

PREM 19/1736

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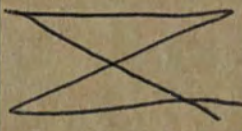
Energy Conservation and homes insulation scheme.

The Ministerial Committee for Energy Conservation
Advisory Council Report on Energy Conservation
Oil Demand Restraint in the Public Sector.
Energy Efficiency Office.

ENERGY

P+1 May 1979.

P+2 July 1980.

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
8-7-80		15.9.86					
11-7-80		22.9.86					
5-8-80		15.10.86					
6-11-80		16.10.86					
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PREM 19/1736

PART 2 ends:-

CH/EXQ TO SS/ENG 31.10.86

PART 3 begins:-


SS/MOD TO CH/EXQ 5.11.86

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
L(80) 61	06/11/1980
L(80) 19 th meeting, item 2	11/11/1980

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate CAB (CABINET OFFICE) CLASSES

Signed 

Date 19/09/2014

PREM Records Team

PAYING YOUR FUEL BILLS MORE EASILY

Both the gas and electricity industries offer a number of 'pay-as-you-go' schemes to help you pay your fuel bills more easily. These include:

- Paying an agreed amount each week or month, on a budget basis, so as to even out the cost over a year.
- Arranging to pay what you like at any time towards your next electricity bill.
- Buying electricity or gas savings stamps at any gas showroom or electricity shop or office (or at some sub-post offices). Both gas and electricity stamps can be used to pay either a gas or electricity bill.

It may also be possible to have a prepayment slot meter installed, if it is safe and practical to put one in. This could cost more than the usual credit meter.

For information on any of these matters, ask at your gas showroom or electricity shop or office, or write to the address shown on your last gas or electricity bill.

IF YOU CANNOT PAY YOUR FUEL BILL

If you are finding it hard to pay your fuel bills, you should get in touch with your gas showroom or electricity shop or office. But do this **straight away**. If you delay and then fail to pay your bill, you run the risk of having your gas or electricity supply cut off. Staff are available in all gas showrooms and electricity shops and offices to give advice to anyone in difficulty.

In addition to telling your fuel supplier of your difficulties, you should tell your Social Services

Department at the town hall or, if you are getting supplementary benefit or think you might be entitled to supplementary benefit, contact your local Social Security Office. They may be able to help you.

A code of practice has been drawn up by the fuel industries to protect you. For further information ask for leaflet 'Electricity and gas bills for your home' which is available free from gas showrooms and electricity shops and offices.

GENERAL INFORMATION AND ADVICE

To help you make the most of the fuel you buy, the Department of Energy has produced a number of free leaflets. The leaflets tell you how much it costs to heat your home using different fuels and how to insulate your home effectively and use your central heating controls to best advantage. Ask for the leaflet 'Make the most of your heating' at any Citizens Advice Bureau or write to Department of Energy, Room 1385, Thames House South, Millbank, London SW1P 4QJ.

Gas, electricity and solid fuel industry experts are available to give you advice which will help you use your domestic appliances and heating systems at the lowest cost. Full details of the help available are given in a number of leaflets available free in your gas showrooms, electricity shops and offices, and Solid Fuel Advisory Service offices.

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WINTER
HEATING
COSTS

A QUICK GUIDE TO THE HELP
AVAILABLE

There are government and other schemes which could help you with your fuel bills and heating costs. This leaflet is a quick guide to what help is available and where you can get more information.

HELP WITH INSULATING YOUR HOME

Insulating your loft and draught-stripping doors and windows are the best ways to hold down the cost of keeping your home warm. You may be eligible for help towards the cost of some forms of home insulation.

● Loft insulation

The Homes Insulation Scheme has been extended to give a higher grant if you are elderly and on a low income. You can now get a grant which will cover 90 per cent (up to £90) of the cost of insulating your loft, hot water tank and all pipes and tanks in the loft. This means that if you do the work yourself and the material costs you £60, you could get a grant of £54 towards the cost. If you cannot manage the work yourself you could also pay someone to come and do it for you. If the total is then £100 or more you could get the full grant of £90.

To get this grant you must be a man aged 65 or

over, or a woman aged 60 or over. You must also receive a supplementary pension or a rent rebate or allowance, or a rate rebate.

If you do not qualify for a 90 per cent grant you may still be eligible for a grant which covers two-thirds (up to £65) of the cost of the insulation.

Before you do any work, you need to get approval from your local authority. So fill in the simple application form which you can get from your local council office.

For more information ask at your local council office for the free leaflet 'Save money on loft insulation'.

● Simple draught-proofing

If you are entitled to supplementary benefit, your local Social Security Office may be able to cover the cost of simple draught-proofing materials such as plastic strip for doors and windows or plastic sheeting for draughty windows.

For more information ask for leaflet **OC2** 'Help with heating costs' at any Social Security Office.

HELP WITH HEATING COSTS

● If you receive supplementary benefit

Your weekly supplementary benefit should cover normal heating costs but you may get up to £3.40 a week extra benefit:

- If you are a householder you will get £1.40 a week, on top of your normal supplementary benefit, if
 - you or your wife are aged 70 or over or
 - you have a child under five years old,

unless you can get more under one of the following.

- If you or a dependant receive attendance allowance, constant attendance allowance or mobility allowance, you will automatically get an extra £3.40 a week.
- If you do not receive one of these allowances but you – or a dependant – are ill, you can get an extra £1.40 or £3.40 a week depending on the illness or its severity.
- If you are a householder and your home is very difficult to heat, for example because it is damp, you can get an extra £1.40 or £3.40 a week depending on how difficult it is to heat.
- If you have central heating, you can get an extra £1.40 or £2.80 a week, depending on the number of rooms in your home.

Other help

If you are getting supplementary benefit or would get it if you claimed it, you may be able to get a lump-sum payment if you need such things as extra blankets or a heater repaired. You may also be able to get a lump-sum to help you pay your fuel bill if it is exceptionally high because of unusually severe weather or because you are not used to a new heating system (for example if you have moved house), or if you have not had the full amount of your benefit entitlement for some reason.

For more information ask for leaflet **OC2** 'Help with heating costs' at any Social Security Office.

● If you are getting Family Income Supplement

If you are in work and getting Family Income Supplement, £2 of your weekly benefit is to help with your fuel costs.

For more information ask for leaflet **FIS1** at any post office or Social Security Office.



CUBB
NSpm

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

31 October 1986

The Rt Hon Peter Walker MBE MP
Secretary of State for Energy

A handwritten signature in dark ink, appearing to read 'Peter Walker'.

CONTRACT ENERGY MANAGEMENT

Thank you for your letter of 15 October.

I do not accept the representation of the Treasury's attitude to contract energy management schemes in your letter or in the attached paper. Our policies put considerable emphasis on enlarging the area over which a competitive private sector can operate and a substantial shift in the private/public sector boundary has been secured. Artificial barriers have not been put in the way of contract energy management schemes; and the fact that these schemes have many of the characteristics of financial leases has not determined Treasury attitudes to them.

The Treasury's approach has been:

- (i) to encourage public sector bodies to secure the value for money savings that CEM schemes can bring; but
- (ii) to discourage them from using these schemes solely as a device for releasing public expenditure provision so that other public spending can be increased.

CEM schemes comprise two elements: energy management services and the provision of finance. The benefits to the public sector lie in the former; whereas, as your officials recognise in their paper, the finance will be more expensive, by comparison with the public sector financing the capital expenditure involved. It would generally be more beneficial if the companies involved were prepared to split the contracts accordingly; access to the full management benefits would still be available. My officials have put this proposition to Emstar who have acknowledged the point.

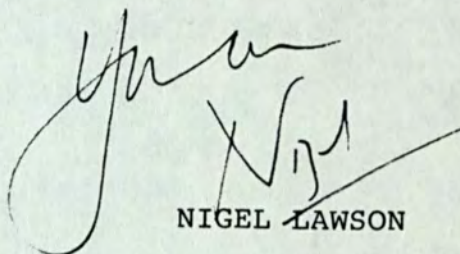
I share your view that there are potentially substantial gains to be made from using private sector expertise in energy efficiency.

ENERGY
CONSERVATION
PT 2



It may well be possible to develop guidance for public sector bodies aimed at securing the benefits of CEM while safeguarding public expenditure control. This guidance will need to relate to the characteristics of contracts, and the circumstances in which the public sector bodies are likely to find them most attractive. It is by no means clear from your officials' paper that the Treasury's approach has been the primary factor inhibiting public authorities from taking fuller advantage of private sector expertise in this area. The paper suggests that a number of other factors have been involved. The guidance could also be aimed to cover these, as appropriate. I suggest that our officials meet to take this forward.

I am copying this letter to the recipients of yours.


NIGEL LAWSON

ENERGY: Conservation: Part 2



CONFIDENTIAL



SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01 211 6402

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

NBN
15 October 1986

Nigel

I am growing increasingly worried that our efforts towards improving the energy efficiency of the public sector, and the growth of an important new service industry, are being hampered by a Treasury ruling on the subject of Contract Energy Management.

Over £500 million is currently being wasted every year in the public sector because of the inefficient use of energy. We are being criticised by our own backbenchers for allowing this to continue. At a time when we are encouraging all organisations to make better use of their energy, it is unacceptable that the worst culprits should be in our own backyard and that the public sector should be wasting money which could be put to good use in hospital care, education etc.

Contract Energy Management (described in the Annex to this letter) is a way of bringing private sector expertise to bear on the recovery of that waste, without any increase in public spending - the private sector bears all the risks: the public sector cannot lose. It is absurd that we should be erecting artificial barriers to the development of this exciting new service.

Contract Energy Management is developing fast in the private sector and some progress has already been made among local authorities - for instance, savings of 40% have been realised in a scheme in Surrey which is being monitored by the Energy Efficiency Office (described in the Annex to this letter). Surrey are extending it to six further sites. Yet this success is not being taken up widely in the public sector, largely because of Treasury insistence that Contract Energy Management be classified as financial leasing, and so count against capital expenditure limits. Of course, I accept there is a financial element to the transactions concerned, but the Treasury's obsession with this to the exclusion of the other important aspects of the transaction is highly damaging. Bob Reid of Shell, for instance, has written to me to express his concern. A Shell subsidiary, Emstar, one of our foremost Contract Energy Management companies, are finding it very difficult to obtain work in Government buildings because of the Treasury ruling. I believe that Lorne UMC Limited - the company involved in the Surrey Contract - has written to you about the problem in the local authority sector.

CONFIDENTIAL



What is needed is a clear green light from the Treasury enabling Contract Energy Management schemes to go ahead. I believe this should be quite possible even within the existing rules, fairly interpreted. My economists have prepared a paper (enclosed) analysing the arguments. I hope you will look into this as a matter of urgency. We have to ensure that the present waste does not continue.

The issues raised by this do of course have very considerable implications for areas other than energy where significant work could be put out to the private sector. I am therefore copying this letter and enclosures to the Prime Minister, George Younger, Norman Fowler, Nicholas Ridley, Malcolm Rifkind, Paul Channon, Kenneth Baker, John Moore and Sir Robert Armstrong.

A handwritten signature in dark ink, consisting of a large, stylized 'P' followed by a smaller, more fluid signature.

PETER WALKER

1. One of the barriers to improving energy efficiency in the public sector is that many public sector organisations lack the necessary in-house resources to tackle their energy problems themselves. An effective way of overcoming this - which is already used by a growing number of private sector organisations - is Contract Energy Management (CEM).
2. CEM is a relatively new high-tech industry that is well established in both the public and private sector in the USA, and is now beginning to grow in the UK and throughout Europe. It involves the provision of a complete energy management service by the CEM company, including an energy survey and the provision and management of any necessary energy saving equipment, in return for a share of the subsequent savings in the client's energy bill.
3. Contracts are structured so that the client is guaranteed a saving right from the start and the arrangements for sharing further savings encourage both parties to press for continued efficiency throughout the life of the contract - usually from 5-10 years. The CEM company is involved in training and motivating staff and at the end of the contract ownership of any equipment normally falls to the client along with all subsequent savings.

North East Surrey College of Technology

4. A pilot scheme in the public sector is being carried out by Surrey County Council. The North East Surrey College of Technology was chosen for the initial contract. Five companies were invited to tender for the project but only one bid was received (from UMC). This was mainly because of the costs involved in complying with the detailed tender specifications that Surrey produced.
5. UMC's proposal involved the replacement of the college's oil fired boilers with gas fired units, installing a new gas main to the college and installing a computerised energy management system and automatic light switching. Payments were structured so that Surrey received an immediate 3% saving on their base year (1985) energy bill. The next 24% of savings went to UMC and any further savings were to be split 50/50. The contract is for seven years. At the end of this period the new hardware becomes Surrey's property and all subsequent savings go to them.
6. To date the contract has worked successfully and the energy bill has been reduced from £130,000 pa to £80,000 pa.



THE TREATMENT OF CONTRACT MANAGEMENT IN PUBLIC SECTOR
CONTROL PROCEDURES

Introduction

1/ The public sector is a large user of energy. It spends £3.5bn annually on energy as a final user (i.e. apart from the conversion of primary energy into secondary energy in power stations etc.). The potential for economic energy savings in this sector is £650m annually.

Estimated Economic Potential For Energy Savings In Public Sector

per annum.

Health Service	c £100m
Central Government	c £150m
Nationalised Industries	c £250m
Local Authorities	c £150m
Total	c £650m

The public sector is said by energy efficiency experts to be some way behind the private sector in improving the economic efficiency of its energy use. For this reason, it is seen as a market with great potential. For such potential to continue to remain unexploited some 13 years after the original oil price increases is a clear reflection on the capability of these public bodies in the field of energy management and their efficiency over the whole of this period.

2/ There are many reasons for the poor performance of the public sector. Some of these are institutional or organisational (as mentioned in the Rayner Report); some reflect the lack of sufficient incentives to efficiency in this sector; and some are the result of the absence of energy specialists in these public bodies, perhaps because - in contrast to the position in specialist energy companies or consultancy firms - no clear career progression can



be foreseen. But over and above this, one suspects that many public sector managers and officials are reluctant to divert their efforts from what they see as their main-line activities to devising and evaluating energy efficiency schemes. This is particularly germane given that energy may represent less than 5% of total costs and the options to be considered require the acquisition of a body of what, for them, is new and specialist knowledge. For them today's unavoidable problems may be too pressing.

Contract Energy Management - What it is

3/ A solution to these problems, in many cases, can be found in contract energy management, using private sector expert energy specialists and managers. Contract Energy Management (CEM) or energy performance contracting, is a useful way of enabling organisations, lacking sufficient in-house energy expertise and specialist managers, to have the benefit of such services. There are a variety of contracts on offer involving the supply of specialist advice, management and energy-saving equipment. These range from companies who, in the main, supply heat or steam from their own equipment to the client's premises, to companies who provide a 'complete CEM package'.

4/ This paper is mainly concerned with complete CEM contracts. These normally provide for the contractor to supply a complete energy management service, to finance and undertake energy saving feasibility studies, and for the technical design and installation of new energy efficiency equipment on the customers' premises. The contractor is then responsible for operating and maintaining the equipment throughout the period of the contract, usually from 5-10 years, in return for a proportion of the savings that ensue. The clients staff are trained and motivated. As a result, the client is able to benefit from the latest technology without having to recruit energy specialists, weigh up the relevant merits of each type of plant, or reach a decision on which type to purchase. The contractor recovers his costs through savings in the energy bill, a proportion of which are shared by the client, - both parties are thereby encouraged to make further energy savings. The contracts are usually structured so that the contractor



guarantees an initial saving of say, 2-3% though this can be more. Savings beyond this, upto a given percentage, then go to the contractor to cover his staff and other operating costs the capital cost of the new equipment, and interest charges etc. Any further savings are then split in an agreed proportion between client and contractor.

5/ CEM is not a purely British phenomenon; In USA the use of CEM has grown rapidly from a turnover of less than \$5 million in 1981, to \$250 million in 1984 and some \$400 million last year. In part, this growth may have happened because the US Government, in pursuit of similar economic efficiency objectives, has positively encouraged the involvement of contract management companies in the public sector, particularly by devising and approving the use of model contracts and pilot projects.

6/ The contrast with the UK is stark. Here, even after a public body has decided to explore a CEM scheme, it is difficult to get CEM companies - of which there are eight in Britain - to put in bids. The heavy initial costs (associated with meeting the tendering specifications and the delays arising from the procedures) are said to be reasons. Moreover in a situation in which specialist energy technicians and managers are scarce, CEM companies usually are able to consider only one or two potential public sector possibilities at a time. (The private sector makes its decisions more quickly in order to achieve the earliest possible benefit from the energy savings). A corollary of this is that the public body may find it difficult to obtain more than one tender.

7/ A major impediment to the use of CEM in the public sector - and one which affects the willingness of these public bodies to pursue the CEM route - is H.M. Treasury's current interpretation of how such CEM schemes are to be viewed in relation to the 'Ryrie Rules', which set the criteria against which schemes involving private finance for nationalised industry investment, have to be considered.



Issues To Be Considered

8/ In view of the size of the potential economies which could be realised by CEM schemes, HMT's treatment of contract management needs to be considered carefully to establish whether it is consistent with Government policy generally, and more specifically:-

- (i) whether HM Treasury's guidelines with regard to the treatment of contract management are consistent with the Government's economic efficiency aims for the public sector and for the economy generally, or whether it frustrates, or constrains, the attainment of those aims;
- (ii) whether HMT's treatment of contract management as if it were leasing is sustainable;
- (iii) whether the HMT guidelines conform with their doctrinal interpretations in other areas e.g. in treatment of contracting out opportunities

Present Treatment In Public Sector

9/ Contract Management payments by the public sector are without doubt a form of public expenditure but an important issue is whether for HMT control purposes the capital value of the assets in CEM schemes should be scored as public expenditure in the year the contracts are signed. The NEDC working party chaired by Sir William Ryrle devised criteria under which private capital might be introduced. These criteria were endorsed by NEDC in October 1981:-

- (i) decisions to provide funds for investment should be taken under conditions of fair competition with private sector borrowers; any links with the rest of the public sector, Government guarantees or commitments, or monopoly power should not result in the schemes offering investors a degree of security significantly greater than that available on private sector projects;



- (ii) such projects should yield benefits of improved efficiency and profit from the additional investment commensurate with the cost of raising risk capital from financial markets.

10/ The Department of Energy recognises the Treasury's understandable concern to protect the Government's Medium Term Financial Strategy against efforts to circumvent the agreed expenditure limits on public sector programmes. It also recognises and endorses the view of H.M. Treasury, as stated at a recent NEDC committee relating to private sector involvement in public sector capital projects, viz,

"It is an important general objective of Government policy to enlarge the area in which free enterprise and a competitive market can function. The best way of achieving this is full privatisation. Where this is not appropriate, many of the advantages can be gained by contracting out. But private finance may, however, be welcome provided it leads to greater efficiency after taking account of any extra financing cost."



11/ The difficulty, in practice, has been that when a detailed interpretation of these criteria in cases of CEM schemes has been required, HMT has been so unyielding in its defence of the MTFS policy that it has appeared to be prejudiced against all private sector CEM initiatives, regardless of their merit. The Ryrrie rules have been invoked and the least favourable interpretation has been placed on the cases considered. As a result, HMT has been widely criticised - not the least by the Commons Energy Select Committee - for this negative approach to the considerable opportunities for using the capability of the private sector to undertake economically-attractive energy saving projects in the public sector.

H.M. Treasury Stated Position On CEM

12/ H.M. Treasury's position on contract energy management schemes, as stated in their Memorandum 35 to the Select Committee on Energy (6th September 1985), is that:-

"The public expenditure implications of a contract between a public sector body and an energy management company will depend on the details of the contract. In general, where the length of a contract is comparable with the lifetime of the capital assets involved and the assets are used solely on behalf of the public sector body concerned, the contract will normally be treated - for public expenditure purposes - on a par with financial leases." However HMT added that "more complicated contracts would need to be considered individually". "Broadly, speaking, though, for nationalised industries and local authorities, the capital value of an asset acquired as a financial lease is scored as public expenditure in the year in which the lease is signed. The effect is equivalent to purchase of the asset. For central government, the capital value is not scored as public expenditure, but all leasing deals have to be agreed with the Treasury. Any such proposal would normally need to be accompanied by an appraisal of financing costs."



13/ NIP(85)10 (para. 34) states "Leasing is a form of borrowing" and "for EFL purposes, finance and long term property leases must be capitalised". However, an exception exists for leases which it can be demonstrated are entered into "solely for operational reasons" "By operational is meant a clearly defined operational need of a temporary nature which cannot appropriately be met by the purchase of an asset. Such leases are usually short in relation to the life of the asset involved". NIP(85)10 accepts that "it is not possible to lay down hard and fast rules distinguishing between operational and other leasing".

