition between specialist suppliers in the market place, under expert guidance
- Provides a tried and tested contract, proven in the NHS
- Provides a low challenge procurement environment as framework bidders see it as in their best interests to work with the CEF.
- With all costs rolled into the project.

Governance

The CEF is overseen by a board of trustees drawn from the NHS, Department of Health, procurement hub (NHS SBS CPS) and specialists in the delivery of self funded energy projects in the NHS. The Trustees include:

- Richard Howe, who is the chair and is known from his role as Director of Estates at Addenbrookes
- Chris Holme (energy and sustainability)
- Martyn Jeffery, Director of Estates at the Royal Free Hospital
- Steve Taylor, Director of Facilities from Southport and Ormskirk
- Phil Davies, Director from the procurement hub NHS SBS CPS
- Clive Natrass and Peter Fairclough

How the CEF process works

The CEF functions as a special vehicle to bring together the specialist NHS expertise so that all

NHS Trusts can benefit irrespective of in-house resource. It does also provide a source of 15 to 25 year funding, should Trust's decide that they need it.

Like Salix, the capital is repaid throughout the life of the contract to fund future projects, but unlike Salix, the Trusts costs are repaid through guaranteed savings underwritten by the contractor using the CEF's proven standardised contract.

Most Trusts find they get new plant for old, and make an annual cash saving too. All costs are included in the contract price including CEF support for the whole contract period and to ensure the delivery of guaranteed savings.

Timescales

The CEF releases projects in tranches each six to seven months, – this is a very quick process. The reason for having tranches is to ensure that the CEF and the specialist contractors can all cope with the throughput of projects.

The Tranches are planned as follows:

- July 2011 – The first five Trusts were released, with two more released in October 2011. Together these include: Kent & Canterbury, Addenbrookes, Queen Elizabeth the QM, Royal Berkshire, Royal Wolverhampton, Good Hope and Warrington & Halton hospitals
- February 2012 – The second tranche of 10 Trusts, so far this includes Grantham, Rampton, South Devon hospitals with another 30 expressions of interest looking for

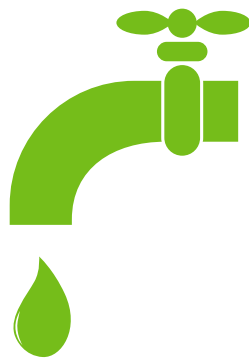
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- September 2012 – The third tranche of up to 10 to 16 Trusts depending on how well the framework contractors are managing tranche 1 and 2
- After September 2012 – there is expected to be a tranche of Trusts every 7 months for as long as there is demand in the NHS.
- Preparing a Trust for mini-competition under the CEF framework

It is necessary that each Trust start preparations some three months before the mini-competition release date. This period is used to get Trust approvals and to prepare the procurement documentation, so that the bid process can proceed promptly.

The tasks that need to be completed before mini-competition are:

- The Trust should email the CEF at EOI@carbonandenergyfund.net and express an interest in joining the Fund.
- The Trust should share with the CEF, the Trust's ideas about the carbon and energy project it hopes to implement. Ideally this will be supported by some Trust documentation such as an estates strategy, business case or other similar document showing that the project has some status within the Trust.
- The CEF will visit the site to meet the Trust team and see the existing and proposed installation.
- The CEF should meet the Trust estates team, who look after the existing energy



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installation, so as to know where to obtain technical information, and the level of estates support for the project. The meeting should include Finance who need to be happy with the contract, balance sheet and guaranteed savings, and should also include Procurement who need to be happy with the mini-competition process

- The CEF and Trust should agree a project plan that allows the CEF to plan the procurement under the CEF procurement programme.
- The CEF needs a feasibility report that shows that there is a valid project. It should determine the approximate capital investment required, the likely Trust unitary payment, the extent to which the payment is offset by guaranteed savings, and the investment to carbon investment ratio (the CEF likes projects that require an investment of less than £80/ tonne of CO2 saved in 2011 figures). The CEF will carry out a free feasibility if sufficient information is not already available from the Trust.

The CEF will produce and issue a draft CEF membership agreement to the Trust, offering a level of funding and a particular procurement tranche, which opens the way for the Trust to use the CEF and its procurement framework.

When the Trust has signed the membership agreement and returned it to the CEF for signature. The Trust becomes a member of the CEF and has access to the CEF procurement framework, proven performance contract, funding and expertise. It also gains admission to the next appropriate procurement tranche

Once allocated to a tranche, the project will

wait for the start of the tranche, at which point the project will be announced to the framework and the mini-competition started.

The Mini competition phase

The Framework procurement is a method of procurement where a number of companies are shortlisted under OJEU. Ten companies have been approved onto the CEF framework for four years, they are:

- Balfour Beatty Workplace
- Cofely
- Cynergis
- Dalkia
- EnerG
- Interserve
- MCW
- Mitie
- Total Gas and Power
- Vital Energi

First stage shortlisting process

When a Trust starts its mini-competition it will ask all qualifying bidders on the framework to express interest in the project. Those companies that express interest will be invited to interviews.

At the interviews each interested bidder will each get a time to persuade the Trust that they are the best company for the Trust to work with. They will explain their record, their approach and their financial model established during the framework procurement, which explains their costs. The interviews are scored formally and the best scoring companies are selected.

The Trust will normally select the four bidders that it would like to work with. Those bidders will be invited to open days with the Trust Estates

Team and a set of one to one discussions over the period of about one month. In those meetings the Trust will form a team with each bidder, so there are in effect four teams working together to come up with their best solution for the Trusts requirements.

When ready the Trust will release its Invitation to Tender to the four bidders. Each bidder will produce its best bid for the Trust based on the information and advice given, and present this to the Trust in the form of a business case. The Trust and CEF will work together to evaluate the bids, choose the project that offers the best value for money add a recommendation sheet and send it to the Trust board for approval.

Should the board withhold approval the project will stop, at no cost to the Trust.

Should the Trust approve the business case, then the preferred bidder will be given three months to complete its design and the contract technical schedules, ready for the Trust to sign. Should the contract be for the same (or better) price and guaranteed savings, then the Trust is expected to sign the contract. If it does not approve the contract, then the Trust will be expected to cover the bidder and CEF costs associated with those three months.

The installation phase

The installation phase starts with contract award, and typically lasts a year. The CEF will chair monthly technical and project board meetings to help the Trust manage the installation, and the Fund will work closely with the Trust to oversee the tests for



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practical completion. Only when the installation is proven to meet standards and to perform properly, technically and financially will practical completion be approved. The project then enters the operational phase.

The operational phase

When the installation has passed practical completion, then operations start, as do the Trust payments to the contractor (the first payments it has made to anyone in the project) and the guaranteed savings start. Every month the energy meter readings will be collected by the CEF audit system, and the CEF will monitor savings performance with the Trust and contractor.

Every quarter performance will be reviewed more thoroughly and action taken if the contract is under performing. At the end of the year the CEF will review the project over the whole year and certify the level of savings generated. If the savings equal, or exceed the guaranteed savings, then all is well. Should the savings be below the guaranteed level, then the contractor will repay the shortfall to the Trust.

Should there be any significant contractual or performance issues at any time with the contract, then the CEF will support the Trust in dealing with them at no extra cost.

Joining the Fund

Trusts wishing to express interest in joining the fund, or be added to the fund update list should email EOI@carbonandenergyfund.net.

More information on the fund is on www.carbonandenergyfund.net.

