

***The Welsh Assembly Government's response to the report of the National Assembly Audit Committee's report on NHS Energy Management: Committee Report (2)07-06***

The Welsh Assembly Government is grateful for the report. We welcome the findings and offer the following response to the recommendations within it.

**i. Recommendation**

**It is too early to judge the success of the new purchasing strategy adopted by Welsh Health Supplies, on behalf of the NHS trusts, for its gas and high demand electricity contracts.**

**We recommend that Welsh Health Supplies conduct a full evaluation of the effectiveness of the new purchasing strategy for gas and high demand electricity supplies after the first two years of these new five year contracts. The evaluation should build on the work of the NHS energy price risk management group and, as part of the evaluation, we would expect Welsh Health Supplies to:**

- a) compare the prices achieved by the flexible purchasing approach with those that would have been achieved under the previous annual fixed price approach;**

**Accepted:**

The current strategy is based on different decision making criteria to that which would have been in place had Welsh Health Supplies still been buying six or twelve month tranches of energy. It was adopted to reduce the risk of paying high prices over an extended period of time. One cannot say with any certainty exactly when a longer term purchase would have been made. For comparative purposes it is possible to select specific points in time when purchases could have been made and compare the prices paid over the next 6 and 12 month periods if both strategies were adopted. Any such comparisons may in fact bear no resemblance to the price Welsh Health Supplies would eventually have paid had they still been using a fixed price approach but is necessary to evaluate the effectiveness of the new strategy.

- b) compare approaches and outcomes with those of other large energy buyers;**

**Accepted:**

Welsh Health Supplies are familiar with the approach taken by other large energy buyers and the outcomes they achieve. In particular, knowledge of the approach taken by the Purchasing and Supply

Agency in England, Hotel and Retail Chains and organisations within manufacturing and heavy industries has been accrued. These comparisons will continue to be made.

- c) seek feedback from trusts on the quality of service provided by suppliers under the new contracts, particularly in terms of billing accuracy, and on the basis of these findings consider whether it would be worth undertaking a more systematic bill checking exercise across the service;**

**Accepted:**

Welsh Health Supplies already surveys its customers on a broad range of service issues and a more targeted survey may be carried out involving a specific group of stakeholders. Feedback already received indicates different levels of satisfaction with some service providers, which is being addressed through regular meetings with key suppliers. In respect of billing accuracy, the vast majority of inaccuracies arise from estimated meter reads rather than application of incorrect tariffs. The use of automatic meter reading equipment will very much reduce this. A random sample of bills will be verified by Welsh Health Supplies, in conjunction with Trusts, on a regular basis.

- d) draw on the experience of the private sector contractor responsible for the energy procurement for Prince Charles Hospital (North Glamorgan NHS Trust) which appears, at least in the short term, to have secured more competitive prices than those achieved by Welsh Health Supplies; and**

**Accepted:**

Welsh Health Supplies accepts that it is always useful to share information with other organisations. The Dalkia pricing offered to North Glamorgan is for fixed periods of six months. Welsh Health Supplies, being able to buy flexibly, have been in a position to monitor the continuing fall in market prices before locking these and are ultimately likely to compare well with those available from Dalkia. Welsh Health Supplies will monitor the prices that are secured via this mechanism for comparative purposes.

- e) report the findings from this work to senior management across the NHS trusts that it serves.**

**Accepted:**

Information of this nature is shared with Trusts through a number of avenues. The Energy Price Risk Management Group, Procurement Group and Directors of Finance receive regular briefing. All NHS Trusts are represented on these groups by senior management. In

addition, the Welsh Health Environmental Forum and more specifically its sub-group dealing with Energy Management also meet quarterly to share best practice and information on such topics

## **ii. Recommendation**

**Energy procurement is clearly complex and requires specialist knowledge and expertise, particularly during times of increasingly volatile market prices.**

**The Welsh Assembly Government, through its Value Wales team, should check that all public bodies in Wales have access to the necessary expertise to manage effectively the risks involved in energy procurement, and that the way in which public bodies are purchasing energy supplies is sufficiently flexible to provide some protection against exposure to peaks in market prices.**

### **Accepted:**

Value Wales' remit is to act as a catalyst to enable the Welsh public sector to realise efficiency savings while at the same time supporting the principles of sustainable development. Value Wales does not employ specialist energy procurement staff, however, Value Wales can encourage organisations to access expertise and can facilitate sharing best practice. In 2004 it set up the All Wales Energy Forum to co-ordinate and assist in the delivery of value for money improvements and efficiencies in energy procurement with the overall aim to provide a platform to share best practice on all aspects of utilities across the public sector in Wales, including:

- Energy management / reduction
- Sustainable and renewable energy
- Commercial and procurement.

This Forum is in the process of producing a strategy for future work, which will include the potential for collaborating to access expertise.

A number of public sector organisations are already collaborating. There is a general acceptance that the traditional tender approach should now be reviewed and follow a more flexible approach to meet the current volatile market and take advantage of seasonal and other pricing opportunities. Formal procurement collaboration already exists as follows:

- Health Trusts – Welsh Health Supplies / Welsh Health Estates
- Local Government
  - South East Wales – Welsh Purchasing Consortium (12 members - joint working with OGC buying solutions)
  - South West Wales – Joint working arrangement
  - North Wales – Joint working arrangement with OGC buying

solutions

- Further Education – links with local authorities
- Higher Education – The Energy Consortium (TEC)

Some organisations also call on independent specialists to provide advice.