14/ The reasons for HMT's leasing guidelines are stated to be (i) because leasing has a cost, (ii) because the cost of borrowing by the government is usually less than the commercial lessor's cost of borrowing and reflected in lease rentals, (iii) only part of the benefit of the tax foregone by the Exchequer will be passed back to the nationalised industry and (iv) large volumes of leasing can have repercussions on money supply. Hence leasing by nationalised industries is not encouraged.

15/ At no time have the reasons for the HMT's treatment of CEM agreements (as opposed to those against financial leasing) been clearly stated and adequately discussed. Generally, CEM agreements are treated by HMT "as on a par with financial leases", the reasons for this are unclear. Given the size of the potential public sector energy savings this is highly unsatisfactory and exposes Ministers to criticism. A full consideration of the issues concerning CEM schemes is therefore essential.

Categories of CEM Schemes

16/ Contract energy management is a term which covers a wide range of different types of project. It may help therefore to attempt to categorise these into three groups:-

- A. Projects which effectively remain in the public sector and continue to be managed in the public sector at public sector risk, although nominally funded by private lenders, e.g. through financial leases.



B. Projects which, although forming an integral part of programmes planned and controlled by Government - central or local - are nonetheless capable of being privatised, i.e. the responsibility, the management and the associated risks are genuinely transferred to the private sector.

C. Projects which arise from public sector activity, are economically attractive, but which without private sector involvement, and risk finance, would not otherwise be undertaken as components of established public sector programmes.

Each of these needs to be considered on its merits against the criteria.

17/ The Treasury rightly regards private sector funding of Type A projects as devices to circumvent the proper limits on public expenditure. There is no issue about this.

18/ For Type B projects, H.M. Treasury appear to have established two criteria for the acceptance of private sector involvement:

- selection of the private sector undertaker should be based on fair arm's length competition, and the risks and responsibilities must genuinely be transferred to the private sector;
- the saving of resource costs from the greater efficiency of undertaking the work in the private sector, must outweigh the additional cost of private risk capital.
(However, a significant new factor seems to have been recognised in the case of Dartford Bridge - the economic value to the taxpayer of transferring risk to private lenders.)

The Treasury accepts that when such projects are genuinely transferred to the private sector they do not score against the PSBR. (In another context, the Dartford Third Crossing, forming part of the roads programme, appears to be a topical example.) However, it would appear that H.M. Treasury have not, as a general rule, conceded that the public expenditure designated for the programme,



of which the project is a part, should remain unaltered, i.e. additionality in such cases is not automatic.

19/ Type C projects would appear to be precisely the type of project - additional to established programmes - which the Ryrie rules were tailored to permit. As for Type B projects, the basis for selection must be fair arm's length competition. There also must be a genuine transfer of responsibility of risk to the private sector. The test for the risks is less stringent and the comparison with the alternative of public sector financing is not relevant in this case. The essential point is that the project should be economically sound, i.e. the efficiency gain and the consequent profit should be commensurate with the cost of private financing.

20/ Nevertheless, the Treasury have consistently rejected energy saving projects under risk-bearing management contracts on the grounds that they are effectively circumventions of public expenditure controls on programmed activity (i.e. Type A projects). Their argument has been:-

- (a) if the energy saving projects are as economically attractive as is claimed, they should be incorporated in the public expenditure programmes for the health service, the education service, defence etc;
- (b) energy management contracts are tantamount to financial leases and therefore equivalent to the purchase of the capital assets in question; accordingly the equivalent capital cost should score against the PSBR and fall within the expenditure limits established for the programme;
- (c) moreover, such lease financing is necessarily expensive; it would be best for the expertise of energy consultants to be hired directly without the associated provision of expensive risk capital.



21/ Argument (a) above, whilst intellectually neat, is splendidly blinkered. The fact is that the real world is populated by human beings who do not necessarily act rationally - at least when they are not using their own financial resources. Paragraph 2 above has shown a variety of reasons why economically optimal allocation of resources in the public sector may not take place. These factors cannot be corrected overnight, and until the public sector world is put to rights, the energy economies will not be realised. This then is another case where the best is the enemy of the good. Since HM Treasury is not averse to adopting pragmatic solutions to problems which conflict with intellectual purity in other areas, why then should this argument be seen as an important one? (Here one recalls the replacement of the intellectually respectable test rate of discount criteria applied to NI investment programmes, which in the face of the pragmatic argument that these were not universally applied was replaced with the rather more dubious required rate of return concept.).

22/ The Argument (a) also begs the question of whether the same or equivalent project could be carried out as part of public expenditure. It also ignores the economies resulting from the division of labour, the current scarcity of energy engineering specialists and the fact that most bodies cannot offer them ^{career} prospects - even if they were prepared to enter the sector. (see also para 28 below).

CEM and Financial Leases - The Essential Differences

23/ The Treasury's presumption that contract management schemes as a class are 'on a par with financial leases' (argument (b) above) seems to ignore the essential differences between CEM & Financial Leases. The fact is that complete CEM schemes are wholly different. First, because the motivation for leasing agreements is quite different from that for complete contract energy management schemes. Second, because the nature of a complete CEM agreement is different in kind in terms of what is traded. Third, because complete CEM does not involve 'the extra costs' associated by HMT with financial leases.



24/ The motivation for financial leasing (i.e. category A projects) ^{centres} upon the fact that the private sector has tax allowances available that cannot be exploited either because of insufficient profit in the public sector (as with some nationalised industries), or because the part of the public sector concerned is non-profit making and hence not taxable. There would therefore be some advantage to the public sector organisation, in the absence of the HM Treasury's ruling regarding the capital value of the asset acquired as public expenditure, in financial leasing arrangements, since leasing would provide, in the year of asset acquisition, a way to avoid public expenditure controls on its operation, - though at the expense of higher current expenditure later. In contrast the motivation for CEM schemes is quite distinct. It arises from a need to exploit the advantages of a division of labour (through the use of specialist energy managers and engineers). This is a fundamental economic principle to which the Government subscribes. Moreover forms of Contract Management have been widely used over many decades for many activities in both the public and private sectors. Like all trading transactions, its continued existence emanates from a perception by the parties concerned that each is better off with such contracts than without them. Normally, this perception of benefit will be seen as a material one with a measurable improvement in terms of the objectives and aims of each participant, usually - though not always - in the form of expected higher profits over the period of the contract.

25/ The nature of contract management agreements are quite different in kind from those in leasing agreements. CEM is about trading energy services; leasing is about hiring physical assets. Leasing, unlike CEM, does not involve a detailed energy survey, specialised management, shared savings or the eventual handing over of the equipment to the lessee, nor does it involve the training of staff. It provides no incentive to efficiency and responsibility for the decision about the type of hardware to be leased lies with the client rather than the contractor, as in complete CEM schemes. With complete CEM it is the contractor who bears all the risk both technical and financial. He decides what assets are to be purchased. In the case of CEM schemes, the management



and the risk-taking are outside the public sector. Moreover CEM s provide a different type of management, a more highly-specialised, and appropriately qualified, executive often with computerised back-up analysis and control equipment. CEM in the public sector is, therefore, not a contrived device to obviate a public sector control system. It provides the very means by which improved economic efficiency is achieved. Further, being dissimilar from leasing, it has some characteristics more in common with, say,

contracts to British Telecom to provide a service involving the installation of their equipment in, say, an Inland Revenue or HM Customs building - or perhaps HM Treasury itself - or a contract with Initial Services PLC for a period of years to provide towels to a government department in towelling machines owned by themselves. There are also similarities between contract energy management schemes and contracts with an outside caterer to provide canteen facilities in a government department, local authority contracted out refuse collection and contracts with assets used in certain private sector service premises within the precincts of a main line railway terminus, to the extent that the services provided are, or were formerly, commonly associated with railway travel e.g. Thomas Cook's, travel insurance, catering hotel services etc.

26/ The 'extra cost of leasing, (as in (c) of paragraph 20 above) is central to HMT's attitude. It features in each of (i), (ii) and (iii) in para 14 above. That there are extra costs with leasing is not disputed. That there are 'extra costs' from contract management is disputed.

27/ First, informed observers hold the view that despite 13 years of high energy prices little progress towards economic efficiency in the public sector's energy use has been achieved and that the potential for worthwhile running cost savings is substantial.



28/ Second, to 'unlock' these savings requires specialised experience, know how and control mechanisms which monitor energy use. The public sector has under-invested in energy systems because it does not have the specialist expertise to unlock this potential. For some public sector organisations large enough to justify in-house expertise in energy management, there may well be a good case for them to hire directly the expertise of energy consultants without the associated provision of what HMT see as 'expensive risk capital'. For example, the local authority in Tyne and Wear routinely allocate some £6 million of capital expenditure to energy-saving projects. Their planners and the architects' department have energy management expertise, and the backing of the local politicians to identify projects offering attractive energy savings, and to manage the design and installation of the requisite systems. However, as in the private sector, there are many organisations in the public sector which do not have such expertise. Nor are they equipped to make the best use of an energy consultant, as distinct from an energy management contractor motivated by having his own money at risk. Selecting the best consultant is the first problem. Above all, they would be looking for expertise and project management capability. It certainly isn't a matter of selecting the lowest-quoted rates for the service. Many hospital managers, for instance, may see considerable benefits in putting CEM companies into competition with one another to offer the best energy savings package. Significantly, a large and growing number of private sector companies reach just this conclusion. They recognise that energy management is not part of their core business, and it is not worth acquiring in-house expertise even if they could, given the necessarily limited career prospects; for them it could be far better to use the up-to-date skills of specialist CEM companies with competition ensuring that they get the best buy. Generally, however it is clear that important current cost savings are therefore being foregone that are significantly greater than those that would be achievable if the LA or NI invested in the new plant itself without the benefit of such expertise. In this respect, leasing is quite dissimilar from CEM. The former does involve an extra cost to the public sector; the latter does not. This is because, without



CEM, many new energy systems would not be commissioned and because, even in the case of energy systems that were commissioned (despite the disadvantage) the benefits to be expected without CEM would be substantially less. To this extent, there is no extra cost involved in CEM. In short, CEM contracts are financed by sharing savings that otherwise would not take place. Without the existence of 'extra costs of financial leases' the HMT's logic for CEM's treatment disappears.

29/ The issue about whether the private sector is being 'over compensated' for its risk-bearing is irrelevant provided a) the tendering is competitive and at arm's length or/and (b) savings occur to the public sector on projects which otherwise would not have been carried out.

30/ One may also look at the issue in a slightly different way: Leasing is usually undesirable because the cost of borrowing from a leasing company is higher than the cost of the Government borrowing direct from the markets. Hence the present value of future public expenditure will usually be increased by leasing: reduced expenditure in the first year will be more than counterbalanced by increased expenditure after the first year. Thus, special measures are required to discourage leasing, or at least enable it to be fairly compared with simple borrowing. Such measures should not apply to CEM since it leads to reduced public expenditure in every year. There appear to be two economic reasons for this: (i) Failure of the markets for energy saving and using assets. Public sector energy users do not have full information about this complex market and thus are not aware of the potential for energy saving. While they might employ consultants to give expert advice, they are not able to assess whether the employment of consultants would itself save money and so, being risk averse, prefer not to employ consultants. CEM does not involve risk for the public sector managers. (ii) The financial markets are not able to distinguish between investment (e.g. in energy saving) that saves money in future years and many other types of investment (hospitals, roads, etc.) that require increased current expenditure in future years. The



appropriate response to market expectations about the future public expenditure position (and hence about the money supply, interest rates and inflation) is different in two cases. It is desirable therefore to distinguish between capital expenditure that saves costs and expenditure that incurs costs in future. CEM is a way of doing this.

31/ For all these reasons complete CEM schemes should not be treated in the same way as financial leases. The issue of whether CEM activities could be financed more cheaply through PSBR is irrelevant since it does not arise; it is most unlikely that the schemes will go ahead without the enthusiasm, initiative and expertise of CEM companies; hence complete CEM is not a form of back door public financing. Rather it is akin to using an outside computer bureau but with the computer facilities and their staff in one's premises. There is a strong argument to classify complete energy management contracts in category C. It is clear that, whatever their merits, economically-attractive energy saving projects at present are not being incorporated in public sector programmes. Without private sector initiative and private risk capital, they will not be undertaken. There are very real efficiency gains and economic benefits which are more than commensurate with the cost of private risk capital, i.e. they comply with the Ryrie rules.

32/ Even when it might be argued that the project does or should form part of a public sector programme, the nature of energy management contracts is such that the responsibility and risk is genuinely transferred to the private sector. In other words, such arrangements are not devices to circumvent proper public expenditure limits (category A). They represent the full transfer of responsibility and risk to the private sector (category B). Given this it can readily be demonstrated that the saving of resource costs from the greater efficiency achieved under energy management contracts is more than sufficient to outweigh the cost of private finance, particularly when the value of transferring risk is taken into account.



33/ Quite apart from this, the concept of what does or should form part of a public sector programme represents a somewhat dated approach to the full range of policy opportunities. This Government has never drawn any clear and immutable doctrinaire line between the public and private sectors in the way the 'Ryrie Rules' - now over 5 years old - imply. The approach has been an entirely pragmatic one with the 'general objective of Government policy to enlarge the area in which free enterprise and a competitive market can function. Recent pronouncements by Ministers concerning future privatisation schemes clearly indicate that there is no 'ring fence' around the public sector and that quite novel forms of privatisation may take place if 'roadblocks' are not set up. Current HMT interpretations, in contrast, by leaning over backwards to see the worst possible interpretation of every project, do cause questions to be asked concerning whether protection of the MTFS is the only consideration the HMT has in mind - or whether a preconceived conception of where the public/private sector dividing line is and should be is an implicit part of its reasoning - or of the reasoning of those who interpret the guidelines.

34/ It has been demonstrated above that (i) complete CEM contracts are wholly different in character from normal financial leases for projects that continue to be managed in the public sector at public sector risk; (ii) under complete CEM contracts, the responsibility, the management and the associated risks are genuinely transferred to the private sector in a form of privatisation; (iii) for these reasons, complete CEM projects awarded to private sector contractors on the basis of competition, satisfy the conditions under the scope of the 'Ryrie Rules', and that

- (a) In most cases, the CEM project in question can be regarded as a genuine addition to established public sector programmes; without private sector initiative and private risk capital, the project would not be undertaken. Thus Ryrie requires simply that the project should be economically sound, (i.e. the efficiency gain and the consequent profit should be commensurate with the cost of private financing). Manifestly, complete CEM contracts



- (b) In a few cases, however, the CEM project may truly be seen as forming part of an established public sector programme. In this case, a CEM contract would still comply with Treasury rules provided the efficiency gains and risk transfer savings are commensurate with the cost of private risk capital, though this does not follow automatically. Some public sector organisations e.g. NCB, CEGB, SSEB, B.S.C., BRB. etc have the expertise directly to manage energy saving projects but, as in the private sector, there are many organisations which do not have the in-house capability, and would benefit substantially from the specialist skills of a CEM contractor working under the stimulus of providing risk capital to be rewarded from part of the efficiency gain.

35 John Banham of the Audit Commission in his article in the latest edition of "ENERGY MANAGEMENT FOCUS" clearly agrees with this Department's interpretation:-

"The current view is that where a contract makes it clear that the fees payable relate to the service and not the capital equipment, the payments do not count against capital expenditure limits."

A Rational and Workable System For CEM Contracts

36/ It is, of course, essential for HM Treasury to satisfy themselves that there are control systems in existence in each part of the public sector which contain sufficient safeguards to prevent contracts being entered into as a device to avoid or alleviate the impact of public expenditure controls. To this end, valid tests by which departments and other overseeing authorities may scrutinise the purposes of contract management schemes are required.



37/ These tests not only need to be consistent with government objectives but also to be interpreted in ways consistent with those objectives. This may not always have happened. Moreover, to the extent that current HMT interpretations of the guidelines militate against the achievement of £650 million per annum of savings, there is a sense in which the HMT is 'cutting off its nose to spite its face', with macro policies preventing micro-economic efficiency.

38/ This paper has shown that H.M. Treasury's rules may not need to be changed to accommodate certain CEM schemes; but they do need to be interpreted as originally intended and without any rigid or dated pre-conceptions about the dividing line between public & private sectors. Beyond this, there may, however, be a case for a more drastic revision to reflect recent policy thinking.

39/ But whatever the solution, if the full economic benefit of energy savings is to be achieved, it would be of little practical value if the agreed outcome was that each and every project had to be judged by HM Treasury on its merits to receive their approval. This would be the kiss of death and most certainly frustrate endeavours to 'unlock' the economic potential for public sector energy savings. For this reason, some form of general approval for categories of CEM projects is required, under which they would not be regarded as on a par with financial leases, with the result that the capital value of any assets required would not be scored against public expenditure in the year of the contract.

40/ There are a number of ways in which this could be done. One possible way would be to devise a set of guidelines for category approval which were designed to ensure that the contract was a complete energy management one, involving private sector management, risk, expertise and asset ownership throughout the contract period, thereby manifesting it was not a device to avoid public expenditure. (Acceptable model contracts could in some cases be appropriate with a check list of items). The guidelines would have to have regard to whether:-



- (i) the contract has been arrived at in a fair arms' length competitive situation;
- (ii) other ways of achieving the same savings had been properly explored;

41/ Only in the case of CEM schemes falling outside these guidelines would it be necessary to seek an H.M. Treasury view.

42/ An agreed procedure along these lines would enable CEM to play its full part in unlocking the £650 million p.a. or so public sector economic potential for energy savings, would meet outside criticism, and would provide a boost to a new service industry in a growth sector both at home and abroad. It could also have important employment implications, and through these, savings on the PSBR. Such a procedure could reconcile the aims of both HMT control and those of improved economic efficiency throughout the public sector.

E. H. M. PRICE

EcS 10 October 1986



CCBAG
nbpm
QUEEN ANNE'S GATE LONDON SW1H 9AT

16 October 1986

Dear Peter,

ENERGY EFFICIENCY IN THE CIVIL SERVICE

I am sorry not to have responded sooner to your letter of 31 July.

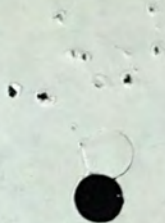
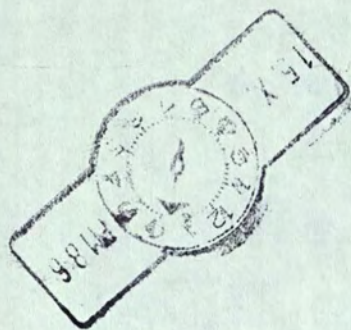
Up to now the Home Office efforts to increase energy efficiency have been concentrated on the prison estate. Here an energy manager was appointed as long ago as 1980. Considerable savings have been achieved. By the end of the financial year 1984/85, despite the fact that the prison estate had increased by 4.7% in heated areas, the energy used had been reduced by 2.3%. The resulting net saving of 7% meant that the Prison Service energy bill for 1984/85 of £24.5 millions represented 93% of what the bill would have been - i.e. a saving of £1.85 millions for that year and each later year. Moreover, because of improved design and technology in both new and existing prisons, the savings for 1985/86, including the already established £1.85 millions, adjusted for changes in energy use, amounted to £2.35 millions; and the target for the present financial year is £2.85 millions. These figures represent approximately 10% of the present Prison Department annual energy bill, and have been achieved mainly by good housekeeping and an investment of a total of just over £1 million in improved technology over the last three or four years.

More recently, and partly in response to the Multi-Department Review of Office Accommodation, the Department decided to draw upon the experience and expertise of the Prison Service energy manager and extend his role to include the rest of our estate (where the energy bill is about £6 millions a year). Our general approach here will be one of incremental implementation involving an attack on two fronts. First, as regards works services, we shall concentrate initially on a relatively small number of buildings consuming large volumes of energy and explore the possibility of a capital investment in certain projects. Then, subject to the outcome and assuming we and/or the PSA might be able to find or redirect at least some resources, we shall give priority to those schemes most likely to deliver improved VFM over a reasonably quick payback period. Secondly, simultaneously and more generally throughout our accommodation, we shall be introducing a sharper focus on good housekeeping measures and operating practice. Having said this, however, I agree with Michael Jopling that initiatives along these lines will not be altogether easy and may take a little longer than we would wish. Apart from the financial difficulties which have been mentioned already, we shall need to provide some extra manpower and there will need to be certain preparatory work before we can get down to setting and monitoring clearly observable targets in particular buildings.

I am sending copies of this letter to the Prime Minister, to all members of the Cabinet in charge of Departments, and to Sir Robert Armstrong.

The Rt Hon Peter Walker, MBE., MP.

Jones,
Douglas.





