



briefing

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The CRC Energy Efficiency Scheme and the NHS

What you need to know and do

Key points

- Trusts should work out if they qualify for the scheme and start preparing.
- The CRC supports the NHS's pledge to reduce carbon emissions as outlined in the NHS Sustainable Development Unit's Carbon Reduction Strategy.
- The CRC will affect an estimated 180 NHS organisations.
- Participating trusts will need to report their carbon emissions to the Environment Agency and will have to buy carbon allowances.
- Trusts should nominate a responsible director and may also want to nominate a lead for managing emissions and monitoring performance.
- Top performing trusts will benefit financially and reputationally whereas those at the bottom of the league table will be penalised.

The CRC (Carbon Reduction Commitment) Energy Efficiency Scheme, which will begin in April 2010 with an introductory three-year phase, is a mandatory energy efficiency scheme that will affect both the public and the private sector.

Due to their size and operational nature, many NHS organisations will meet the qualification criteria for the scheme.

This *Briefing* outlines the main details of the scheme which will affect NHS trusts.

Background

The CRC was announced in the 2007 Energy White Paper to meet a need identified by research carried out by the Carbon Trust in 2005. The research highlighted that large businesses and public sector organisations were failing to take up cost-effective energy efficiency measures that could save them money as well as reduce carbon emissions. This led to a public consultation in 2006, the result of which was an agreement to introduce a compulsory cap and trade scheme.

Essentially, the CRC is a mandatory emissions trading scheme, involving:

- annual emissions reporting
- emissions allowance trading
- a published performance league table.

All government departments, schools, many high-street retailers, banks, local government and others, including many NHS organisations, will participate in the scheme. It is expected that around 5,000 organisations will be involved in total.

'Acting early will not only benefit your trust's reputation but will also enable you to gain financially if your organisation achieves a good position in the league tables'

Who will be covered by the scheme?

If a trust has at least one electricity supply settled on the half hourly market and consumes **over 6,000 MWh of electricity** through all half hourly meters (HHM) in 2008, it is mandatory they take part in the scheme. Those trusts whose HHM consumption is greater than 6,000MWh are full participants. Those trusts whose consumption is less than 6,000MWh but greater than 3,000MWh will have to list the HHMs they are responsible for and the total energy use of these supplies.

If you qualify, measurements will also be based on the amount of non-transport energy obtained from fossil fuels such as natural gas, fuel oil and electricity.

Every organisation that had a half hourly meter in 2008 is legally obliged to make an 'information disclosure' by the end of September 2010. Those that do not could face a £1,000 fixed penalty. This information should be reported to the Environment Agency, which will then verify eligibility for the CRC.

The CRC will complement existing Government policy by covering emissions outside climate change agreements (CCAs) and direct emissions outside the EU Emissions Trading System (EU ETS).

Individual organisations or subsidiaries with more than 25 per cent of their energy use emission in CCAs will be completely exempt.

What does the CRC mean for the NHS?

The CRC supports the NHS's pledge to reduce carbon emissions as outlined in the NHS's 2009 Carbon Reduction Strategy *'Saving Carbon, Improving Health'*. It also contributes to meeting the national targets set out in the Climate Change Act 2008.

Each qualifying organisation will need to ensure that it considers the early action criteria, the best energy efficiency option to adopt, the profiling of the league table and the financial impact over the first five years.

Reducing your carbon emissions therefore has three clear benefits:

- reduced cost of energy
- reduced cost of the CRC and financial benefits for trusts topping the CRC league table
- enhanced reputation and delivering on the *'Saving carbon, improving health'* strategy.

What does the CRC mean for your trust?

Trusts that qualify for the scheme will have to produce an evidence pack detailing their energy use. They will

also need to produce annual reports declaring their emissions for each financial year (April to March). The first is due by the end of July 2011. It is recommended that trusts nominate a person who will be responsible for the long-term management of involvement in the scheme. That person will ensure that all deadlines are met, fines are avoided, financial impacts are accounted for, legal implications are understood and will ensure recognition of how carbon saving contributes to sustainability and the carbon reduction agenda.

Performance within the CRC will be published in a league table and this will allow comparisons with all other public and private sector participants. In order to be in the best possible position for the league table and to reduce any financial losses, trusts need to act now.

Why should you act now?

Acting early will not only benefit your trust's reputation but will also enable you to gain financially if your organisation achieves a good position in the league table. Those at the bottom of the table will be penalised.