Expertise in energy efficiency is as important as expertise in energy procurement. The Value Wales Sustainable Procurement programme links with the on-going work of organisations such as Carbon Trust and Envirowise who have a public sector element to their work and who seek to reduce consumption.

The Welsh Assembly Government therefore accepts the recommendation to review access to expertise, but not the recommendation for Value Wales to review detailed energy procurement strategies for all organisations, believing that encouraging collaboration and access to best practice and sharing expertise is a more effective solution.

### iii. ***Recommendation***

**NHS trusts have made only limited progress towards meeting the Welsh Assembly Government's energy consumption and efficiency targets, and the appropriateness of some of the targets and the way they are measured are questionable.**

**The Welsh Assembly Government's Health and Social Care Department and Welsh Health Estates should reconsider, in parallel with the revision of the UK-wide Energy Code for NHS buildings, the energy related targets for the NHS in Wales. In particular, they should:**

**a) measure energy efficiency performance based on consumption by floor area, rather than by heated volume;**

#### **Accepted:**

The energy efficiency measure based on heated volume has been used in the NHS throughout the UK for many years. The measure was introduced because it was deemed to provide a more appropriate measure of energy efficiency than one based on floor area as it intrinsically recognizes the diverse portfolio of buildings through which healthcare is delivered and does not penalize those NHS bodies operating from an older asset base (i.e. with high ceilings).

It is recognized however that over the last 20 years there has been an increasing trend across different sectors for energy efficiency measures to be expressed in relation to floor area. It is also noted that the ongoing modernisation of the healthcare estate has also replaced many of the older

properties with buildings with standard floor to ceiling heights.

It is therefore proposed that a new energy efficiency performance indicator based on floor area is introduced although not until 2008 when the Assembly's current target for energy efficiency, based on heated volume, expires. This lead in period will also allow sufficient time to agree new performance indicators with colleagues in England, Scotland and Northern Ireland (for consistency of reporting across the NHS) and alter central performance management systems accordingly.

**b) not count reductions in carbon dioxide emissions from the procurement of green electricity towards the primary energy consumption target, as this reduces the incentive to achieve real reductions in consumption;**

**Partially Accepted:**

The national target to reduce primary energy (or carbon dioxide emissions) by 15% between 2000 and 2010 is not an energy efficiency performance indicator but rather a target established to help reduce the production of green house gases. There is of course a relationship between local energy efficiency and the production of carbon dioxide but it is important to recognize that a target that seeks to reduce **absolute** emissions across the NHS should consider all of the ways in which this can be achieved. This includes the purchase of green electricity. Indeed, it is noted that the first action (in the list of top ten actions) within the Assembly's Sustainable Development Action Plan actively promotes the use of green energy.

It is therefore proposed that the NHS continues to report absolute carbon dioxide reductions including that due to the consumption of green electricity but specifically identifying its significance and contribution within the overall saving whilst continuing to promote and explore ways of reducing consumption.

**and c) develop new targets for carbon dioxide emissions, on-site generation from combined heat and power and renewable energy sources, and procurement of green electricity from external sources.**

**Accepted:**

It is proposed that the targets set out in the Assembly's Sustainable Development Action Plan in combination with the public sector targets of the UK Government's sustainable development strategy "Securing the Future" be developed into a new set of carbon targets to encourage the use of renewable energy and CHP.

**iv. Recommendation**

The development of an energy campaign toolkit, following a pilot campaign at North West Wales NHS Trust, is a good example of public sector organisations working together to develop and share good practice, consistent with the objectives of the Welsh Assembly Government's *Making the Connections* strategy.

Following more formal evaluation by Welsh Health Estates, the Welsh Assembly Government should identify the lessons learnt from the energy awareness campaign at North West Wales NHS Trust and communicate these to other public sector bodies to help them engage staff in their efforts to reduce energy consumption.

**Accepted:**

It is agreed that energy awareness is a core element in improvement of energy efficiency and the Assembly will seek to promote the benefits of the pilot campaign at the North West Wales NHS Trust to other public sector bodies.

**v. Recommendation**

The allocation of £3.5 million from the NHS Capital Investment Programme to fund energy saving measures, combined with other ongoing developments across the service, is expected to lead to significant improvements in energy performance.

We recommend that the Welsh Assembly Government's Health and Social Care Department, in conjunction with Welsh Health Estates, establish clear systems to monitor and evaluate the impact of the funding provided for energy saving measures as part of the NHS Capital Investment Programme. In doing so the Department should measure the extent to which the projected benefits of this investment have been realised, or even possibly exceeded, with a view to informing the business case for further funding in the future. The Department should also check that trusts can demonstrate tangible improvements in their wider energy management arrangements, in line with the commitments they were required to make in order to secure this funding and in response to the recommendations made by the Auditor General in his report.

**Accepted:**

The impact resulting from the allocation of funds for energy savings and resultant improvements in general energy management arrangements will be carefully monitored and checked in order that the benefits can be evaluated. The conditions for the allocation of funds have been made very stringent and explicit with payback, carbon savings and cost savings all being declared in energy emissions reduction plans.