SECRETARY OF STATE
FOR
NORTHERN IRELAND

cgba

NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

Rt Hon Peter Walker MP
Secretary of State for Energy
Thames House South
Millbank
LONDON
SW1P 4QJ

NRBM

22 September 1986

Dear Secretary of State,

ENERGY EFFICIENCY IN THE PUBLIC SECTOR

Thank you for your letter of 31 July 1986 about energy efficiency in the public sector.

Energy efficiency is particularly important in Northern Ireland because of our higher than average energy costs. It is therefore essential for the public sector to give a strong and positive lead on good energy practice. You may recall that when members of the Select Committee on Energy visited Northern Ireland last year they commended the fact that we had taken the initiative and had already established an Inter-Departmental Committee on Energy Efficiency, which has a key role in co-ordinating and promoting good energy practice in Government Departments and public bodies.

Since its inception in 1984, the Committee has established the structures necessary to improve the public sectors energy performance. Central to those structures is the appointment of energy managers throughout the public sector. At the same time the Committee has fully recognised the value of monitoring and targetting systems and Departments and public bodies are developing and refining systems to meet their individual needs.

The Committee has not been content to pursue generalised savings. It set as an initial target the reduction of energy usage in the public sector by 10% by 31 March 1986 compared to a base year of 1983/84, equivalent to an

annual saving of £4.4 million. While it is not yet possible to say whether the target has been fully realised, initial returns from major energy users in the public sector are very encouraging. For example the Health Service Estate expect an improvement in energy performance of just over 9% compared to 1983/84 while the Prison Service has put in train a programme expected to realise a saving of at least 5% in 1986/87 compared to the previous year.

You mentioned PRS in your letter: we have carefully considered the possibility of adopting PRS in the public sector in Northern Ireland but it was concluded that it would not be appropriate because of the different scale of the Government estate here. This conclusion was later endorsed by a Rayner study.

You can of course be assured of my continuing interest in the action which the public sector in Northern Ireland is taking to improve its energy performance and the savings which can be achieved.

I have arranged for officials in the Department of Economic Development to prepare a memorandum giving details of progress on energy efficiency in Northern Ireland Departments and public bodies and to send this to their opposite numbers in the Energy Efficiency Office.

I am copying this letter to the recipients of yours.

Yours Sincerely
N. Ward
(Private Secretary)

for^{TK}
(approved by the Secretary
of State and signed in his
absence in Northern Ireland)

ENERGY Conservation P12



CCB



Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-233 6106 (Llinell Union)

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)

Oddi wrth Ysgrifennydd Gwladol Cymru

The Rt Hon Nicholas Edwards MP

From The Secretary of State for Wales

NBN

15 September 1986

De Peter

ENERGY SAVING IN GOVERNMENT OFFICES

Thank you for your letter of 31 July. *at nap.*

I entirely accept that we should aim to save energy in our own estate. My department is about to launch an energy saving campaign, and a recently retired member of staff has been engaged to help to get the campaign off the ground. When he has completed the "setting up" tasks of collecting energy usage data, passing it down the line, establishing targets, identifying where the greatest savings might be achieved etc he will pass the on-going work he will have stimulated to a permanent member of staff who will be designated energy manager. From the outset we will encourage local managers and staff generally to save energy by good housekeeping practices.

While I expect this campaign and continuing work to produce worthwhile savings, I do not expect it to show dramatic results overnight for the following reasons:-

- a. my department's annual energy bill is currently of the order of only £2m;
- b. nearly half of my staff are housed in a new Crown building in Cathays Park, Cardiff where there should be little scope for savings. This building was designed with energy conservation very much in mind, the sophisticated environmental controls are in the hands of PSA's resident engineers, and PSA have taken a particular interest in energy consumption in the building which they regard as one of their special energy conservation buildings;

/in many of

The Rt Hon Peter Walker MBE MP
Secretary of State for Energy
Thames House South
Millbank
LONDON
SW1P 4QJ



c. in many of the small outstations, progress with energy saving will be dependent to at least some extent upon landlords, in rented property, and other Government departments particularly major occupiers; and

d. as Michael Jopling points out in his letter of 5 September, spend to save schemes are likely to be frustrated unless the overall funding position is improved.

Nevertheless, as I have said, your drive for energy saving in the civil estate has my full support, and we will do what we can as quickly as we can.

Copies of this letter go to the Prime Minister, all members of Cabinet in charge of Departments and Sir Robert Armstrong.

✓ → em
Acol



10 DOWNING STREET

DRN,

Re SS/Energy to PM 22.7.86
(at Nap).

Energy now say it will
be at least the end of September
before they have any progress
on the promised proposals.

Content to BF until then?

No - don't chase them
any more please.

I want this to be kept

away from the PM. G:U

15/9

DRN

CUBS



MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

NBPM

From the Minister

The Rt Hon Peter Walker MBE MP
Secretary of State for Energy
Thames House South
Millbank
London
SW1P 4QJ

5 September 1986

at nap.

Thank you for your letter of 31 July. I fully agree that we should give energy saving a high priority but I think we must be wary of expecting all departments to produce dramatic results in the short term. In my own case I have, as you know, some 350 buildings widely scattered throughout the country. These include office, storage and specialised accommodation of varying ages and sizes and in various states of repair. The total energy bill is around £3.5 million. Clearly there is scope for savings here but it will take time to achieve them and the task of doing so is rather more complex than for those departments which occupy only a few buildings of a broadly similar kind.

An energy manager has been appointed for my department and we are now collecting the necessary data about energy usage to establish where we could expect to achieve the greatest savings, set targets, and decide on a base line against which to judge future progress. This preliminary, but essential, work is likely to continue for the remainder of the year. The Central Veterinary Laboratory at Weybridge is the largest single energy user in the department and we are currently examining with the PSA the possibility of installing an automated building management system there. An initial appraisal suggests that it could produce very worthwhile savings but there could be problems in finding the money to pay for it.

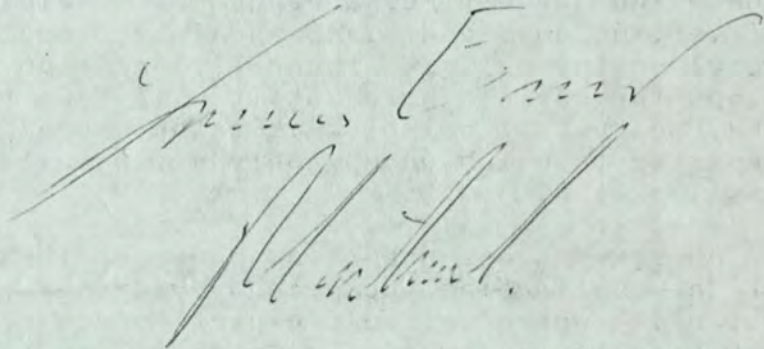
We are, of course, taking steps to increase staff awareness about the costs of energy in the department and the way in which individuals can make savings in their day-to-day work. This is probably the area where results can show up most quickly, if not so dramatically. As I explained in my letter of 10 May, there is very little professional expertise on this subject in

/ my department and ...

my department and this has hindered progress. We must therefore look to you and the PSA for guidance. The recently issued handbook will be helpful but further information on the subject would be welcome. In the longer term I see shortage of funds as a major obstacle to energy savings and I think that if Government is to underline its commitment in this field financial resources must be made available specifically for this work.

You mention the point made by the Head of the PSA about the funds available to departments for certain minor works and the increase of permissible spending levels per job to £5,000 from 1 April 1987. These funds are for building maintenance generally and, in view of the overall underfunding of civil estate maintenance, any diversion of them for energy saving must be at the expense of essential maintenance work. I do not believe that it is realistic or reasonable to expect departments to try to cut energy bills by running-up long term maintenance problems. The PSA's funds for energy saving measures seem to be insufficient to make any real impact across the board and, as the recent correspondence between Sir George Young and the Chief Secretary indicates, their overall funding position is such that they are forced to divert money away from work which departments have paid for under the PRS. Nevertheless, for the longer term we are consulting with the PSA to ensure that all new building projects take into account the need for energy conservation at the planning stage but here too we are constrained by the shortage of funds.

I am copying my letter to the recipients of yours.

A handwritten signature in dark ink, appearing to read 'Michael Jopling', written in a cursive style.

MICHAEL JOPLING



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

Our Ref JM/PSO/10387/86

The Rt Hon Peter Walker MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
LONDON
SW1P 4QJ

August 27. 86

NBM

Don Peter

ENERGY EFFICIENCY IN THE CIVIL ESTATE

attached

Thank you for your letter of 31 July.

I recognise the importance of energy management both as a means of conserving valuable natural resources and for the less altruistic motive of reducing our running costs. We have made a good start on what is a major task with an estate of some 1400 buildings. My comments on the specific points that you raise are set out below.

Appointment of an Energy Manager

We have, with the Department of the Environment (Central), appointed a full-time Energy Manager who works in the Property Management Unit that serves both Departments. He has taken full advantage of the training courses and seminars that PSA provide on the subject.

Monitoring and Targeting System

The Energy Manager is in touch with the two Departments' 235 accommodation officers and will shortly be making detailed arrangements for the collection of consumption data for individual buildings to supplement that already provided by PSA.

We are awaiting delivery of a suitable micro-computer to run your Department's sponsored software. This will enable us to set energy consumption targets for all our main buildings and, in time, we plan to apply this procedure to those buildings which account for 80% of the Department's annual spend of £2.4 million.

Our energy strategy is to reduce expenditure by 20% in the 4 years up to 1989/90. The target reduction for bills relating to the current financial year is £100,000.

Financing Energy Conservation Work

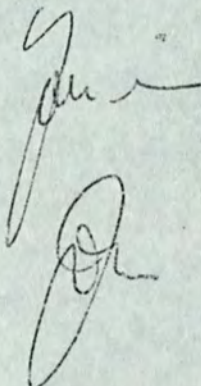
We are taking action on 2 fronts:

- giving priority to no-cost and low-cost measures; and
- exploring the possibility of using current savings on fuel bills to finance further capital energy conservation work within our PRS delegation.

Progress made by the Department

It is too early to put a figure on savings generated in the current financial year, but we are optimistic that we can meet our 5% target saving.

/ A copy of this letter goes to the Prime Minister and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'John Moore', written in a cursive style. The signature is positioned above the printed name 'JOHN MOORE'.

JOHN MOORE





The Rt Hon Peter Walker MBE MP
Department of Energy
Thames House South
Millbank
LONDON
SW1

CCBG
2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

MSM
26 August 1986

Dear Peter

Thank you for your letter of 31 July. ~~ATTACHED~~

My reply distinguishes between DOE (Central) and the Property Services Agency, in the latter case confined to the properties that they themselves occupy.

Appointment of an Energy Manager

DOE (Central) have, with the Department of Transport, appointed a full-time Energy Manager who works in the Property Management Unit that serves both Departments. The PSA have two staff engaged almost full-time on energy work.

Monitoring and Targeting system

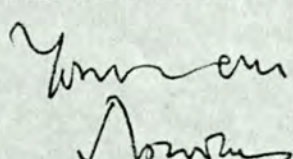
DOE (Central) are making detailed arrangements for the collection of consumption data for individual buildings to supplement that which the PSA already provide. We shall be using a suitable micro-computer to run your Department's sponsored software and to set energy consumption targets for individual buildings. The PSA are setting targets for electricity consumption in their London HQ buildings and will do the same for heating fuels from the Autumn. These arrangements will shortly be extended to their Regional Offices. Extensive use is being made of your Department's posters and publicity material.

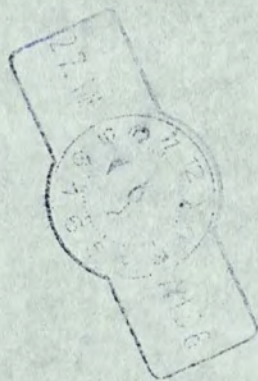
DOE (Central)'s aim is to reduce expenditure by 20% in the four years up to 1989/90. The target reduction for the current financial year is 5% of a total fuel bill of £3.5 million. The PSA have set themselves a target saving of 12% on an annual spend of £2.5 million to be achieved in the 2 years up to March 1988.

Progress by the Department

DOE (Central) are optimistic that they can meet their 5% saving for this year and early indications are that the PSA may significantly exceed their 6% target.

A copy of this letter goes to the Prime Minister and Sir Robert Armstrong.


NICHOLAS RIDLEY



Prime Minister
5/8

CRBS
att.
PB's

PRIME MINISTER

ENERGY EFFICIENCY IN THE CIVIL ESTATE

I am afraid that, despite your support, progress in improving energy efficiency within Government Departments has been disappointingly slow. We really must set a better example if we are to be successful in encouraging the private sector to achieve the significant savings which are available. I have therefore written to all Ministers in charge of Departments along the lines of the attached letter.

I am copying this minute and attachment to Sir Robert Armstrong.

Secretary of State for Energy

4 August 1986



SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QU
01 211 6402

The Rt Hon Malcolm Rifkind QC MP
Secretary of State for Scotland
Dover House
Whitehall
SW1A 2AU

31 July 1986

ENERGY EFFICIENCY IN THE CIVIL ESTATE

As you know, over the last three years I have been taking forward our energy efficiency policy by drawing energy consumers' attention to the benefits of improving their energy utilisation and to the ways in which this can be achieved. This programme has been extremely successful and I am confident that at a relatively small cost in public expenditure we have already stimulated action which will lead to £500 million a year savings across the nation.

I am concerned, however, that we are not making enough progress in our own backyard. In particular, in the civil estate last year the energy bill actually went up by 6%, primarily as a result of increased electricity consumption. The building users, not PSA, are in the best position to influence much of the electricity used. I am sure you will agree that it is essential that we practice what we preach. In my Department, my energy manager cut the electricity costs within his control by nearly 10% last year. This was despite the trend in the rest of the civil estate and the increased use of computers within the Department.

In April the head of PSA wrote to all Permanent Secretaries outlining the considerable potential which could be achieved by energy efficiency measures, and repeating the Prime Minister's request of last Summer that all Departments appoint an energy manager.

In his letter he made the following important points:

- the energy manager appointed should have sufficient time to devote to the task. Energy Efficiency Office experience shows that 1 man-year of effort for every £1 million spent on energy is cost effective;



- a monitoring and targeting system should be established. This step typically cuts energy bills by 10% without significant investment;
- an initial target of 5% saving starting in Energy Efficiency Year should be established;
- Departments can undertake certain minor works for themselves under PRS. I understand that the permissible spending level increases from £1,000 per job to £5,000 per job in the next financial year.

I should be grateful if you would take a personal interest in the action which your department is taking on these specific points and in the savings which are being achieved. It would be helpful if you would let me know what progress has now been made and what further progress your department expects to make in the remainder of the year. In addition, David Hunt will be following up this letter with his opposite numbers.

I am writing similarly to all members of the Cabinet in charge of Departments, and copying the letter to the Prime Minister and Sir Robert Armstrong.

PETER WALKER

Energy Conservation, ENERGY
PT 2.





SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01 211 6402

The Rt Hon Nicholas Ridley MP
Secretary of State for the Environment
2 Marsham Street
LONDON
SW1P 3EB

31 July 1986

ENERGY EFFICIENCY IN THE CIVIL ESTATE

As you know, over the last three years I have been taking forward our energy efficiency policy by drawing energy consumers' attention to the benefits of improving their energy utilisation and to the ways in which this can be achieved. This programme has been extremely successful and I am confident that at a relatively small cost in public expenditure we have already stimulated action which will lead to £500 million a year savings across the nation.

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PETER WALKER



CONFIDENTIAL

VC



CBG

10 DOWNING STREET

From the Private Secretary

30 July 1986

Dear Geoff,

ENERGY EFFICIENCY GRANTS

The Prime Minister has seen the minutes of 14 and 22 July from the Secretary of State for Energy and the Chief Secretary's minute of 29 July, about the proposal for the introduction of energy efficiency grants.

The Prime Minister agrees that this proposal should be studied further and that the decision on whether to introduce the grants will need to be taken in the context of this year's Survey.

I am copying this letter to Tony Laurance (DHSS), Richard Allan (Department of Transport), John Turner (Department of Employment), Robert Gordon (Scottish Office), Colin Williams (Welsh Office), Jill Rutter (Chief Secretary's Office) and Michael Stark (Cabinet Office).

John,

David.

DAVID NORRGROVE

Geoff Dart, Esq.,
Department of Energy.

CONFIDENTIAL

SDW

CONFIDENTIAL

CORG



FROM: CHIEF SECRETARY
DATE: 29 July 1986

PRIME MINISTER

ENERGY EFFICIENCY GRANTS

Prime Minister
Agree that Peter Walker's proposal should be considered in the Survey, not separately?

I have seen Peter Walker's minutes to you of 14 and 22 July ^{at trap} *DR* 29/7. on his proposal for increased expenditure in connection with voluntary insulation projects for low income families.

Yes
no

2 I have not yet seen the details of what he is proposing, but I must register two points at this stage. First, in accordance with the usual rules, the Treasury must be allowed an opportunity to consider the proposals fully and to make our views known in the report that is put to you. Second, any proposals for increased expenditure will need to be considered in the context of this year's Survey. Given our recent Cabinet decision to contain planned expenditure within the existing ceilings, it will not be possible for me to contemplate any proposal for increased expenditure in this area without offsetting savings being provided. The report will need to deal with how the proposals translate into bids by the Departments concerned and where the offsetting savings by these Departments will come from.

3 I am copying this minute to Norman Fowler, Nicholas Ridley, David Young, Peter Walker, Malcolm Rifkind, Nicholas Edwards and Sir Robert Armstrong.

JOHN MacGREGOR

CONFIDENTIAL



COMPRESSOR

10/15/85



10 DOWNING STREET

Prime Minister 2

The Walker would like to create energy efficiency grants for insulation etc, absorbing grants already paid but with some net extra cost. I headed this up earlier because it had not been discussed with other departments. The Walker is keen on the idea and you will wish to be aware.

DRW

23/7

CCBG



mf

Prime Minister

ENERGY EFFICIENCY GRANTS

You suggested that the proposals in my minute of 14 July should be discussed with the other Departments concerned. This is now in hand, and meanwhile you might like this report on where things stand.

David Hunt held a meeting last week with Tony Newton, John Major and Sir George Young. Officials from DHSS, D/Environment, Scottish Office and D/Employment were also present.

Both Tony Newton and Sir George Young, on behalf of their Departments, support my proposal in principle. (Although they were unable to be present I understand that Ian Lang, Michael Ancram and Mark Robinson have also expressed their support.)

They are both personally involved in supporting the voluntary sector insulation projects, and they accept that there is a strong case for doing more for low income households. They also accept that the Home Insulation Scheme is an excellent framework through which to channel the funds for any new scheme. The meeting therefore agreed with the objectives set out in the paper. Officials have now been asked to work out the details of the proposals, particularly on finance, and to report back quickly.

mf
I hope that officials will have completed this work within about ten days. It may well be necessary to have a further meeting of David Hunt's group to discuss their report. But I would nevertheless hope to be able to submit an agreed proposal to you within about the next two weeks.

I am copying this minute to Norman Fowler, Nicholas Ridley, David Young, Malcolm Rifkind, Nicholas Edwards and John MacGregor.

W. Hunt
Secretary of State for Energy

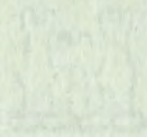
(Approved by the Secretary of State and signed in his absence)

22 July 1986

ENERGY Conservation PT2



COMPTON





CEBS

CONFIDENTIAL

PRIME MINISTER

ENERGY EFFICIENCY GRANTS

Note
Junior Ministers from
DoE, DEnergy and DHSS are
to meet to sort out the facts.

DNW
15/7.

NBPN.

One of the most successful schemes that the Government has supported is the introduction of voluntary insulation projects to help low income families to improve energy efficiency in their homes.

Four Departments have collaborated together: the Department of Health and Social Security, the Department of Employment, the Department of the Environment and my own Department. The result has been considerable activity from which the Department of Employment has already been able to find jobs for 5,000 unemployed and this figure will double over the next two years. It has been successful for the DHSS because one of the areas in which they have been most vulnerable is the heating problems of the aged and it of course has been an area where massive heating additions have been made to the order of £400 million a year to try to meet the social needs involved. The Department of the Environment have benefited in that it has created activity in both the materials and the building sectors for which they are sponsors. My own Department has benefited because it has been able to make a positive contribution to improved energy efficiency.

I do believe in the period of the next two years we could develop this collaboration in a very positive way which would be very cost

CONFIDENTIAL



CONFIDENTIAL

effective in creating new jobs, very socially effective in helping the elderly and the low income groups and very effective in improving energy efficiency.

I understand that there are about to be major announcements affecting single payments which will give rise to further questioning of what our policy intentions are for the voluntary insulation groups. I also note from Nicholas Ridley's letter to John MacGregor of 13 June on his public expenditure programme that from his narrow Departmental view he is willing to make cuts in the Homes Insulation Scheme (which helps to underpin the work of these projects).