Performance in the first league table will be based entirely on the early action measure. Early action on carbon reduction will be recognised by two measures:

- the installation of automatic metering
- adherence to the Carbon Trust Standard which is awarded to organisations that measure, manage and reduce their carbon footprint.

In order to achieve the Carbon Trust Standard, NHS trusts need to ensure that they have accurate carbon data covering the last three years, that they show a reduction in emissions and that they have good carbon management performance. See www.carbontruststandard.com.

Details of the early action metric weighting are laid out in figure 1. Note the weighting has changed from those suggested in earlier documents as there are now only two trading years in the introductory phase of the scheme.

Figure 1 also illustrates that a trust's position in the first energy efficiency performance table will be entirely based on the Early Action Metric. In the second and third years of the scheme, the Absolute Metric and Growth Metrics figure to a greater extent in a trust's position in the performance table. The Absolute Metric has three times the weighting of the Growth Metric.

Figure 1: Early Action Metric weighting

	Year 1 (Oct 2011)	Year 2 (Oct 2012)	Year 3 (Oct 2013)
Early action metric	100%	40%	20%
Absolute metric	0%	45%	60%
Growth metric	0%	15%	20%

What will trusts have to report?

Trusts that have qualified for the scheme have to report all electricity, gas, oil and diesel or any other fuel (not transport) that it uses.

The scheme starts on 1 April 2010 and continues on an annual cycle. For the first reporting year, 2010/11, all reporting must be completed by July 2011. This will be done through the Environment Agency's online registry.

How much will it cost?

Organisations will have to pay a one-off registration charge of £950 and then an annual subsistence charge which is made up of a subsistence fee of £1,290 and a £10 fee for participation in the fixed price sale.

The first year of the three-year introductory phase of the scheme will be a reporting **year only** and no carbon allowances will need to be purchased. For the next two years of the three-year introductory phase allowances can be purchased at £12 per tonne of carbon emitted. There will be large fines for non compliance.

The first sale of allowances will be in April 2011 and allowances can be bought directly from the Government or on the open market. Organisations will be required to purchase allowances in advance, and therefore predict their emissions for the coming 12 months. In 2013 to 2014, when the CRC introductory phase has ended, the allowance price on the secondary market will be set by market conditions.

Preparing for the CRC

- Appoint a responsible person and sign up to the Environment Agency's CRC mailing list.
- Find out how much electricity you use and devise a strategy for collecting data– actual meter readings are best as estimated readings will attract an uplift.
- Ensure your trust is aware of the cost of emitting carbon in your organisation.
- Develop a strategy for carbon reduction and CRC compliance which will improve your organisation's performance.
- Start working on the two early actions points to benefit your position in the first league table.
- Get up to speed with compliance implications, audit processes and the budget required for purchase and allowances.

The CRC will be broadly revenue neutral to the exchequer. The revenue raised from the Government allowance sale will be recycled to participants proportional to their 2010/11 emissions, adjusted dependent on performance. Those at the top of the league table will gain a bonus payment ranging from 10 per cent in the first year to 50 per cent in the fifth year, with equal penalties for those at the bottom.

What happens if you have CHP or energy from renewable resources?

The CRC will treat electricity which receives a Feed-in Tariff (FIT) in the same way as electricity which is issued in Renewable Energy Certificates (ROCs). The Government has simplified the approach to reporting and accounting for renewably generated electricity, although the policy outcome will be the same. All

electricity which is issued through ROCs or FIT and exported to the grid or a third party will not be eligible for electricity generating credit but equally, will not have to be reported as a consumed supply. However, electricity issued with ROC or FIT which is generated and consumed on site will be required to apply the 'renewables adjustment', that is, reported as consumption of an electricity supply at the grid average emissions factor, to ensure that the incentives to reduce demand from all electricity sources remain.

How does the scheme work if you have a PFI scheme?

With PFI projects, the person who holds the contract with the energy supplier and receives the supply is ultimately responsible for the CRC liability. For PFI contracts already specified or being built, organisations

may need to consider variations to improve energy efficiency and carbon costs to the PFI. For more information see the Department of Energy and Climate Change users guide.

How does it work if you are a landlord or rent buildings?

All NHS organisations must include emissions from energy consumption where they hold a supply contract and receive the supply from the energy provider under that contract.

Where a landlord, or its parent organisation, is responsible for the energy supply the landlord or its parent organisation, will be responsible for those emissions in CRC. In situations where a tenant is responsible for the supply it, or its parent organisation, will be responsible under CRC. Landlords will not be able to transfer responsibility to the tenant.