I think the politics of doing more are totally to the Government's advantage and the politics of doing less are disastrous. Having to be questioned twice a week in the House you are of course familiar with the allegations concerning those dying from the cold. You have always defended the position as I have on the massive increase we have made in this sphere. If we are now going to announce important changes affecting low income families we really ought to include some reference to positive and constructive measures which we can point to as our alternative. I enclose a paper which I had been working on with a view to consulting colleagues shortly and announcing a scheme before the end of the year. I hope that I will be consulted before any major announcement is made in this sphere.

CONFIDENTIAL



CONFIDENTIAL

I am copying this minute to Norman Fowler, Nicholas Ridley, David Young, Malcolm Rifkind, Nicholas Edwards, John MacGregor, John Biffen, Norman Tebbit and John Wakeham.

A handwritten signature in blue ink, appearing to be 'D. G. Williams', written over the typed name of the Secretary of State for Energy.

SECRETARY OF STATE FOR ENERGY
14 JULY 1986

CONQUETOR



ENERGY EFFICIENCY GRANTS

HEATING ADDITIONS

In order to compensate for underpricing in earlier years, domestic fuel prices have risen since June 1979 by 130% (gas) and 92% (electricity) compared with the RPI which has risen by 74%. The Government has however been able to point to the greatly increased help for poorer consumers with heating costs. We now spend nearly £400 million a year on heating additions, £140 million more in real terms than when we took office.

VOLUNTARY INSULATION GROUPS

In addition we have been able to point to the increasing numbers of voluntary insulation projects. My Department began sponsoring these groups in 1981 when there were five projects. Now there are 270 with over 250 more to come. This has become the biggest national initiative in the Community Programme. Over 200,000 homes have already been insulated and 5,000 jobs created. There will be over 500 groups by 1988/89 with over 10,000 people insulating 500,000 homes every year, many occupied by elderly, sick and disabled people.

CHANGING BACKGROUND

The Social Security Bill abolishes weekly Heating Additions and Single Payments. There is now also a proposal from the Department of the Environment that the funds available through the Homes Insulation Scheme should be considerably reduced. The latter two moves would cripple the work of the voluntary insulation groups. The materials they use are funded three-quarters by DHSS Supplementary Benefit Single Payments for draughtproofing and one-quarter by Homes Insulation Scheme Grants for loft insulation.

We have however made it clear that the amounts spent on heating additions will be included in the resources for the proposed income



support scheme and that before ending single payments we would ensure that alternatives existed to secure the future of voluntary groups.

ENERGY WASTE

In Energy Efficiency Year we have highlighted the serious waste of energy in the domestic sector. The target improvement of 20% is equivalent to about £2 billion per annum. Insulation of existing homes could contribute about £1.4 billion. Three-quarters of the Homes Insulation Scheme Grants are at the level of 66% (up to £69 per applicant) without reference to the applicant's personal financial position. These grants are being very successful in improving the energy efficiency of the nation.

Amongst low income households the up-take of all insulation measures is well below the national average. A large part of the remaining uninsulated lofts and tanks are in such households.

ENERGY EFFICIENCY GRANTS

Many of the 8 million people in receipt of Housing Benefit and Supplementary Benefit face increasing problems with their fuel bills because of inadequate insulation and defects in the fabric. Any scheme should therefore concentrate on improving the energy efficiency of their homes.

The Homes Insulation Scheme administered by the Department of the Environment and the Scottish and Welsh Offices provides an excellent framework through which to channel the funds for any new scheme.

The voluntary insulation groups with their effective insulation service would provide a comparatively inexpensive means of channelling the necessary funds through to the disadvantaged.



I therefore propose we announce bold and imaginative proposals before the end of the year to provide an integrated package of assistance for those on low incomes. We should widen the present narrow eligibility criteria for the higher level of grants under the Homes Insulation Scheme to cover 100% Energy Efficiency Grants to all those in receipt of Supplementary Benefit and Housing Benefit. We should extend the scheme to cover not only loft insulation but also draughtproofing and other forms of insulation. Responsibility for funding this Scheme would fall to the Department of the Environment and the Scottish and Welsh Offices. The Energy Efficiency Grants would enable the voluntary insulation groups to continue and extend the range of the insulation advice and services they provide. The new scheme would start as from 1 April 1987.

MSC would continue to fund the employment costs through the Community Programme and my Department would continue its start-up financing of the groups.

COST

The forecast expenditure for the DHSS in 1987/88 on insulation materials is up to £20 million. The likely forecast for 1987/88 expenditure on the hitherto 90% Homes Insulation Grant is estimated to be up to £10 million.

My scheme would involve a programme of £50 million per annum which would enable an average of £100 each (up to £150 in particular cases) to be spent on 500,000 households every year ie further estimated expenditure of £20 million per annum with a limited further requirement to cover any associated administration costs.

CONCLUSION

This scheme will greatly improve the energy efficiency of low income households. As a result not only will people be more comfortable but in most cases their heating bills will be reduced. A difficult part of the housing stock would be improved. Thousands



of jobs would be safeguarded and many more created in what has been one of the most successful national schemes. A further stimulus will have been given to the construction industry. Above all the social benefits to the disadvantaged will once again demonstrate our commitment to a caring society in the most practical way possible.





Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET 5422
Telephone (Direct dialling) 01-215
GTN 215
(Switchboard) 01-215 7877

3 February 1986

The Rt Hon Peter Walker MP
Secretary of State for Energy
Thames House South
Millbank
LONDON
SW1P 4QJ

NBrom

Peter

SELECT COMMITTEE ON ENERGY : REPORT ON ENERGY EFFICIENCY OFFICE

Thank you for sending me a copy of your letter to Kenneth Baker of 29 January with a draft response to the Select Committee report on the Energy Efficiency Office.

2 I am generally content with the proposed draft response. However I am concerned that paragraph 48 on Building Regulations and energy efficiency standards appears to go further than the position set out in paragraph 39 of the recent White Paper "Lifting the Burden". It appears to accept, for example, that higher minimum standards would be economically justified; that there is a role for building regulations in setting "good" (rather than "basic") energy efficiency standards; and that there is an agreed aim to move "as rapidly as possible" to "higher energy efficiency standards incorporated in regulations", albeit ones designed to allow maximum freedom.

3 I should want to know that David Young was content with this paragraph or an alternative to it before it went to the Select Committee.

4 I am sending a copy of this letter to the Prime Minister, Nigel Lawson, George Younger, Norman Fowler, David Young, Nicholas Ridley, Malcolm Rifkind, Nicholas Edwards, Tom King, Kenneth Baker, Richard Luce, and Sir Robert Armstrong.

Yours

Paul

JFLAUQ

PAUL CHANNON

**17
19 86**
BOARD OF TRADE
BICENTENARY



CCBG

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALLING 01-218 6169

MO 26/17/2V

3rd February 1986

NBM

Dear Peter,

SELECT COMMITTEE ON ENERGY: REPORT ON ENERGY EFFICIENCY OFFICE

Thank you for sending me a copy of your letter of 29th January to Kenneth Baker, enclosing a draft response to this Energy Committee report.

You will know from your attendance at our "Energy Special" on 10th December that the Ministry of Defence is now taking energy efficiency very seriously. We are particularly conscious of the point made in paragraph 11 of the response, since money spent on non-operational energy use is money which cannot be spent on strengthening our operational capability. We believe that the initiative launched last year will create significant additional savings for the Defence Budget.

John Lee has taken a particularly close interest in these matters, and will be holding a meeting next week of our Steering Group for Defence Energy Efficiency to review progress over the

The Rt Hon Peter Walker MBE MP



last few months and plans for the future. One of the things which is likely to come out of that meeting is a requirement for all sites on the Defence Estate to appoint Energy Managers, as predicted in paragraphs 8 and 38 of the response.

The section of the response which most concerns the Ministry of Defence is, of course, paragraph 38. There are one or two minor drafting changes which I would suggest and a / revised version of the text is attached. This also takes the opportunity to refer the Committee back to their comments about the Ministry of Defence in the main body of the report, and in particular the memorandum we have sent to the Defence Committee.

I am copying this letter to the Prime Minister, Nigel Lawson, Norman Fowler, David Young, Nicholas Ridley, Malcolm Rifkind, Nicholas Edwards, Tom King, Kenneth Baker, Paul Channon, Richard Luce and to Sir Robert Armstrong.

Yours well,

George

George Younger

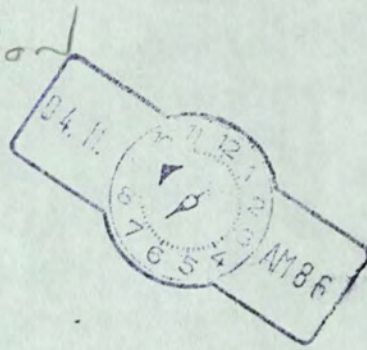
REVISED VERSION OF PARAGRAPH 38

A special briefing meeting was held in December for staff responsible for management within the Ministry of Defence. This was addressed by the Secretaries of State for Defence and Energy and attended by more than 250 senior officers and officials. A senior official within the Defence Staff has been appointed as Energy Co-ordinator for the Defence Estate, and consideration is being given to requiring each major site to nominate an energy manager responsible for monitoring energy consumption. The Committee noted that the Select Committee on Defence has recently also expressed an interest in the subject of energy efficiency in the MoD: a memorandum was submitted to that Committee by the Ministry of Defence in November 1985. The Government intends to secure substantial improvements in energy efficiency in the Defence Estate.

ENERGY

CONSERVATION

PT 2





Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

31 January 1986

Geoff Dart Esq
Private Secretary to the
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
LONDON
SW1

NRBM

Dear Geoff

aman
The Chancellor has seen your Secretary of State's letter of 29 January to Mr Baker, enclosing a draft response to the Energy Select Committee Report on the Energy Efficiency Office. He is content for the response to be published.

I am copying this letter to the Private Secretaries of the copy recipients of Mr Walker's letter.

Yours ever

Tony Kuczys

A W KUCZYS
Private Secretary

~~NAT 108~~

ENBROT PT 2

Energy Conservation



SECRETARY OF STATE FOR ENERGY
TRAMIS HOUSE SOUTH
CORNHILL LONDON SW1E 4QJ

01 211 6402

NBRN.

The Rt Hon Kenneth Baker MP
Secretary of State for
the Environment
2 Marsham Street
London SW1

29 January 1986

Kenneth Baker

SELECT COMMITTEE ON ENERGY: REPORT ON ENERGY EFFICIENCY OFFICE

The Select Committee reported on the Energy Efficiency Office in November. Its report, whilst dealing mainly with the work of the Office, also commented upon programmes and policies of other Departments that influence the improvement of energy efficiency. The draft response attached therefore covers a similar range.

The Committee welcomed the creation of the Office and broadly endorsed its programmes. They considered, however, that it was receiving inadequate support from other Departments and pointed particularly to the opportunities available for improving energy efficiency in Government's own estate. I know how much you and other colleagues are supporting the energy efficiency campaign, and the response deals at some length with the initiatives now being taken in the public sector. The Committee's perceptions are therefore wrong, but they illustrate how easy it is for different parts of Government to appear to be holding back. I hope, therefore, that you and other colleagues will take particular care during Energy Efficiency Year to avoid policy initiatives which seem to run counter to this campaign. We all need to keep in mind that £7 billion could be cut from the nation's energy bill.

The Committee are expecting the response very shortly and I should therefore be grateful for your comments by Monday, 3 February. For convenience, I attach a list of the Committee's recommendations and the paragraphs in the response that address them.

I am sending a copy of this letter and the attachments to the Prime Minister, Nigel Lawson, George Younger, Norman Fowler, David Young, Nicholas Ridley, Malcolm Rifkind, Nicholas Edwards, Tom King, Paul Channon, Richard Luce, and Sir Robert Armstrong.

Peter Walker

PETER WALKER

Structure of response

	Paragraphs
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EEO aims and priorities	9-16
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Public sector	33-41
Domestic sector	42-54
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Energy supply interests and supply investment	61-66
Conclusions	67-69

GOVERNMENT OBSERVATIONS ON THE EIGHTH REPORT FROM THE SELECT COMMITTEE ON
ENERGY - SESSION 1984-85

Memorandum from the Secretary of State

Introduction

1 The Select Committee's Report on the Energy Efficiency Office (HC 87), published in November 1985, provided a timely commentary on the activities of the EEO at the start of Energy Efficiency Year. The Government welcomes the Committee's continued interest in energy efficiency and shares its conviction that improving energy efficiency must be a prime aim of energy policy. The eighth report recognised that the Government is committed to that aim. Raising energy efficiency is not, however, just an energy policy aim - it is part of and contributes significantly towards the Government's wider aims of improving economic efficiency and hence the competitive position of United Kingdom industry, enhancing efficiency in the public services and providing better value for money for consumers.

2 The Government has considered carefully the observations and recommendations in the eighth report. This memorandum, like the report, deals not only with the promotional and information programmes of the Energy Efficiency Office, but also with more general aspects of the Government's energy efficiency policy. It provides the statement of the EEO's priorities and the logic behind these requested by the Committee.

3 Where possible, the memorandum provides the "statistically hard" facts about the achievements of the Energy Efficiency Office requested by the Committee. The Government agrees with the Committee that the Office should seek to quantify its overall impact and the response to individual programmes.

Appropriate surveys are in hand, and monitoring procedures are an integral part of all its main programmes. However, while it may be possible to monitor awareness of energy efficiency and the take-up of specific schemes, a significant interval may elapse before a decision to improve energy efficiency is taken and many other factors, outside the control of the Office, can influence that decision. Any assessment of the impact of the Office on national energy efficiency must therefore be subject to considerable uncertainty.

General policy framework

4 In its observations on the Committee's fifth report, the Government set out the principles which underlie its policy on energy efficiency. Chief of these is the belief that reducing energy use for its own sake is neither desirable nor wise. The value of any reductions achieved must be related to the investment needed and to any social or behavioural changes required. The programmes of the Energy Efficiency Office are therefore aimed at stimulating decisions about energy use which are, and are seen as, cost-effective by the decision-maker, whether in industry, the public sector or the home; the Office does not promote energy conservation irrespective of cost.

5 If energy consumers are to make optimum decisions on energy efficiency, energy prices must properly reflect the resources required to supply energy both now and in the future. The correct signals must be given to the consumers. In addition, the consumer will be assisted by competition between energy supply interests, each seeking to satisfy his energy needs in an economical fashion and therefore keen to promote appropriate energy efficiency measures. The twin foundations of the Government's energy efficiency policy are therefore the encouragement of realistic pricing for energy, in order that

consumers may have the right economic framework for evaluating energy efficiency measures, and the encouragement of competition among energy supply interests. By these means, economic forces can act most effectively to encourage consumers to use their energy efficiently.

6 The Government recognises, however, that if these forces are to operate properly in all areas of energy use, the barriers which may impede their operation must be identified and tackled. The Energy Efficiency Office was therefore created in October 1983 in order to devise, administer and promote programmes that would help energy markets operate more effectively.

Energy Efficiency Office achievements

7 The Government welcomes the Committee's recognition that in the Energy Efficiency Office it has a vigorous and effective organisation for promoting energy efficiency. Since its formation, the Office has an impressive list of achievements to its credit. It has:

- enabled 16,000 senior executives to hear about energy efficiency at 40 breakfast-time meetings addressed by Department of Energy Ministers
- stimulated a great increase in the number of energy managers; membership of energy management groups has increased 70% to 8,500 over the past two years
- agreed to provide grants towards the cost of over 5000 energy surveys which are expected to identify ~~£~~160 million of savings - a 20% reduction for the organisations covered

- arranged over 70 seminars under the Energy Efficiency Demonstration Scheme, and through the Scheme stimulated £120 million worth of energy savings

- completed the development of Monitoring and Targeting systems in 10 industrial sectors with a further 10 under way; such systems are now in use on 100 major energy-using sites

- commenced promotion of monitoring and targeting systems in four sectors, the first of which is already showing energy savings worth £11 million annually

- contacted 150,000 professional staff concerned with energy use in industry and commercial buildings and for the first time given them yardsticks against which to measure energy performance

- exhibited at 18 major exhibitions and, through its touring exhibition caravans, at nearly 300 local events

- provided start-up funding for 176 voluntary sector insulation groups, whose members were previously unemployed, which have so far insulated over 130,000 homes of disadvantaged members of the community

- established a Technical Sales Data Service, now operating wholly commercially, which enables prospective customers to identify suitable suppliers of equipment and services.

8 The Office has also been active in promoting energy efficiency in the Government estate, local authorities and other parts of the public sector, with consequent benefit to tax and rates payers. It has:

- stimulated decisions to appoint an energy manager in every Government Department and every military site
- promoted, in conjunction with the Department of Health and Social Security, major initiatives to improve energy efficiency in the National Health Service
- prepared, jointly with the Audit Commission, systems for energy value-for-money studies by the Commission's auditors starting in 1986, and trained the auditors in their use
- prepared and published detailed guidance on the employment of contract energy management companies by local authorities and promoted the use of such companies
- published, in collaboration with the National Housing and Town Planning Council and the Association for the Conservation of Energy, a guide to good energy practice in local authority buildings
- produced energy monitoring and targeting systems suitable for all local authorities (to be promoted during 1986).

Energy Efficiency Office aims and priorities

9 Extensive studies (eg the Committee's fifth report on Energy Conservation in Buildings and "Energy Use and Energy Efficiency in UK Manufacturing Industry up to the Year 2000", published by the Office as Energy Efficiency Paper No 3) have shown that improvements of at least 20% could be obtained across all energy use sectors by cost-effective measures employing known technology. In 1983, when the Energy Efficiency Office was launched, this represented a potential saving to consumers of £7 billion annually, made up as follows:-

	£bn
Industry and commerce	1.9
Public sector	0.4
Domestic	1.9
Transport	2.8
TOTAL	<u>7.0</u>

These are inevitably broad-brush figures and in 1986 the £7 billion figure still represents the magnitude of the opportunity open to the nation for cost reductions through improved energy efficiency.

10 In general in industry and commerce, half of the potential energy savings identified may be obtained through management measures that involve little investment while the other half require investments with pay-back periods acceptable to the managements concerned. Securing senior management commitment to the improvement of energy efficiency is therefore an essential first step; this has to be followed by the provision of appropriate management tools and of information on energy usage and efficiency measures relevant to the needs of

the particular firm or site. Major energy users can be identified and contacted individually; programmes can be targeted on the needs of specific sectors and priority given, where feasible and appropriate, to sectors with high potential for improvement.

11 In the public sector, there are the same needs although management structures and approaches to energy efficiency differ; in particular, the principal incentive to raise energy efficiency is not to improve competitiveness, but to release cash for services more related to the main objectives of the organisation or to enable overall running costs to be reduced. Financial arrangements also differ.

12 The aims of the Energy Efficiency Office in both sectors are therefore:

- (i) to create and sustain in senior management awareness of energy efficiency as a factor in their firm's competitive position or their organisation's running costs and thus a matter deserving their attention;
- (ii) to encourage the establishment of effective management structures, procedures and skills for controlling energy costs and to assist the development of management methods and performance standards relevant to the needs of specific sectors;
- (iii) to encourage managements to obtain professional advice on the potential for energy efficiency improvements in their own plant or buildings;

(iv) to overcome reluctance to invest in novel energy efficiency technology;

(v) to assist prospective customers for energy efficiency equipment and services to identify potential suppliers.

13 The domestic sector differs markedly from industry and commerce or the public sector. First, energy use is highly fragmented into 20 million households. This means that the energy efficiency message can reach a high proportion of domestic energy users only through advertising media or through organisations such as the gas and electricity supply industries with much more extensive contact with the public. Secondly, annual energy bills are small by comparison with non-domestic users; it is therefore very difficult to provide advice tailored to the needs of the individual in a cost-effective manner. Thirdly, domestic consumers have diverse and non-economic objectives in discretionary expenditure - entertainment, comfort, leisure interests etc - and are not necessarily motivated by the prospect of reducing energy costs. (While industrial and commercial managements may choose not to invest in energy efficiency measures, they will all recognise the relevance of cost reduction to their business activities.) Finally, many of the households most in need of improved energy efficiency are unable to afford the measures that would enable them to obtain better value from their energy expenditures.

14 The aims of the Energy Efficiency Office in the domestic sector are therefore:

(i) to increase awareness of the measures that can be taken to improve energy efficiency in the home;

- (ii) to provide house owners and tenants with advice, tailored as closely to their individual circumstances as can be accomplished without excessive cost, on the potential benefit to be derived from different energy efficiency measures;
- (iii) to encourage and assist professional, financial and trade organisations that influence the housing and home improvement markets to draw householders' attention to the benefits of improved energy efficiency;
- (iv) to ensure as far as possible that statutory requirements and non-statutory codes relating to buildings and domestic appliances reflect cost-effective energy efficiency standards;
- (v) to accelerate the installation of energy efficiency measures in low-income householders.

15 In the transport sector, both consumers and equipment suppliers are very conscious of energy costs, since they are a large proportion of total running costs. There is therefore competition between suppliers to improve energy efficiency and active promotion of the energy efficiency features of different types of car, goods vehicle or aircraft. Economic forces act effectively to improve the inherent efficiency of transport equipment and as less efficient vehicles are replaced by progressively more efficient models, the 20% improvement sought in this sector should be achieved. The Department of Transport issues guidance on driving habits and vehicle maintenance procedures that promote economy in fuel use. For the Energy Efficiency Office, this is not at present a priority area.

16 The following sections outline the principal initiatives taken by the Energy Efficiency Office in the industrial and commercial, public sector and domestic markets and respond to the Committee's comments on these programmes.

Industry and Commerce

Breakfast Briefings

17 Ministers from the Department of Energy have addressed 40 Breakfast Briefing meetings on energy efficiency, attended by a total of 16,000 senior executives from industry, commerce and the public sector. Representatives were invited from virtually every firm with more than 100 employees and many smaller firms. At the briefings, the importance of having a named executive responsible for energy management was stressed; a follow-up survey has shown that, of the firms in the sample surveyed, a third had appointed an energy manager, three-quarters had started to monitor their energy use and nearly a half had arranged an energy survey.

18 Thirteen follow-up seminars to the Breakfast Briefings have been organised by the Energy Systems Trade Association and the CBI on behalf of the Office. 2000 delegates have attended these in order to hear presentations on general techniques for improving energy efficiency such as waste heat recovery and building energy management systems. Associated exhibitions have enabled suppliers of energy efficiency equipment and services to meet prospective customers.

19 A new series of breakfast meetings has now started; the first took place at Grosvenor House on 23 January. These will build upon the first series by giving senior managers an insight into modern techniques and technologies for improving energy efficiency. The presentations will include working demonstrations and each briefing will have an associated exhibition.

Energy Efficiency Survey Scheme

20 This provides financial support for energy surveys. The committee commended the Scheme as a thoroughly worthwhile way of spending public funds, with annual savings worth £70 being identified for every £1 spent by Government on short surveys and £30 for every £1 spent on extended surveys. The Government agrees that this Scheme has provided a most worthwhile initiative and looks to enhanced take-up by industry and commerce in 1986. The Committee recommended its extension to charitable and non-commercial building users; it is already available to charities and to public authorities and covers all commercial and non-commercial buildings, except dwellings and buildings managed by the Property Services Agency.

Energy Efficiency Demonstration Scheme

21 The Government welcomes the Committee's support for this Scheme, which supplements the other information activities of the EEO by providing objective information on the performance of novel energy efficiency technology or building designs. The principles and targets for the Scheme were published in September 1984 as Energy Efficiency Paper No 1; the December 1985 target of 1.5 mtce (million tonnes of coal equivalent) savings, worth £120 million, has been achieved. Table 1 shows how these savings were spread across different energy use sectors; it is the product of detailed monitoring of the take-up of individual projects, as urged by the Committee.

22 The Committee commented on the apparently large proportion of the Scheme's costs taken up in administrative costs. In fact, as the EEO's supplementary evidence to the Committee showed, these amount to only some 10% of the "management and promotion" costs of the Scheme (or less than 5% of its total costs). The remainder is accounted for by the staff costs of assessing and

preparing new proposals, providing technical management for the 134 currently active projects within the Scheme, and the organisation of the 43 seminars held during 1985, attended by a total of 5,100 delegates, which provide opportunities for promoting not only the technology under consideration, but also more general energy efficiency messages, to technical decision-makers.

23 The Committee also commented on the decline in the number of projects approved under the Scheme since the peak year of 1981/2. In part, this reflects the increased proportion of staff effort at the Energy Technology Support Unit (ETSU) and the Building Research Energy Conservation Support Unit (BRECSU) devoted to the promotion of results from earlier projects in order that the benefits from these may be obtained rapidly. There has been a steady increase in the complement of both ETSU and BRECSU in order to accommodate the increasing portfolio of projects and the extra promotional activity. Both units are also employing consultants to supplement their technical management resources and expect this form of support to grow. In 1985, there was a welcome rise in the projects accepted under the Scheme but the true test of the Scheme's success is not the number of projects accepted, but the energy savings that it generates.

Monitoring and Targeting

24 Adequate monitoring of energy usage, so that consumption for a particular building or process can be compared with a standard which takes account of weather conditions, output levels etc, is essential for good energy management. Deviations from the consumption expected under efficient conditions can be identified and remedial action taken. Action programmes may then be initiated and targets for improvements set. The Energy Efficiency Office is helping sectoral bodies to develop "monitoring and targeting" systems in the major

sectors of energy use. These systems establish a management method for energy use relevant to each sector which takes fully into account the processes and characteristics of the sector. When a development project is completed, the resulting M & T system is promoted throughout the sector by the Office and the relevant sectoral body. In the paper and board industry, for example, a system is now in operation at mills accounting for 50% of the industry's output, and in total they are currently saving ~~£~~11 million annually, which represents a 12% improvement in efficiency.

25 Work is underway in 20 sectors and by the end of 1986, 15 systems are expected to be completed. The Energy Efficiency Office plan to cover 40 sectors by the end of 1989 and to have M & T systems installed in 800 major energy-using sites by then. This should result in expected annual savings of £300 million for an estimated Government expenditure of £9 million.

26 Owners and occupiers of commercial and industrial buildings have been provided with guidance on expected energy costs through the Energy Efficiency Office publication "Energy Efficiency in Buildings". This has drawn together information on different types of buildings - offices, warehouses, retail stores etc - in a form which enables owners and tenants to see how the energy costs of their buildings compare with those of similar buildings with different levels of efficiency. This publication has been widely promoted and very well received.

Support for energy managers

27 The Office continues to support local Energy Manager groups which enable managers to exchange experience and to hear about new techniques for improving energy efficiency. These efforts are assisted also by the monthly newspaper of

the Office, "Energy Management", which has a circulation of 40,000 copies and which in 1985 has been complemented by a series of highly regarded two-monthly "Focus" magazines, each dealing with a particular aspect of energy efficiency, which have rapidly become established as reference works on current developments. The ninth National Energy Management Conference and Exhibition, held at the National Exhibition Centre in November 1985, attracted record attendance.

28 Much of the day-to-day work of assisting energy managers and informing industrial and commercial managements about the potential for improving energy efficiency falls to the Regional Energy Efficiency Officers and their staff. The REEO teams have all been strengthened to cope with the enhanced demands upon them.

Financial aspects

29 The Committee invited the Energy Efficiency Office to prepare possible selective grant or low interest loan schemes for energy efficiency improvements in industry. As the Committee will know, the Government does not consider that taxpayers should subsidise investments that are so clearly advantageous for energy users; furthermore, such subsidies are unlikely to be as cost-effective in stimulating energy efficiency improvements as existing schemes. It is far preferable for managers (including managers of financial institutions) to be fully aware as a result of the Office's activities of the opportunities available for cutting operating costs through energy efficiency measures that offer short pay-back periods and to take these into account in setting investment priorities and making funding decisions. Similarly, the Government would not wish to favour this type of investment as compared with others in its

fiscal arrangements, although it is, of course, willing to examine any instances where these appear to prejudice the improvement of energy efficiency, and to consider the merits of any amendments within the framework of its general fiscal and economic policies.

30 The Government has, though, recognised that financial assistance can be helpful in overcoming firms' reluctance to invest in untried technology - hence the grants offered under the Energy Efficiency Demonstration Scheme - or for conversion to coal firing, widely and wrongly associated with environmental and handling problems, but which does have high initial capital costs. The Committee recommended that the Coal Firing Scheme should be extended to industrial wastes firing. This would not be appropriate since the essential purpose of the Scheme is to promote industrial markets for coal; however, projects are eligible for support if coal provides 75% or more of the annual fuel input and so up to 25% could come from wastes. The Coal Firing Scheme has already assisted some 400 projects with annual coal burn in excess of 2.5 million tonnes. Because of its success, the Government has extended the deadline for receipt of applications to June 1987 and has lifted the ~~£~~75 million ceiling on the Scheme.

31 As the Committee noted, one of the more significant and encouraging developments in the promotion of energy efficiency over the past year or two has been the growth of contract energy management companies. These offer to take over and operate the energy services of a firm's buildings or industrial processes, install any energy efficiency measures necessary, and so provide energy at lower overall costs to the client. Through using such companies, firms can reduce energy outlays while preserving their capital budgets, and

staff and management time, for their main business areas. The Energy Efficiency Office has accordingly supported the marketing activities of contract energy management companies to industry and commerce through the publication of case histories and looks to their making an increased contribution to national energy efficiency.

32 In summary, therefore, the Energy Efficiency Office has in place an effective set of schemes for improving the ability of commercial and industrial managements to identify and appraise cost-effective energy efficiency measures and for providing the requisite information about the needs of individual sites and the technical measures that can be utilised. There is also clear evidence that these schemes are having the desired impact. The Energy Efficiency Office will continue to promote them vigorously in Energy Efficiency Year and beyond, in order that effective energy management should in due course be generally accepted as an essential component of good management practice.

Public Sector

33 The public sector spends about 2 billion annually on energy. The Committee are right to point out that many opportunities still exist for reducing this in a cost-effective manner, despite the attention given to energy costs by many public bodies over the past decade. Many of the initiatives and programmes described in relation to the industrial and commercial sector apply also to the public sector.

34 For Local Authorities, the Audit Commission has published a report prepared in conjunction with the Energy Efficiency Office on how authorities should analyse energy consumptions in their non-domestic buildings and identify the potential for efficiency improvements. ("Saving Energy in Local Government

buildings", HMSO, 1985). This report describes performance standards for different types of buildings which take into account usage and weather conditions. In 1986, the Commission will be auditing the energy management activity and energy efficiency of individual authorities.

35 The Energy Efficiency Office has also funded the development of systems for monitoring energy consumption and setting targets for reductions that are suitable for the range of local authorities, from small district authorities to county authorities with energy bills of $\frac{1}{3}$ million or more. LAMSAC is promoting and supporting these systems.

36 Contract energy management companies can offer local authorities and other public sector bodies improved energy efficiency without the need to commit additional capital or staff resources. The Government wishes to encourage their use; the Energy Efficiency Office has published detailed guidance to aid local authorities who are employing or who wish to employ a contract energy management company and will be promoting and monitoring the use of such companies during 1986.

37 The Committee acknowledged the commitment of Health Ministers to promoting energy efficiency in the National Health Service and referred to the issue of Focus, the Energy Efficiency Office's new magazine, that was devoted to that subject. Senior NHS administrators have attended Breakfast Briefings and Health Service buildings have accounted for 17% of the grants under the Energy Efficiency Survey Scheme. The use of contract energy management companies by the Health Service will be promoted. A significant development in energy

management within the NHS has been the production by the Department of Health and Social Security of a comprehensive Energy Code for the Health Service (ENCODE) which provides guidance on energy management. This is being actively promoted by both DHSS and the Energy Efficiency Office.

38 A special briefing meeting was held in November 1985 for staff within the armed forces and Ministry of Defence responsible for energy management. This was addressed by the Secretaries of State for Defence and Energy and attended by more than 250 senior officers and officials. A Rear Admiral has been appointed energy co-ordinator for the military estate and each major site will shortly have an energy manager with a duty to audit energy use in 1986. The Government intends to secure substantial improvements in energy efficiency in the military estate.

39 Much has already been achieved in The Government civil estate. But more remains to be accomplished. The Prime Minister has instructed each Department to appoint an energy manager and to report progress in improving energy management by July 1986. The Property Services Agency will be giving full support to these energy managers through training packages and technical guidance (including guidance on monitoring and targetting systems) and will make energy performance indices available for all buildings. PSA will take the lead in securing collaboration among tenants in multi-tenanted buildings and will also be exploring the use of contract energy management in the civil and military estates.

40 The Government therefore agrees with the Committee that all Departments should be committed to the effective use of taxpayers' money through efficient energy management. It has taken steps to make Departments aware of their responsibility for improving energy efficiency; the extent to which the Public Accounts Committee wishes to examine Accounting Officers on this subject is a

matter for that Committee. The Government welcomes greater private sector involvement in public sector activities where this is likely to lead to greater efficiency and lower costs and is always prepared to consider sympathetically proposals which meet these criteria. The initiatives outlined above show, for example, that the Government is actively promoting the use of contract energy management companies.

41 The Committee recommended that a "conspicuous" energy efficiency campaign should be mounted at the Palace of Westminster. This is, of course, a matter for the House of Commons (Services) Accommodation and Administration Sub-Committee in conjunction with the Property Services Agency.

Domestic Sector

Finance and advice

42 The Government agrees with the Committee that the problems of securing finance for energy efficiency measures in the domestic sector can constitute a constraint on take-up. For owner occupiers, energy efficiency measures must generally be financed from savings or loans, and the Government welcomes the steps that many Building Societies are now taking to publicise the availability of home loans for this purpose. A measure of direct financial assistance for domestic householders - whether owner-occupiers or tenants - is provided by the Homes Insulation Scheme which will continue to be the Government's largest programme in the domestic sector. During 1986/7, the Scheme will continue to support the installation of loft insulation and the lagging of hot water tanks. The Energy Efficiency Office and the Department of the Environment will consider whether in later years there are additional measures that it would be cost effective to promote, and whether there should be any adjustment in the

level of grants provided. DoE and the Energy Efficiency Office are also discussing with local authority associations the financing of energy efficiency improvements in local authority housing.

43 The provision of information to consumers on the relative cost-effectiveness of measures to reduce fuel bills is an important part of the Government's programme. A new version of the Guide to Home Heating Costs will shortly be published by the Energy Efficiency Office. This will enable consumers to see by how much they could expect their fuel bills to be reduced if they adopted a succession of energy efficiency measures. The Guide will also show how much these measures are likely to cost on each type of house. It can thus be used as a "Do it yourself" home energy audit.

44 The Government notes the various recommendations made by the Committee on Home Energy Audits, has considered very carefully the lessons from the HEAT scheme and accepts the view of the Committee that energy labelling of homes is likely to make only a modest and slow impact on energy consumption in the domestic sector overall. Extension of the Energy Efficiency Survey Scheme to the domestic sector, as suggested by the Committee, would require a very significant increase in staff and would not be cost-effective because the administrative and survey costs would be high in relation to the savings of individual households.

45 Work continues, however, on the development of a simple home energy label that could be readily understood by owners and buyers of houses, and which might be used by estate agents to promote the market value of energy efficient houses. The Energy Efficiency Office will also continue to promote with the

Buildings Energy Efficiency Confederation their marketing checklist of energy efficiency measures in the home. (This is a scheme whereby a householder who has, for example, replaced his boiler, is advised by the contractor carrying out the work of further measures that he could take to reduce his fuel costs and how he could obtain information on those measures.) Studies supported by the R&D programme of the Energy Efficiency Office could lead to a more sophisticated home energy label.

Help for low income households

46 Some consumers on low incomes are unable to contemplate energy efficiency measures unless they are free or virtually free. Others live in rented premises. The Energy Efficiency Office continues to support the work of the voluntary sector insulation project groups and Neighbourhood Energy Action - the co-ordinating charitable organisation - as an effective channel through which Government help can be given to improve energy efficiency and standards of heating in low income households. These project Groups utilise resources drawn from four different Departments - labour from the Manpower Services Commission Community Programme, grants from the Department of the Environment for tank and loft insulation, single payments from the Department of Health and Social Security for draught-stripping and grants to help establish project groups from the Energy Efficiency Office. They thus illustrate how different Departments' programmes can be combined to improve energy efficiency.

47 The Government notes the Committee's recommendation that the report from a study of energy efficiency in low income households should be placed in the Library of the House. However, as the Committee are aware, that study was prepared only as a basis of policy advice for Ministers. It is not Government practice to publish such papers.

New housing standards

48 Although the main challenge in the domestic sector is the improvement of the existing housing stock, ensuring as far as possible that new dwellings are constructed to cost-effective energy-efficiency standards must also be a policy aim. The Government accepts that the Building Regulations will continue to have a role in establishing good energy efficiency standards, and that higher minimum thermal insulation standards can be justified on economic grounds. It is seeking an appropriate way of expressing these standards in the context of its general policy, set out in the White Paper "Lifting the Burden" (Cmnd 9571) of reducing bureaucratic controls on commercial activities. A simple raising of current, prescriptive standards may not be the best way ahead and the Department of the Environment, who have responsibility for the Building Regulations in England and Wales, have commissioned studies of alternative, more flexible procedures which should be completed in the Spring. A consultation document will follow, with the aim of moving as rapidly as possible to higher energy efficiency standards incorporated in Regulations that allow designers and developers maximum freedom.

49 In addition, the Energy Efficiency Office is working to strengthen market demand for higher standards through its intensive publicity programmes and its contacts with Building Societies and other financial institutions. It has also given technical and financial support for the production by the British Standards Institution of an Energy Code for Buildings (BS8207) and an accompanying Applications Guide, published in late 1985. These set out a framework for considering good, cost-effective energy design and management procedures in buildings. They will be followed by more detailed Codes and Guides for housing and different types of non-domestic building. The first of

these, on housing, will be available for public comment in 1986. These Codes will provide a valuable reference point for both builders and purchasers. They will shortly be supplemented by new publications for building professionals and householders which will provide guidance on energy efficient renovation and improvement work to existing dwellings.

50 The Energy Efficiency Demonstration Scheme also provides valuable guidance on energy efficient housing design. The Committee called for an assessment by Government of the potential for greater take-up of the Demonstration Scheme in the domestic sector. Such an assessment was included in the strategy for the Scheme published as Energy Efficiency Paper No 1. This showed that 90 out of the eventual 530 projects were intended to be in the domestic sector. The Building Research Energy Conservation Support Unit (BRECSU), on behalf of the Energy Efficiency Office, is steadily assembling a portfolio of projects. Identifying projects that will provide results of wide applicability is not straightforward; nevertheless, very useful outputs have already been obtained from early projects such as the £100 a year energy savings obtained in Manchester for a £200 increase in the initial cost of each house. These results are now being widely promoted. As well as new buildings, the Scheme covers measures that are appropriate to the rehabilitation of existing dwellings.

Appliance standards

51 The Government is also taking action to improve the energy efficiency of domestic appliances. Initial consumer reactions to a pilot labelling scheme, operated by the Eastern Electricity Board in close consultation with the Energy Efficiency Office, in which domestic refrigerators and freezers were labelled

with estimated running costs, are very encouraging. For heating appliances, minimum efficiency standards will be set through Orders under the Energy Conservation Act 1981. The Committee referred to the long period that has elapsed between the passage of the Act and the laying of the first Order. The intervening period has been taken up by the preparation of British Standards that can be cited in the Orders, and in consulting industrial interests fully - as the Government undertook to do during debates on the Bill - about the draft Orders. The consultations with manufacturers have already resulted in substantial improvements in the average efficiency of gas fires and boilers now marketed in the United Kingdom; for example, the typical gas fire now on sale has an efficiency of 65 to 70% compared with 50% a few years ago. Thus the benefits of the Act are already reaching consumers, even though the formal Orders have not been laid.

Education

52 The Energy Efficiency Office is active in promoting energy efficiency in schools. A teaching pack of energy projects has been produced for primary and secondary schools and is now available together with a miniaturised electronic measuring instrument for temperature and lighting levels developed by the British Gas Corporation. Another national energy competition for schools is being promoted by the Electricity Council. The Office will continue to sponsor the touring Energy Theatres for schools throughout 1986. These and other efforts are aimed at the next generation of energy consumers who it is hoped will absorb through the teaching syllabus an early awareness of the importance of energy efficiency in the home and in industry.

53 In pursuing many of the initiatives outlined above, the Energy Efficiency Office has worked closely with other bodies: the fuel utilities, the suppliers of energy efficiency goods and services, and local authorities, as well as voluntary organisations and other bodies. The Energy Efficiency Office has regular contact with the major energy efficiency industry trade associations, and values its links with the Association for the Conservation of Energy, the Buildings Energy Efficiency Confederation and the Central Heating Energy Efficiency Confederation. Amongst local authorities, the initiative of Cardiff City and South Glamorgan County Councils in mounting Cardiff Energy Action is of particular note. This one-year project is an intensive effort to improve energy efficiency in all sectors in one geographical area through an integrated approach involving all sectors of the community. The Energy Efficiency Office has appointed independent consultants to monitor the initiative, and their report will help the Office in promoting this concept to other local authorities.

54 The Government agrees with the Committee that Energy Efficiency Year provides a valuable opportunity for putting across the energy efficiency message to the domestic sector. Through the programmes outlined above, the Energy Efficiency Office is taking advantage of that opportunity.