Local Government Information Unit (LGIU) carbon trading

Over the past year a number of trusts have been involved in a practice trading scheme organised by the LGIU.

Summary the LGIU's key learning

- There is a realisation that trading is not about high speculation and fast deals.
- Accurate data is really important – to have a baseline for carbon emissions that can be trusted.
- Smart metering greatly helps the ongoing monitoring of progress.
- A price for carbon increases the priority particularly as the unit price of carbon increases over time.
- The use of marginal abatement cost (MAC) curves are useful to establish whether to invest in projects or consider buying permits on the market.
- It is useful to design and agree on a trading strategy that fits the resource and level of acceptable risk for an organisation.

For more information, see www.member.lgiu.org.uk/whatwedo/cls/projects/carbontrading/Pages/default.aspx

'As the largest public sector emitter of carbon emissions, the NHS has a vital role to play in the national effort to reduce emissions'

What happens if you are already in the EU ETS?

Emissions covered by the EU Emissions Trading Scheme need to be reported in the footprint report, but allowances won't need to be purchased to cover them. Participants will be able to submit figures from their most recent annual ETS report to reduce reporting requirements.

Proposed changes to European legislation may allow hospitals to leave

the EU ETS in 2013 provided they are participating in a similar scheme. The Department of Health is very confident that the CRC will be considered such an alternative.

Confederation viewpoint

As the largest public sector emitter of carbon emissions, the NHS has a vital role to play in the national effort to reduce emissions, which is now enshrined in UK law. The financial and reputational drivers in the CRC provide compelling reasons for NHS organisations to ensure they are well prepared for its arrival. With good planning the CRC can be turned to an organisation's advantage and

members should get to grips with preparing for implementation of the CRC now.

The potential costs and opportunities of the CRC will help ensure that climate change mitigation and adaptation are increasingly viewed as a strategic priority and become a permanent feature on board agendas. This is to be welcomed. The NHS can and must continue to lead the way in shifting values and expectations and help the UK respond to this enormous challenge.

For more information on the issues covered in this *Briefing*, contact stephan.groombridge@nhsconfed.org or Hannah.Greensmith@sdu.nhs.uk at the NHS SDU.

Key questions trusts should be asking now

- Have we worked out whether our organisation qualifies for the CRC?
- Are we aware of the energy supply contracts that we are responsible for?
- Have we established our total consumption?
- Which director is nominated as lead for the scheme?
- Is the director of finance and other relevant members of staff involved?
- Is the CRC timetable reflected in our financial planning?
- Have we identified the cost benefit of early action?
- Do we have a five-year strategy to maximise performance?
- Are we able to put together an evidence pack of consumption bill data for our estate?
- Do we have any existing or forthcoming PFI schemes that fall under CRC?

Further information

DECC CRC users guide (revised guidance to be issued soon by DECC): www.decc.gov.uk

Government response to CRC consultation, October 2009:
www.decc.gov.uk/en/content/cms/consultations/crc/crc.aspx

The Carbon Trust: www.carbontrust.co.uk/carbon/publicsector/nhs

The Environment Agency: www.environment-agency.gov.uk/business/topics/pollution/98263.aspx

Saving carbon, improving health. NHS carbon reduction strategy for England. NHS SDU:
www.sdu.nhs.uk/page.php?page_id=94

Climate change and the NHS. NHS Confed briefing, June 2009: www.nhsconfed.org/Publications

Leading the field: foundations trusts and their approach to the sustainability agenda.
www.nhsconfed.org/Publications

Managing the health effects of climate change. The Lancet: www.thelancet.com/climate-change

Carbon trading councils: taking stock. The Local Government information Unit, July 2009: member.lgiu.org.uk

For more information on the issues covered in this *Briefing*, please contact Stephan Groombridge, Senior Policy and Research Officer at stephan.groombridge@nhsconfed.org

The NHS Confederation

The NHS Confederation is the only independent membership body for the full range of organisations that make up today's NHS. Our ambition is a health system that delivers first-class services and improved health for all. We work with our members to ensure that we are an independent driving force for positive change by:

- influencing policy, implementation and the public debate
- supporting leaders through networking, sharing information and learning
- promoting excellence in employment.

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THE NHS CONFEDERATION 

The NHS Confederation
29 Bressenden Place London SW1E 5DD
Tel 020 7074 3200 Fax 0870 487 1555
Email enquiries@nhsconfed.org
www.nhsconfed.org