Energy Efficiency Year 1986

55 The programmes and activities of the Energy Efficiency Office and other parts of Government outlined in previous sections will have their effectiveness enhanced through the Government's decision to give energy efficiency an even higher profile in 1986.

56 The announcement of Energy Efficiency Year has already encouraged many organisations to take energy efficiency as a theme for conferences, seminars, exhibitions and publications. Already more than 700 such events have been identified and the Energy Efficiency Office hope the first target of 1,000 events will soon be exceeded.

57 The Year has also brought together the advertising and promotional programmes of Government, the energy supply industries and suppliers of energy equipment and services under the common theme "Get more for your MONERGY". For the first time, all energy interests are collaborating to promote energy efficiency. The Strategy Board for the Year, which advises the Secretary of State for Energy on its content and direction, includes representatives of manufacturing, retail and financial interests as well as the energy supply industries.

58 Thus Energy Efficiency Year is different in character from previous energy efficiency campaigns. It is not just a Government campaign; it has secured commitment and support from a wide range and large number of industrial and commercial organisations, all of whom can see that there is mutual benefit in promoting energy efficiency to their customers and clients.

59 The Committee said that the Year should not be a year of gimmicks. The Government agrees. There is a role for imaginative publicity in bringing energy efficiency to the attention of consumers but this must rest on solid foundations and must lead on to decisions. The Year therefore builds upon the continued provision of the sound advice and stimulus to action provided by the EEO's existing programmes and the growing response to them. The success of the Year cannot be separated from the success of these programmes.

60 The Energy Efficiency office will publish a report on Energy Efficiency Year in 1987. This will provide an account of the events and achievements of the Year and will attempt to make judgements on its contribution to the Government's campaign - but, given the time-lags between awareness, decision, action and effect of which the Committee is well aware, these judgements will inevitably be tentative.

Energy supply interests and supply investment

61 The Committee have drawn attention, not for the first time, to the important role that energy supply interests can play in promoting energy efficiency and the need to judge investments in energy supply and energy efficiency by the same criteria. They have linked policy initiatives on these matters with Energy Efficiency Year. The Government would not accept that this is a necessary or meaningful link; these policy questions are not new; they have regularly been addressed by this and previous Governments and would be kept under review whether or not 1986 was Energy Efficiency Year.

62 The Government does not see a conflict between the need for investment in supply and the promotion of energy efficiency. There will continue to be a need for new supply investment to meet changes in energy demand, to replace worn-out plant and to reduce costs. Such investment can in itself make an important contribution to national energy efficiency (for example the average efficiency of the CEGB's coal-fired electricity generation plant has risen from 32.1% in 1974/5 to 34.3% in 1983/4); it reduces energy costs to consumers and it provides greater security and diversity of supply. The demand projections that underpin current plans for supply investment take into account substantial national energy efficiency improvements. In addition, as the Committee will

know, not all energy efficiency investments reduce peak demand - or even, in the case of the domestic sector, total energy usage. Consumers may prefer to take the benefit in the form of increased comfort. There is therefore no simple relationship between energy efficiency investments and supply capacity requirements.

63 The Government's view on the apparent difference between assessment criteria for energy supply investments and energy efficiency investments were set out in response to the Committee's fifth report and in its evidence to the Sizewell enquiry. It may be helpful to repeat the relevant paragraph from the Government's observations on the fifth report.

"6 In the public sector the Government agrees with the Select Committee that investments in energy supply and energy use ought both to be determined according to similar criteria. There are well-established criteria for determining public investments. These were set out in Cmnd 7131 in 1978 for nationalised industries (re-stated in a Note by HM Treasury "Financing of the Nationalised Industries" in Session 1980/81 (HC 348 II p44) and for the public sector as a whole in "Investment Appraisal in the Public Sector" which was revised and re-issued in 1982. The required real rate of return for new investments generally in the civil sector is 5 per cent. This does not imply that all investments with a realistic prospect of earning 5 per cent return will go ahead. In allocating resources to different activities health, law and order, education, energy, transport and so on, Government makes judgements on priorities between them and on priorities within the programme. Particular investments must be justifiable in all the circumstances and the balance between different objectives must be held."

64 The Committee recommended that the EEO should assemble a list of attractive demand management projects in the public sector for consideration by the Department of Energy and the Treasury. The Government believes that such central direction of public sector investment is not compatible with responsible management by the various bodies that would be affected by such a procedure. Far better that, stimulated by the activities set out in previous sections, they should set their own investment priorities, fully aware of the opportunities available for reducing operating costs through energy efficiency measures.

65 The commitment of the nationalised energy industries to energy efficiency has already been illustrated. They will all be taking up the "MONERGY" theme in their advertising during 1986. They operate extensive technical advisory services to help customers gain the best value from their energy expenditures. They sponsor national awards for energy efficiency (eg the Gas Energy Management and Power for Energy and Profit awards) which attract increasing numbers of entries and receive wide publicity. They have substantial R & D programmes aimed at developing new technology for improving energy use. The Government believes that these activities demonstrate the inherent soundness of its policy of encouraging competition between supply interests as a spur to improved efficiency. It welcomes the Committee's recognition that initiatives taken by energy utilities in the USA to reduce energy consumption are not necessarily appropriate in the United Kingdom. It will keep in touch with such initiatives but does not agree with the Committee's suggestion that fuel interests should be required to operate energy management companies. There are vigorous and expanding energy management companies in the private sector - the Government considers that these can adequately meet the needs of non-domestic consumers.

66 The Committee also recommended that the electricity and gas industries should submit an annual programme on energy efficiency for approval by the Secretary of State for Energy and should have a statutory duty to help all consumers to improve their energy efficiency. The Government considers that these steps would add little to the current activities of the industries. It aims to free the energy supply industries from such bureaucratic controls - hence its decision to transfer the British Gas Corporation to the private sector. The Committee will be aware, however, that the Gas Bill currently before the House places upon the Director [of Gas Supply] a duty to carry out his functions in such a way as to promote the efficient use of gas.

Conclusions

67 This memorandum has set out the policy framework for the work of the Energy Efficiency Office, summarised its achievements, reviewed its current activities and future intentions and those of other relevant parts of the public sector and responded to the suggestions and recommendations in the Select Committee's eighth report. The success of the Office in stimulating awareness of energy efficiency and take-up of its schemes, and in instilling energy efficiency into other parts of the public sector, has vindicated the Government's decision to establish the Office as an integral part of the Department of Energy, with close contact with Ministers and able to contribute fully to policy formation. Full and demonstrable Ministerial support for the work of the Energy Efficiency Office is essential for its success; this could not be as easily provided if it were one step removed from the Department. The Government does not agree that a Cabinet Committee is needed to co-ordinate energy efficiency between Government departments; the Secretary of State for Energy has that responsibility.

68 The Government recognises the contribution that outside expertise can make to the work of the Energy Efficiency Office. It is grateful to the five Marketing Advisers for the time and skills that they bring to the promotion of energy efficiency. More recently, prominent figures from industry and commerce have agreed to become "ambassadors" for energy efficiency within their sectors. The Energy Efficiency Office also makes full use of marketing, advertising and energy management consultants as appropriate. The Government does not therefore agree with the Committee's suggestions that the Energy Efficiency Office needs more staff from outside the public service and that it might have independent status within the Department of Energy or should report independently to Parliament.

69 The Government, like the Committee, looks to Energy Efficiency Year as a year of opportunity. It hopes that every energy user will take action during the Year to reduce the £7 billion currently spent unnecessarily on energy.

This memorandum has set out the strategy and activities of the Energy Efficiency Office at the start of the Year. The Government will be happy to provide the Committee with a further report after its conclusion.

Department of Energy

January 1986

ENERGY EFFICIENCY DEMONSTRATION SCHEME

Targets for December 1985 and monitored achievements

Sector	Target savings through take-up of demonstrated technologies (ktce)	Actual savings achieved (ktce)	Savings from original projects (ktce)	Total (ktce)
Metals and engineering	320	324.6 (393)*	31.6	356.2
Ceramics and process control	100	140.7 (1406)	62.8	203.5
Chemicals, oil CHP	110	227.5 (57)	71.5	299.0
Food, paper textiles	110	85.7 (99)	84.6	170.3
Waste as fuel	120	158.3 (36)	57.0	215.3
Building energy management systems	250	353.0 (260)	4.0	357.0
Other non-domestic buildings	70	23.1 (821)	8.5	32.4
Domestic Buildings	-	0.2 (200)	0.4	0.6
TOTALS	1080	1313.9 (5622)	320.4	1634.3

1ktce is the energy equivalent to 1000 tonnes of coal

* numbers in parentheses indicate the number of repeat applications of demonstrated technologies known to ETSU and judged to have been influenced by the scheme.

	PARAGRAPH
75. The Committee's specific recommendations are:	
— the commitment to effective use of the taxpayers' money through efficient energy management must be universal through all Departments of State (paragraph 4);	39-40
— statistically significant hard figures about the achievements of the EEO should be published (paragraph 8);	3
— there should be a thorough investigation of the reasons for the declining number of projects coming forward for energy demonstration scheme finance, and measures taken to combat the decline (paragraph 10). There should also be a clear assessment of the potential for greater take-up of the demonstration scheme in the domestic sector (paragraph 12);	23,50
— the opportunities which Energy Efficiency Year will offer for putting across the energy efficiency message in the domestic sector must not be lost (paragraph 16);	54
— the lessons of the HEAT home auditing scheme should be studied and a new auditing scheme should be brought forward by the EEO (paragraph 20);	44
— the 1982 recommendation of the Committee calling for "a programme to insulate fully the homes of those in receipt of fuel allowances" is re-iterated. The review undertaken by the Government into measures to help low income householders through energy efficiency should be placed in the Library (paragraphs 24 to 26);	47
— grants should be available for conversion of boilers to waste firing (paragraph 28);	30
— the first priority for the next year must be development and public announcement of the EEO's priorities and the logic behind them (paragraph 28);	9-15
— expected returns to energy efficiency investment can and should be compared with the returns to investment in energy supply provision (paragraph 35);	61-63
— it should be a new role of the EEO speedily to assemble and bring the most attractive demand management projects in the public sector to the attention of the Department and the Treasury. The latter should then decide, with much greater flexibility than hitherto, the qualifying discount rate for energy-related investment projects in any given year. This will assist the Government in controlling the PSBR and also assist it in avoiding the charge that it is wasting much taxpayers' money on inefficient energy use in the public sector (paragraph 39);	64
— the EEO should compile and publish a list of possible selective grant and/or low interest loan schemes for energy efficiency improvements in British industry. This should include possible fiscal measures (paragraph 41);	29
— the EEO should also set out alternative and costed proposals for the amelioration of problems of raising finance in the domestic sector for energy efficiency investment (paragraph 42);	42
— the Treasury should demonstrate its commitment to Government policy on energy efficiency by working to encourage the public sector—especially local authorities—to take advantage of private sector finance for shared saving schemes. Any necessary changes to accounting rules should be made (paragraph 47);	40
— the Government should reconsider the role of the electricity and gas industries in its energy efficiency campaign. The Secretary of State should, on advice from the EEO, approve an annual programme of energy efficiency measures by both industries (paragraph 52);	66
— inside Government, energy efficiency should not be regarded as someone else's concern, and there should be no complacency that it is all a matter to be sorted out by the Property Services Agency or the EEO (paragraph 56);	40

- the public sector should monitor, target and submit auditable returns each year showing reductions in energy expenditure. Each Accounting Officer who appears before the Public Accounts Committee should be liable to account for his own Department or service's energy efficiency (paragraph 58);

40
- a conspicuous energy efficiency campaign should be mounted at the Palace of Westminster (paragraph 60);

41
- the EEO should take the initiative in upgrading building regulations (paragraph 61);

48
- the Homes Insulation Scheme should be broadened to allow the installation of cost effective insulation not at present covered by the scheme, and to permit a higher maximum level of grant for lower income homes (paragraph 62);

42
- tax policy should seek to avoid measures which are obviously and avoidably prejudicial to Government energy efficiency policy (paragraph 63);

29
- a Cabinet Committee should be established to co-ordinate energy efficiency between Government departments. It should be responsible not just for reducing the Government's energy bill, but also for co-ordinating all policies across Government to ensure that no initiative is taken which hampers the energy efficiency drive. It should have an announced annual target reduction in energy consumption in the public sector to which it is working (paragraph 64);

67
- the EEO should submit an annual report to Parliament; it should be responsible for its own budget; it should be staffed by more persons appointed from outside the public sector and it should be able to give independent evidence to this Committee and other similar bodies. Its status inside the Department of Energy will be kept under review (paragraph 67).

67-68





NYSM
AT 15/6
4/20

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILBANE LONDON SW1A 4DJ
01 211 6402

The Rt Hon Michael Jopling MP
Minister of Agriculture, Fisheries & Food
Whitehall Place
LONDON
SW1A 2HH

12 June 1985

Thank you for your letter of 10 May offering support for my minute of 1 April to the Prime Minister about energy efficiency in Government Departments.

As you say, it is essential that the expertise that already exists in the Energy Efficiency Office and also in the PSA should be shared with all Departments and be built upon. Your officials have already met with mine to discuss steps which might be taken at MAFF. Many Government buildings face the sort of problems which you describe at Whitehall Place, and it is true that the need to undertake investment in new equipment can limit the improvements which can be made in energy efficiency in the short term. But we have certainly found at Thames House South that a large number of savings can be achieved immediately as a result of simple management improvements involving little or no investment.

We are drawing up a plan of action with the Property Services Agency so that everyone can take full advantage of the information and advice that is already available. I shall be keeping colleagues fully informed of the assistance we can give.

I am sending copies of this letter to Members of the Cabinet, Sir Robert Armstrong and Sir Robin Ibbs.

PETER WALKER

ENERGY
Conservation
pt 2



DEPARTMENT OF THE ENVIRONMENT
2 MARSHAM STREET LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

Mark Addison Esq
10 Downing Street
London

3rd June 1985

Dear Mr Addison

/ The Prime Minister may be interested to see the attached booklet on On-shore Oil and Gas which has been produced by DOE and the Department of Energy. It explains how on-shore oil is formed, found, developed and produced.

Yours sincerely
Paul Heron

P J HERON
Private Secretary



From the Minister

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

The Rt Hon Peter Walker MBE MP
Department of Energy
Thames House South
Millbank
LONDON
SW1P 4QJ

10 May 1985

Dear Secretary of State

Your letter of 1 April to the Prime Minister about energy savings will, I am sure, find wide acceptance and I, for one, would be anxious to make resource savings of the order you mention. There are however two points which I should like to make.

Firstly, there is clearly a great deal of expertise available in your Department on this subject which could be of considerable help to departments like mine which do not at present have any professional input on this subject. We should be glad to have access, either bilaterally or through any appropriate central body that may be set, to the body of expertise you have built up or what may be available in other Departments and I have asked my people to get in touch with you about this.

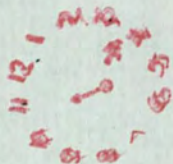
Secondly, a major component of energy use is heating, which remains under the control and responsibility of PSA. The possibilities of achieving the significant saving from increased efficiency we would all like to see will therefore depend very much on the extent of action they can take. Furthermore, I suspect that in order to achieve significantly better efficiency in many of the older buildings, for instance the Whitehall complex, it would be very much a case of 'spending to save'. The present system in Whitehall Place, as you may remember, is so defective that during the recent hard winter some offices had to be provided with supplementary heaters to enable people to work at all while others were only habitable with windows wide open! I am having the possibility of improving this system investigated but this may require substantial expenditure and the cost effectiveness will need to be examined.

/I am sending ...

Gregy A2

Conservative

13 MAY 1968



I am sending copies of this letter to members of the
Cabinet, Sir Robert Armstrong and Sir Robin Ibbs.

Yours Sincerely
C. Heald

for

MICHAEL JOPLING
(Approved by the Minister
and signed in his absence)



NBPM RT 215

CC NO

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

Dear Peter,

51 MAY 1985

ENERGY CONSERVATION

Thank you for sending me a copy of your letter of 1 April 1985 to the Prime Minister. I have now seen the reply from her office.

I am surprised that you have written about energy conservation without mentioning the work that PSA has done in the 1970s and 1980s. Of course, despite the very considerable savings achieved by PSA over many years, there still remains scope for further savings. That is why, in spite of our very tight squeeze on accommodation expenditure, we expect to spend about £14m in 1985/6, on continuing the programme of capital investment in energy conservation measures with a short payback period. Moreover, we have set a target of a further 12% reduction in energy expenditure on the civil estate for the three year period starting 1 April 1985.

PSA has been pursuing energy efficiency since 1972 - well before the oil crisis - and we have achieved the following savings on the civil estate:-

1972/3 to 1977/8	35% of 1972 consumption
1978/9 to 1983/4	22% of 1978/9 consumption

We have been able to do less on the MOD estate, because we have less control but, even so, savings now exceed 30% of 1972/3 consumption. We hope, in co-operation with MOD, to achieve even more, particularly as a result of the new initiatives introduced last year for energy saving in MOD (Navy) establishments.

In all the value of the savings attributable to PSA's energy conservation initiatives is estimated at £110m per annum at 1983/4 prices, and the Select Committee on Energy in their Fifth Report 1981-2 commended us. However, capital investment and energy management systems, although they are the main source of energy savings, are not the whole of the story and you are right to stress the part to be played by the Departments occupying Government buildings.

This is particularly important in the light of the development of the Property Repayment Service. Under PRS Departments are

ENERGY: Conservation; Pt 2.

charged for energy costs and are accountable for the expenditure. The responsibility for energy savings which it is within the capacity of the occupants of buildings to achieve, rests squarely on the officers responsible for the economical use of accommodation as a whole. I agree that we should make this clearer and I shall be taking up your suggestion with which the Prime Minister agrees about the appointment of an energy efficiency condition when we take action on the recommendations of the MPO's Accommodation Review.

I am afraid you cannot argue from Thames House South experience to the rest of the Government estate. Thames House South is on a short lease which makes capital expenditure by us unprofitable compared with other opportunities and, as you know, we fund, within our limited resources, energy conservation capital investment measures in the order of their profitability. But the design of Thames House South is such that there is considerable scope for saving in electrical energy consumption on the part of the occupants, which I know you will be seeking to achieve.

I am copying this letter to the Prime Minister and other recipients of your letter.

2 MAY 1987
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Yours
Patrick

PATRICK JENKIN



FILE

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10 DOWNING STREET

(cc: CAB+ R.1885)

From the Private Secretary

29 April, 1985

ENERGY EFFICIENCY MEASURES

The Prime Minister has seen your Secretary of State's minute of 1 April. She welcomes his efforts to make energy savings in the Government estate and endorses his suggestion that Government departments should appoint an energy efficiency co-ordinator. She hopes that the Secretary of State for Energy and the Secretary of State for the Environment can work together to arrange this. She has noted your Secretary of State's view that significant savings can often be achieved with little or no additional cash or staff costs, a view which she believes is borne out by experience in the private sector.

I am sending a copy of this letter to the Private Secretaries to members of Cabinet and to Sir Robin Ibbs and Richard Hatfield (Cabinet Office).

(Andrew Turnbull)

M Reidy Esq
Department of Energy



Prime Minister

Ko

PRIME MINISTER

ENERGY EFFICIENCY MEASURES

X | Peter Walker sent me a copy of his minute dated 1st April, 1985 on potential energy savings in the public sector. I support his recommendations and believe that the sort of steps already being taken in the Department of Energy and the Ministry of Defence could, with advantage, be taken more widely. In ICI we have found that substantial savings of the kind Peter Walker is proposing can usually be obtained with very little new expenditure; where some expenditure is necessary, it is often possible to get full pay-back within a year.

Y | Obviously it would be as well for the PSA to be involved closely with this work and it is important that they should not be driven into a defensive, instead of co-operative, posture. The phrasing of Peter Walker's minute could have this undesirable effect and you may wish to invite him and Patrick Jenkin to work together on this. I am sending a copy of this minute to Sir Robert Armstrong.

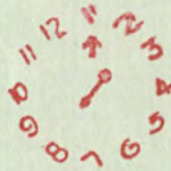
ROBIN IBBS
25th April, 1985

Enoch: Conservative

Mr



25 APR 1951



CONFIDENTIAL

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CCAD



Prime Minister ①

PRIME MINISTER

Agree a reply endorsing Mr Walker's efforts to achieve greater energy efficiency in Govt. buildings, incorporating X & Y from Sir Robin (bb's minute).

Yes mb

AT 26/4

[Handwritten signature]

I have, as you know, been making a determined effort to get the business community to take the cost-effective energy efficiency measures available to them. The evidence is that industry and commerce can save 10% of their energy costs with no expenditure, and a further 10% through capital investment with a payback period of less than four years.

The same sort of arithmetic applies to the public sector, and I am writing to seek your support in ensuring that government, which preaches efficient management, should set a good example in its use of energy.

While the leasing arrangements of the buildings occupied by my department raise particular difficulties, I have taken action here. At my request, the building was surveyed by one of my Market Advisers, and we have followed up those of his recommendations which are susceptible to action by us. Measures now in place or planned for the autumn offer annual savings of 8-9% - with no significant cash or staff cost. *This finding is endorsed by Sir R. Ibbotson.*

My department is of course a small, policy department, and the money savings represented by the 8-9% are small - but the logic applies, whatever the scale of a department's operations. I have for instance initiated discussions with Michael Heseltine and John Lee at the Ministry of Defence. They spend - apart from industrial activities, military operations, and transport - over £200 million on energy for accommodation, hangars etc. We are convinced that the sorts of savings we have found to be available in all kinds of private sector organisation are available for the taking in the Defence estate. On the industrial side, in one dockyard alone, 25% or more can be saved.



There is now to be high level energy efficiency co-ordinator in MoD - where they already have an energy committee. I would like to see the same initiatives across Whitehall, and understand that one of the recommendations of the multi-department Accommodation Review at present being conducted by MPO is likely to be that every department appoints someone with specific responsibilities for monitoring energy consumption, and securing improvements in it. This is an essential first step, which might usefully be reinforced by a follow-up scrutiny to check whether department's arrangements with PSA for ensuring energy efficiency are adequate.

If all departments were to save 10% on the energy costs of PSA managed buildings alone the savings for government would be £5.5 million. We believe that significantly more than 10% can be saved, at little or no cost. Thames House South is classified by PSA as 'satisfactory' in energy efficiency terms - if that is so, the opportunities over and above what PSA hope to achieve in those government buildings classified as less than satisfactory must be enormous.

I am copying this minute to members of the Cabinet, Sir Robert Armstrong and Sir Robin Ibbs.

SECRETARY OF STATE FOR ENERGY

1 April 1985



10 DOWNING STREET

CF.

PL to J on 15/4.

Mr Beardsley will ensure that R.I
looks at this on his return,
and offers advice.



10 DOWNING STREET

P. Walker minute to
Pm 1/4

Energy efficiency.

To note (from MPO)
that Lord Gowrie
may produce a
contribution & to
hold any response.

- They have 'no comment'
25/4.



NBPM
AT
9/11

DEPARTMENT OF EDUCATION AND SCIENCE
ELIZABETH HOUSE YORK ROAD LONDON SE1 7PH
TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

Rt Hon Peter Walker MBE MP
Secretary of State for Energy
Thames House South
Millbank
LONDON SW1P 4QJ

9 November 1983

Mr Peter.

LAUNCH OF ENERGY EFFICIENCY OFFICE AND SELECT
COMMITTEE RESPONSE

Thank you for sending me a copy of your minute to the Prime Minister of 25 October enclosing the text of a draft response to the Select Committee on Energy.

Officials here have already suggested to yours a slight rewording of paragraph 25 which, incidentally, should be headed "Department of Education and Science". I have no further points.

I am copying this letter to the recipients of your minute.

Ann. Keen.

Energy
Conservation
P+2





File 26

10 DOWNING STREET

From the Private Secretary

31 October 1983

The Prime Minister has noted your Secretary of State's proposals for an Energy Efficiency Office which he is launching today as part of a new energy saving initiative. She has noted also the proposed response to the Select Committee on Energy.

I am sending copies of this letter to Hugh Taylor (Home Office), Elizabeth Hodgkinson (Department of Education and Science), Richard Mottram (Ministry of Defence), John Graham (Scottish Office), Colin Jones (Welsh Office), John Ballard (Department of the Environment), Steve Godber (Department of Health and Social Security), Callum McCarthy (Department of Trade and Industry), Robert Lawson (Ministry of Agriculture, Fisheries and Food), John Gieve (Chief Secretary's Office), Dinah Nichols (Department of Transport) and Richard Hatfield (Cabinet Office).

ANDREW TURNBULL

Michael Reidy, Esq.,
Department of Energy.

ENERGY

EFFICIENCY OFFICE

Reference No 1

October 31, 1983

Department of Energy Press Office 01-211 4545, out of hours 01-215 7877

"OUR CRUSADE TO SAVE CASH"

Mr Peter Walker launches biggest ever energy campaign

A national crusade to save cash through energy efficiency was launched today by Energy Secretary, Mr Peter Walker.

Speaking at a news conference in London Mr Walker said:

"It is not often that a Minister has the opportunity to launch a campaign, which if it were successful, could save the nation £7 billion a year.

"We spend £100 million a day on energy, We believe that £20 million a day of this is wasted.

"For this reason we are today launching the Energy Efficiency Office. This Office will spearhead a nationwide effort with the simple objective of making Britain the most energy efficient country in the Western world.

"I have asked Bill Macintyre to head up this office and I know that he will do it well.

"Apart from the team that will work with him, I will shortly be appointing a small number of independent advisers from outside Government. Their job will be to tell us what needs to be done to see the campaign succeed.

"In the coming months we will be putting in an enormous effort. Ministers will be visiting 40 towns and cities throughout the country to launch our energy saving campaign. These campaigns will include an 'Energy Saver' show in the main shopping centre. Each campaign will include local radio and newspaper advertising and direct contact with industry, commerce and local authorities.

"We aim to reach both industry and the domestic user. We are providing booklets giving them positive advice on what can be done. The energy industries - the Electricity Boards, the Gas Corporation and the Coal Board - will be working with us so that we can unite in this major offensive against energy waste. Their Chairmen have already promised their support.

"Let me just tell you about a few of the opportunities that are available. Within a very short period of time industry could knock £1 billion off its energy bill

"Industry could invest £300 million in energy saving, and obtain for that investment savings in their energy costs of £300 million a year.

"Industry has few opportunities to obtain a 100% return on its investments, here is such an opportunity.

"If industry puts in the management to use this resource sensibly, it would quickly have available £1 billion which can either go to higher profits or more competitive prices.

"The Nation is united in its hostility to higher local authority rates. A number of local authorities have found that one real saving available to them is that of reducing their substantial energy requirements and using energy far more efficiently than they have done in the past. The body that advises local authorities on energy management has calculated that they could easily lop £100 million off their expenditure with a corresponding reduction in rates.

"Householders should gain, not only by reduced rate bills but also after following our advice by realising a massive drop in their heating and lighting bills. There are enormous savings to be obtained by insulating lofts and hot water tanks. Over recent years 90% of home owners in this country have taken the trouble to insulate their hot water tanks. But that means two million have not bothered: they are wasting their money on unnecessary heating bills.

"An ordinary size household that takes the trouble to insulate the walls and the loft, probably at a cost of around four hundred pounds, could knock £100 a year off their heating bills.

"This is a crusade to save cash: cash for industry, cash for local authorities, and cash for the householder. This crusade is in the national interest. If in the 1990s we have succeeded and our energy bill is £7 billion a year less than it would otherwise have been it will not only have brought down prices and made us more competitive, but also have made a major impact on our balance of trade, our balance of payments and the whole strength of our economy.

"The campaign starts today and will not end until we have succeeded."



CCB1

10 DOWNING STREET

Prime Minister ⁽²⁾

To note Peter Walker's revised proposals.

The new EEO is a much smaller creature than the original one. Subject to one dispute about transfer of staff and money it is now agreed with colleagues.

Mr Walker will be holding a Press Conference on Monday to launch the EEO and the response to the Select Committee.

AT

28/10

Ref.A083/3059

MR BUTLER



mb

The Secretary of State for Energy's minute and attachments of 25 October describe a revised set of arrangements for co-ordinating the Government's energy efficiency policies. These are, I understand, acceptable to the Ministers concerned and I hope they will now fit the Prime Minister's requirements.

2. The Secretary of State for Energy originally proposed, as his predecessor had done, to follow the recommendation in a 1982 Rayner scrutiny that his Department should take over responsibility for the Department of the Environment's Homes Insulation Scheme and the Department of Transport's fuel conservation scheme. The Secretaries of State for the Environment and Transport both thought that such transfers were not justified and would produce losses in efficiency. The Prime Minister agreed with them. The Secretary of State for Energy has rethought his ideas and now worked out with both Secretaries of State and other Ministers with responsibilities which touch on the energy conservation field arrangements for consultation and joint working which are satisfactory to all parties. The description of these arrangements in the proposed reply to the Select Committee has been cleared in outline with the Ministers concerned.

3. One technical transfer of responsibility remains. This is responsibility for energy efficiency in industry. Until last year the Department of Energy in effect shared the responsibility with the then Department of Industry, although nominal responsibility was with the Department of Industry. Both Departments funded energy demonstration projects whose results were disseminated within industry generally as examples of the ways in which greater energy efficiency might be achieved. The main contacts with industry were through the Department of Trade and Industry's regional staff, but the Department of Energy met the costs of staff directly involved in conservation work. At the headquarters of both Departments there was some duplication of effort, to which the Rayner scrutiny drew attention. Since then the Secretary of State for



Trade and Industry has reassessed his Departments's priorities and energy efficiency as such has taken a relatively low place compared with other industrial priorities. His Department no longer therefore wishes to devote a specific block of resources to it, although they are happy to continue to devote some regional staff resources to energy conservation liaison with industry, subject to appropriate reimbursement by the Department of Energy. In these circumstances the Department of Trade and Industry think that it makes sense, and the Department of Energy agree, that the lead responsibility for energy efficiency in industry should transfer to the Secretary of State for Energy and the new Energy Efficiency Office.

4. The two Departments are still discussing whether there should be a small transfer of resources between them to reflect the change of responsibilities. The Treasury are involved in these discussions, and I understand that the Chief Secretary will be writing to say he sees no objection to the organisational changes proposed, subject of course to there being no addition to public expenditure as a result. The Department of Energy are well seized of that point.

5. I therefore commend the Secretary of State for Energy's proposals to the Prime Minister. The Government's approach to energy conservation was criticised by the Select Committee, and weakness of the existing organisation and its failure properly to co-ordinate the bits of effort currently spread round Departments were spelt out fairly bluntly in last year's Rayner scrutiny. The creation of the Energy Efficiency Office and the new arrangements for joint working should give a much clearer focus.

ROBERT ARMSTRONG

28 October 1983



~~cc NO~~
~~cc BT~~

Prime Minister

LAUNCH OF ENERGY EFFICIENCY OFFICE AND SELECT COMMITTEE RESPONSE

I propose to launch the new Energy Efficiency Office (EEO) on 31 October and am writing giving details to those of our colleagues who are likely to be affected by this. At the same time I propose to respond to the Fifth Report of the Select Committee on Energy Conservation in Buildings, which was published in July 1982.

You will recall that this Report ranged more widely than its title implied, giving particular attention to the Government's organisation for energy conservation, which it criticised as being too dispersed. A response was deferred while we discussed the organisational issues raised by the Committee and by a later Rayner Scrutiny.

We need not delay the response any further now that we have cleared the organisational questions and I enclose the text of a memorandum. There has been recent consultation at official level on the passages covering organisation, while the description of our general energy conservation policy objectives is based on material contained in an earlier draft officials saw last December and our policy has not changed since then.


Copies of this minute go to the Secretaries of State for the Home Department, Education & Science, Defence, Scotland, Wales, Environment, Social Services, Trade & Industry, Agriculture, the Chief Secretary, Transport and to Sir Robert Armstrong.

Michael Keigh

Secretary of State for Energy

25 October 1983

(Dictated by the Secretary of State)



MEMORANDUM FROM THE SECRETARY OF STATE FOR ENERGY

Government observations on the Fifth Report from the Select Committee
on Energy - Session 1981-1982

INTRODUCTION

1. The Select Committee's Report on Energy Conservation in Buildings published in July 1982 (HC 401-1) ranged wide over the economic and organisational obstacles to more rapid take up of worthwhile conservation measures. This report came out at a time when the Government was itself engaged in reviewing its organisation for promoting energy conservation throughout the economy.
2. The Committee's work is welcomed by the Government; it makes a thorough and constructive contribution towards increasing public awareness and understanding of the need to use energy efficiently. The Government has considered the conclusions and recommendations carefully in relation to its own studies and within the general framework of financial and manpower constraints. This response follows the Select Committee's example by examining the Government's general approach and policy for improving energy efficiency and then considering a number of specific issues. Finally, it explains the Government's decisions on the organisation of its work on efficient energy use.

THE GOVERNMENT'S GENERAL POLICY AND OBJECTIVES

3. The Government is committed to a policy that will allocate resources efficiently throughout the energy sector, will improve the cost effectiveness of Government spending and will encourage increased efficiency in energy use, giving consumers as a whole better value for money and increasing competitiveness.
4. Starting from the point that energy conservation is about increasing the efficiency with which energy is used the Government believes that reducing energy use for the sake of saving is neither desirable nor wise. Energy is a resource like any other and it must be used in the most efficient way to produce what consumers

demand. Efficient use is best encouraged where market forces operate as freely as possible and where as a consequence:

- i) competitive pressures ensure that capital is attracted to the most economic purposes;
- ii) the consumer is in a position to make choices;
- iii) realistic prices are set.

5. Other factors may, however, inhibit the take up of energy efficient measures. These may be a shortage of capital, or management skills, lack of readily accessible comprehensive services providing energy efficiency packages or ignorance and inertia. In these circumstances the Government will consider what action needs to be taken to improve opportunities for market forces to operate.
6. In the public sector the Government agrees with the Select Committee that investments in energy supply and energy use ought both to be determined according to similar criteria. There are well established criteria for determining public investments. These were set out in Cmnd. 7131 in 1978 for nationalised industries (restated in a Note by HM Treasury "Financing of the Nationalised Industries" in Session 1980/81 (HC 348 II p 44) and for the public sector as a whole "Investment Appraisal in the Public Sector" which was revised and reissued in 1982. The required real rate of return for new investment generally in the civil sector is 5%. This does not imply that all investments with a realistic prospect of earning a 5% return will go ahead. In allocating resources to different activities health, law and order, education, energy, transport and so on, Government makes judgements on priorities between them and on priorities within the programme. Particular investments must be justifiable in all the circumstances and the balance between different objectives must be held.

7. The vast majority of decisions on energy consumption are taken in the private sector by householders, companies and their professional advisers. The Government does not wish to be involved in these decisions; it does, however, illuminate the potential for wiser energy use available to consumers by offering advice and information; by referring to sources of expertise and by financing schemes of consultancy and demonstration to assist with the transfer of new systems for monitoring energy as well as new and existing technology. Where the domestic consumer is concerned generous grants for homes insulation have been offered for some years and have contributed to a high level of take up. The Government's programme for encouraging energy efficiency is designed to provide support for the market.

8. Where there are significant imperfections in the market which will distort the allocation of resources, Government accepts that it may need to intervene by imposing regulations or by offering financial support. Key questions arise before such measures can be considered, for example, whether the market's own mechanisms can be improved, whether an intervention will be cost effective and whether it will encourage consumers to self help in time. While it is important to avoid measures that would displace private investments that could be expected to take place without encouragement the Government is nevertheless willing to consider pump priming measures in appropriate cases.

GOVERNMENT'S ENERGY CONSERVATION PROGRAMME

9. A wide range of energy conservation initiatives and measures has developed in the past decade, all of which have been brought into play by the Government to raise awareness of the considerable financial benefits of wise energy use, and to stimulate consumers into taking advantage of the opportunities.

10. Consumers have responded to the Government's sustained efforts over a number of years. There have been significant improvements in energy use; for example:

- a) domestic energy consumption per household has declined despite the widespread introduction of central heating and higher comfort standards and despite the increased use of household appliances;
- b) simple insulation measures have achieved a good level of penetration although more scope remains;
- c) even allowing for the underlying changes in the structure and volume of industrial output there have been gains in efficiency of energy use in industry. Again there is scope for improvement borne out by the conclusions of the study commissioned by the Government from Armitage Norton Consultants*; and
- d) in the public sector where assessments are available they show considerable savings, in particular, the PSA which manages the Government estate has reduced energy costs by 40% in real terms over 10 years.

Overall, in years from 1973 to 1982 there has been a 6% reduction of energy use throughout the economy which has flowed from both economic pricing policies and from measures to promote energy efficiency.

11. The Government acknowledges that there is nevertheless considerable scope for further efficiency. Assessments made by the Government and others show that a further 20% increase in efficiency is a realistic aim by the turn of the century but concerted efforts will have to be made by all concerned.
12. A new momentum is needed now as lower levels of economic activity have weakened and pressures of price by constricting the resources available for investment generally (which often lead to more efficient energy use) and specifically for investment in energy

* "Energy Conservation Investment in Industry" published by the Department

efficiency. Industry needs to become more competitive as there is a risk of further energy price increases when the demand for energy recovers world-wide. Using energy more efficiently, increases competitiveness and acts as a brake on future price increases that are led by demand.

13. The Government has therefore been reviewing its programme of measures and proposes a number of new initiatives. These will be spearheaded by a major new publicity campaign both nationally and in a number of cities, with the object of raising awareness of the benefits of energy use. The Government will mount a series of exhibitions on energy efficiency and will stimulate TV and Radio and Press to devote space to energy efficiency and the benefits it can bring. Ministers intend to use their influence to stimulate a change in attitudes towards energy efficiency; and to this end will involve senior management in the private and public sectors.
14. In addition, the Government proposes to:
- i) Improve its Energy Survey Scheme offering consultancy to industry, commerce and public sector bodies.
 - ii) Support pilot home energy audit schemes designed to test new ways of assisting householders to determine the scope for cost effective improvements in home energy efficiency.
 - iii) Continue the Homes Insulation Scheme.
 - iv) Expand resources devoted to research and development in energy efficiency by £3m a year in 4 years.

- v) Expand resources devoted to demonstrating technical innovation and encouraging its spread by £2m a year in 4 years.
- vi) Support pilot projects to develop a Monitoring and Targeting programme in more sectors of industry.
- vii) Finance the development of monitoring and targeting systems for local authority use.
- viii) Develop the work of voluntary groups offering an insulation service to low income households.
- ix) Review how measures to increase energy efficiency could help low income householders.
- x) Review with the nationalised industries the services they can offer to help consumers use energy more efficiently. The Government does not consider that a change in the statutory duties of the nationalised industries is necessary to engage the commitment of public fuel industries which are already active in pursuing energy conservation with different classes of consumer.
- xi) Help the many firms and associations of firms supplying equipment and services that improve energy efficiency to market their goods and services more effectively.
- xii) The Government is committed to promoting energy efficiency throughout the energy consuming areas it influences and controls within the public sector. Policies for energy use will be kept under review.

15. These measures are designed to make the best use of the available resources. Much of the work of schemes will be carried on outside Government while remaining under its control. Currently, more than £100m a year is being devoted by the Government to energy efficiency throughout the economy.

ORGANISATION OF THE GOVERNMENT'S PROGRAMME TO IMPROVE ENERGY EFFICIENCY

16. The Secretary of State for Energy will be responsible for the Government's overall strategy for energy efficiency and will take the lead in monitoring, coordinating and developing policies, publicity and research in this field.
17. A new Energy Efficiency Office has been established within the Department of Energy with its own budget, to spearhead this effort and to administer those programmes of information, advice, and assistance for which it has a direct responsibility. The new EEO's staff have been drawn largely from the Department of Energy, supplemented by staff and advisers with relevant expertise from outside the Department. A Director-General heads the Office which has four Directorates for general policy and the domestic and public sectors, for industry and commerce, for research and technical matters and for information and publicity. The Secretary of State and the Director-General will call on outside advisers including ACEC as necessary in the formulation of the Office's work.
18. These organisational arrangements will secure a sharper focus for the Government's work on energy efficiency. The Government's aim is to concentrate responsibility where this offers scope for greater impact and to ensure that the EEO has adequate resources to support its role as the central and strategic arm of the Government's efforts to improve energy efficiency throughout the economy. It is also intended to enable the EEO to offer advice and services to specific sectors. The EEO will develop strong links with a wide range of outside bodies such as trade associations, universities, research associations, etc.
19. The Government sees the Energy Efficiency Office as an effective Office operating with the full backing of Ministers. Ensuring that the Government's energy conservation policies are taken into account in the policies and programmes of other Departments,

it will publicise and encourage energy efficiency in all sectors. Its work in raising the awareness of consumers to the benefits to be won from energy efficiency will be of prime importance. As a first step the Secretary of State for Energy and other Ministers will take part in a countrywide publicity campaign designed to inform and stimulate consumers to improve the efficiency of energy use.

DETAILED ORGANISATION

20. In taking decisions on the organisation appropriate for developing and implementing efficiency the Government has carefully reviewed the Select Committee's recommendations. It considers that the arrangements described below will offer a new impetus and a sharper focus to the role of the Secretary of State for Energy in taking the lead and co-ordinating policy while maintaining an efficient dispersal of work. More tasks will be removed from Departments and carried on by outside organisations. In making its judgements the Government has taken into account the need to control the level of resources.
21. The EEO will have specific responsibility for promoting energy efficiency in industry and commerce. A regional advisory service on energy matters directed to industry, commerce and local authorities staffed by the Department of Trade and Industry but funded by the EEO and operated under an agreement between the Departments will provide the EEO's main point of contact with employers and others at local level.
22. As part of its responsibility for promoting energy efficiency in industry, the EEO will aim to promote the products and services of the energy conservation industry more effectively.
23. The Secretary of State for Energy will also take on overall responsibility for promoting energy efficiency in buildings, but within that framework certain Departments will retain responsibilities for specific areas as described in the paragraphs below.

Department of the Environment

24. The main responsibility of this kind concerns the Department of the Environment. It will continue, as now, to be responsible for building regulations, for the pursuit of energy efficiency in the Government estate and for the energy efficiency of domestic buildings generally. It will continue to administer the Homes Insulation Scheme in England. However, the Secretary of State for the Environment will consult closely with the Secretary of State for Energy about the allocation of public expenditure within the Housing Budget for schemes concerning energy efficiency and changes in the provisions of such schemes will also be a matter for agreement between the Secretaries of State. Close consultation on all technical matters will, of course, continue as at present and opportunities will be sought for strengthening the EEO's expertise through secondments or other arrangements.

Department of Education

25. The Secretary of State for Education is responsible for advising education authorities on the energy efficiency of their buildings. Close consultation with the Secretary of State for Energy upon that advice and forms of assistance offered to education authorities will continue.

Department of Health and Social Security

26. The Secretary of State for Health and Social Security and the Secretaries of State for Energy and the Environment will continue to coordinate policy on energy efficiency with particular relevance to the disadvantaged. The Secretary of State for Social Services remains responsible for advising Health Authorities on the energy efficiency of their buildings; close consultation with the Secretary of State for Energy on the advice and forms of assistance put to Health Authorities will continue.

Scottish Office

27. In Scotland many of the services covered elsewhere by the Departments of Environment, Education, Trade and Industry and Health and Social Security are the responsibility of the Secretary of State for Scotland. This includes responsibility for building regulations, domestic buildings, administration of the Homes Insulation Scheme and advice to education authorities and health boards. The Secretary of State for Scotland will consult closely with the Secretary of State for Energy on the allocation of resources and the content of schemes for domestic buildings and on the energy efficiency aspects of his other responsibilities.

Welsh Office

28. In Wales the Secretary of State is responsible for domestic buildings and for the administration of the Homes Insulation Scheme there. The allocation of resources and the content of schemes for domestic buildings which influence energy efficiency will be a matter for consultation between the Secretary of State for Wales. Similar arrangements will apply to work for industry.

Other Departments

29. A number of other Departments have responsibilities which affect policies for energy efficiency. These include the Department of Transport, the Home Office, the Ministry of Agriculture, Fisheries and Food and the Board of Inland Revenue. The Secretary of State for Energy will consult them closely and seek their participation in reviews of policy and the formulation of policy developments.

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

29 July 1983

file RB.
cc Nick Owen
John Kerr-Ty
I. Beesley

ENERGY CONSERVATION

The Prime Minister has now seen your Secretary of State's minute of 6 July and the comments of other Ministers on its proposals.

Mrs. Thatcher has carefully considered the arguments for and against accepting the Rayner report's recommendations and transferring the responsibilities concerned to the new Energy Efficiency Office. Her conclusion is that the case for change is not sufficiently made out: especially bearing in mind that certain transfers in the other direction were made only two years ago.

I am copying this letter to the Private Secretaries to the Secretaries of State for Trade and Industry, the Environment and Transport, the Chief Secretary and to Sir Robert Armstrong.

Michael Scholar

J. D. West, Esq.,
Department of Energy.

CONFIDENTIAL

RB

Ref. A083/2256

PRIME MINISTER



Prime Minister ^①
No - see ~~attached~~ letter ^{not}
Agree the draft letter at page A?

Please see minutes
from Ministers and from Policy Unit too.

MCS 26/7

The Secretary of State for Energy minuted you on 6 July to seek your help in establishing a separate energy conservation budget for his new Energy Efficiency Office. In particular he asked your agreement to the transfer to him of responsibilities and resources for the home insulation scheme from the Department of the Environment, for fuel saving publicity from the Department of Transport, and for industrial energy conservation from the Department of Trade and Industry. The Secretaries of State for the Environment and for Transport have since written to express their opposition. The Secretary of State for Trade and Industry has supported a move, but has pointed out that he no longer has any resources to transfer with the responsibilities. The Treasury also support the move, as long as its resource effect is neutral.

2. The proposals follow recommendations from a recent Rayner scrutiny on energy conservation, which were strongly endorsed by Lord Rayner. The report was, with your agreement, released before the Election to the Energy Select Committee, who had themselves recommended a more radical concentration of energy conservation responsibilities.

3. Energy conservation attracts particularly critical attention at the moment because, as the Secretary of State for Energy points out, the Government's position on nuclear power depends on its ability to demonstrate that it is also pursuing conservation energetically. The Rayner report's main findings "that the Department of Energy has had little direct influence over other Departments' priorities" and that its own Energy Conservation Division "has had little impact on general energy policy" are therefore not helpful.

4. The Department of Energy's present role is a co-ordinating one, with individual Departments taking the lead on conservation matters within their particular area of responsibility. The argument is that conservation is only one factor amongst many in Government decisions and an energy conservation policy is more



likely to be effective if those responsible for the decisions are also charged with taking energy conservation into account. That is the argument on which both the Secretary of State for the Environment and the Secretary of State for Transport build. Mr Jenkin argues that the Rayner scrutiny underestimated the extent to which home insulation work is an integral part of housing and home improvement policy, and fits naturally with his Department's other responsibilities for controlling local authority expenditure. He believes that there will be duplication of effort and some confusion of responsibilities if the work is transferred. Mr King uses similar arguments, and adds that responsibility for car fuel saving publicity was transferred to his Department from the Department of Energy only two years ago.

5. On the other hand, the Department of Energy's present role gives it little opportunity to push energy conservation effectively. Lord Rayner's view is also that the balance of efficiency rests with a transfer of some responsibilities. In the case of home insulation close consultation with the Department of the Environment would clearly still be needed, but the home insulation policy work as such - with its single-minded objective of energy conservation - should be separable. The Department of Energy would continue to use the Department of the Environment's regional offices to make provisional allocation of funds for the scheme to local authorities. A transfer of this limited kind would not run counter to previous policy of allocation of responsibilities because most energy conservation functions would remain with other Departments. But the Department of Energy would be given a stronger position from which to influence.

6. The main argument in favour of the change proposed by the Secretary of State for Energy is political and presentational. Failure to implement the Rayner recommendations could be attacked as signalling a lack of serious commitment by Government to energy conservation and would, at the very least, weaken the impact of the new Energy Efficiency Office promised in your Manifesto.

7. If the arguments were simply about efficiency and appropriate allocation of Ministerial responsibilities, I do not think that the case would be sufficiently made out for change. The efficiency gains



are by no means certain or large, and there could well be losses. The question is whether the political and presentational gains outweigh any possible (and they are only possible) losses in efficiency. I think they probably do and that the balance of argument points to a decision in principle in favour of Mr Walker's proposal, subject to satisfactory administrative arrangements being worked out between the departments concerned. I attach a draft Private Secretary letter accordingly.

Re
Approved by
ROBERT ARMSTRONG
and signed to him.

26 July 1983

pl type GvMs

(A)

DRAFT LETTER FROM PS/PRIME MINISTER TO
PS/SECRETARY OF STATE FOR ENERGY

Energy Conservation

The Prime Minister has now seen your Secretary of State's minute of 6 July and the comments of other Ministers on its proposals.

Mrs Thatcher

She has carefully considered the arguments put forward by the Secretary of State for the Environment and the Secretary of State for Transport. ^{Her conclusion is} ~~But~~ She has decided that the ~~balance of the argument~~ ^{case for change is not} points to ~~accepting the Rayner report recommendations~~ ^{sufficiency made out, especially} and transferring the ~~responsibilities~~ ^{being in mind that certain things} ~~concerned to the new Energy Efficiency Office.~~ ^{whenever in the other direction} ~~This is on the understanding that transfer~~ ^{would make only two years ago} does not lead to any overall increase in programme expenditure. The Departments concerned will need to have further discussion of the administrative and financial arrangements. The Prime Minister would like to be consulted about the form and timing of any announcement.

I am copying this letter to the Private Secretaries of the Secretaries of State for Trade and Industry, the Environment and Transport, of the Chief Secretary and to Sir Robert Armstrong.

bc NO



PRIME MINISTER

ENERGY CONSERVATION AND EFFICIENCY

In his minute of 6 July the Secretary of State for Energy seeks your help in creating an effective Government organisation for energy conservation.

I am sympathetic to this aim and recognise its importance. I agree that the Department of Energy, through the Energy Efficiency Office, should be in the lead on energy conservation, determining the Government's strategy and co-ordinating our policies. And that applies to buildings.

But heating and insulation in buildings cannot sensibly be considered separately from the overall design and likely use of buildings. And this is just as true of housing as it is of schools and hospitals and other buildings. Yet there is a proposal that the Homes Insulation Scheme (HIS) should be transferred to the Department of Energy, involving as it does responsibility for £35 million spent on loft insulation grants to householders. This proposed transfer was essentially the crux of the argument between Peter Walker's predecessors and mine.

The main argument in its favour seems to be presentational. It would give, or appear to give, the Energy Efficiency Office greater resources. But the HIS £35 million are not free resources, to be spent at discretion. They are needed for mandatory grants for homes insulation, which are demand-led, within the annual allocation.

The arguments for retaining HIS in DOE are, in fact, substantial and were not sufficiently explored in the Rayner scrutiny.



First, it is desirable to keep responsibility for housing and home insulation together across the whole spectrum of housing activity and not hive off a small part of the work to another Department. It would be a small part because DOE would remain responsible for:

- a) Standards of design and construction of new dwellings via the Building Regulations, including basic standards for insulation.
- b) Home improvement grants for existing houses in the private sector for which there is a requirement that adequate insulation should be provided. (The Local Authority Associations have recently proposed that there should be a single home improvement grant system to include energy conservation and HIS. From their point of view as grant administrators a single system makes sense.)
- c) Remedies to housing defects in existing local authority flats and houses. The biggest single source of complaint and hence expenditure on remedying defects arises from dampness, condensation and mould. The causes are to be found in the interaction between energy use - or misuse - and the structure of the dwellings and the materials of which they are built. The problems on which my Department and the Building Research Establishment advise underline the importance of not dealing separately with heating and insulation from other aspects of housebuilding.
- d) Indoor pollution. This is a relatively new area of public concern now increasingly in the news. Apart from anxiety about the chemical properties of some insulating materials, eg urea formaldehyde foam, a balance has to be struck between increased insulation and less ventilation



against the need to disperse concentrations of potentially harmful substances inside the home. Examples are asbestos fibres from heating installations, heavy metals in house dust, and radon.

The fact that these aspects of housing are my responsibilities means that changes in the works that could be done via the HIS would need to be agreed with my Department. For instance the extension of HIS to cover draughtproofing is at present being examined with the encouragement of the Family Policy Group. Such a proposal cannot be considered on its own but must be looked at in terms of the effect on the dwelling as a whole - whether it would cause other problems, such as those in (c) and (d) above - and whether overall it would be beneficial.

Secondly, the administration of HIS is in my view more efficiently undertaken as part of my Department's arrangements for allocating and monitoring local authority housing capital expenditure. There is much greater flexibility if it is administered as part of the local authority housing programme. My Regional Offices are in constant touch with housing authorities and are the obvious source of advice on any problems affecting the administration of HIS, and on the allocation of funds to local authorities. DOE is accustomed to controlling grants to local authorities: this would be a new field for the Department of Energy.

Thirdly, the proposals to which Peter Walker refers in his minute fall well short of giving the Department of Energy a unified budget. They amount to the transfer of my Department's public expenditure on homes insulation grant while leaving similar expenditure in Wales, Scotland and Northern Ireland with the territorial departments. They take no account of energy conservation expenditure in schools, hospitals and other public buildings.



I see no rationality in this, and it is surely far-fetched to suggest that the transfer of the loft insulation element of DOE housing expenditure to the Department of Energy will have any significant impact on the nuclear power debate.

I am sorry, therefore, that I cannot accept Peter Walker's proposals for the transfer of the HIS in England. I am, as I have said, ready to support a strategic role for his Department with much greater coordination of all matters relating to energy conservation in buildings, including research. If this needs to be spelt out more fully, I should be very ready to see this done.

I am copying this minute to the recipients of Peter Walker's.

PJ.

PJ

18 JUL 83



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

ZPPs

The Rt Hon Peter Walker MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
LONDON SW1P 4QJ

18 July 1983

De Peter

ENERGY CONSERVATION

Thank you for copying to me your minute of 6 July to the Prime Minister about this Rayner Scrutiny report.

I do, of course, fully accept our Manifesto commitment to establish an Energy Efficiency Office as recommended in the Finer Report. I cannot, however, agree that it is necessary to transfer responsibility for energy conservation publicity back to your Department after this was transferred to my Department in a well publicised move only just over two years ago. To change again would surely only lead to duplication and confusion, especially as your officials would continue to depend on my research staff for their basic factual material.

For these reasons, I believe the Finer Report needs substantial modification if it is to be implemented in such a way as to achieve sensible objectives.

I am copying this reply to the recipients of yours.

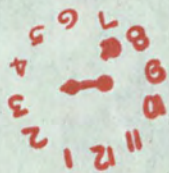
I would be happy to talk about this, as I mentioned.

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7
K

TOM KING

with Mrs

ENERGY: Conservation Pt 2



19 JUL 1983



JF3874

DEPARTMENT OF TRADE AND INDUSTRY

Room 11.01 Ashdown House 123 Victoria Street SW1E 6RB

Telex 8813148

Telegrams Advantage London SW1 3301

Telephone Direct Line 01-212 3301

Switchboard 01-212 7676

Secretary of State for Trade & Industry

15 July 1983

The Rt Hon Peter Walker MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
LONDON
SW1P 4QJ

Dear Secretary of State,

ENERGY CONSERVATION AND EFFICIENCY

Thank you for sending me a copy of your minute to the Prime Minister of 6 July. *- with MCS?*

2 I would like to reaffirm the support expressed by Patrick Jenkin, as Secretary of State for Industry, both for establishing an Energy Efficiency office and for setting up a unified budget under your Department's control. Patrick made a few points in his letter of 17 May about continuing consultation by your Department with others concerned and I assume that these points are acceptable to you.

3 The question of transferring resources has been discussed at some length between our two Departments, and you will be aware that we could not accept the Rayner recommendations on this aspect. This is primarily because much of the effort which the Department of Industry was devoting to energy conservation work at the time of Rayner has since had to be redeployed to work of higher priority, such as the promotion of new technology, and is thus no longer available for transfer.

4 Subject to these reservations, however, I am happy to support your proposals.

5 I am copying this letter to the Prime Minister and other recipients of your minute.

Yours sincerely,

Candice Varley

*(approved by
The Secretary of State and signed
in his absence)*

ENERGY : Conservation : Pt-2

1983 JUL 19 11 21 AM

1983 JUL 19 11 21 AM

FROM: CHIEF SECRETARY

DATE: 14 JULY 1983



EN-0

PRIME MINISTER

ENERGY CONSERVATION AND EFFICIENCY

I have seen a copy of Peter Walker's minute of 6 July seeking your help in establishing an Energy Efficiency Office (EEO) following the recommendation of a Rayner Report.

TPM

2. I am generally sympathetic to the proposal, and welcome the more active approach to resource allocation inherent in it. The Rayner Report envisaged some modest savings in administrative costs and Civil Service manpower. I can therefore agree to Peter Walker's proposal/^{but only} on condition that the other Departments concerned give up the funds and manpower it requires from within their existing allocations, such that:

- (i) there is no addition to programme expenditure overall;
- (ii) the savings in administrative costs and manpower are actually secured.

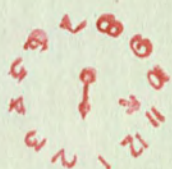
3. While Peter Walker would take over the policy responsibilities, some schemes - such as for Home Insulation - will continue to be administered by other Departments. The Treasury will wish to see a clear definition of financial responsibilities, so that for example, Cash Limits are not put at risk by any unexpected surge in demand. Some clarification is also needed, I believe, of the EEC's proposed "promotion" of the energy conservation industry. We must be careful to avoid duplication with DTI or generating public expectations that any additional resources will become available overall. I should therefore be grateful if Departments' officials could continue to keep in close touch with their Treasury counterparts over the details of the reorganisation.

I am copying this letter to the Chancellor of the Exchequer,
to the Secretaries of State for the Environment, Trade and
Industry, Scotland and Wales, and to Sir Robert Armstrong.

PR

PETER REES

Energy Policy: Energy ^{Part 1} Conservation: Part 2



25 JUL 1983

CONCLUSION

MR SCHOLAR8 July 1983

cc Mr Mount

ENERGY CONSERVATION AND EFFICIENCY

Mr Walker wishes to seize control of energy conservation. This would be unfortunate, in my view: "energy-efficiency" - across the board - is not an appropriate Ministerial responsibility, any more than "labour-efficiency" or "capital-efficiency" would be. In so far as energy efficiency does surface politically, it is best left to the Ministers with prime responsibility for the aspect concerned - energy use on the road with Transport, insulation of houses with Environment, which has responsibilities for building regulations, with which insulation is integrally linked.

Energy conservation is not a problem which requires cohorts of civil servants urging people to do what they now know to be in their best interests. The economic pricing of energy - a feature of this Government's approach to energy generally - is the best conservation policy of all.

When energy prices rose suddenly ten years ago most people - in industry, in the home, on the road - needed advice on how to save energy. They are now better informed, and will remain so due, to the efforts of suppliers of energy-saving products, such as double-glazing, efficient domestic equipment, fuel economy cars. I therefore doubt Mr Walker's (unsupported) suggestion that our performance in this respect lags behind that of other European countries. I would suggest that the Government should wind down its missionary efforts towards, and subsidies to energy conservation. This may outrage the energy conservation lobby but no Government committed to conventional economics and technologies can win the argument with this lobby, which wants a radically different, low-energy society (windmills etc).

My advice is that the Prime Minister should wait to hear the reactions of other Ministers, particularly those of Mr Jenkin

and Mr King who may well object to losing responsibilities closely related to other things they do, largely for presentational reasons. Mr Walker could easily re-style his energy conservation division "the Energy Conservation Office", in fulfilment of the Manifesto commitment.

NICHOLAS OWEN

NO

616



ge no

Prime Minister

I don't like "sudden" announcements
 resignation. I will resubmit
 with caveat. mhm advice.
 Prime Minister (4)
 MGS 11/7

ENERGY CONSERVATION AND EFFICIENCY

On coming to the Department of Energy I have been very surprised and concerned at the situation I find on energy conservation and efficiency. Government organisation on energy conservation is in confusion and lacks thrust. I would like to seek your help in putting this right without delay.

Energy conservation is important politically and economically. We have every interest as a nation in being in the lead on all aspects of energy supply and use, but on energy conservation I believe our performance compares unfavourably with that of other European countries. A better performance on energy conservation and efficiency can help industrial costs, make high energy costs more tolerable to domestic consumers, provide some much-needed employment and build up expertise for exports. In the long term it can ease the problem of a run-down in the yield to the economy of the North Sea. It is also important politically because the conservation lobby is strong, and our position on nuclear power is weakened if we are not seen to be pursuing conservation and the right choice of fuels energetically. More generally, I greatly dislike a situation in which the Government looks muddled, foot-dragging and ineffective; and finds itself unnecessarily on the defensive in Select Committees and in public.

The immediate problem is the diffusion of responsibilities between Government Departments. There was a report in the Rayner series nearly a year ago which proposed a solution to this. On 28 April my predecessor, in a letter to Tom King which was widely copied, proposed a unified budget under the Secretary of State for Energy for public expenditure specifically ear-marked for energy conservation. There was a reference in the Manifesto to the establishment of an Energy Efficiency Office.



What I should like to do is to announce without delay that the Government accepts the Rayner Report recommendations on organisation and is establishing an Energy Efficiency Office on that basis. It would administer under my authority the unified budget which Nigel Lawson proposed. That would make it possible to respond positively to recommendations which have been made by the Select Committee on Energy; and open the way to improving the quality and effectiveness of our conservation effort. It would involve transfer of some responsibilities and resources from other Departments, notably from the Department of the Environment in relation to home insulation. But the resources involved are trifling in relation to the spend and responsibilities of the other Departments concerned although they are crucial, both presentationally and practically to the work of the Energy Efficiency Office.

I would greatly welcome your help on this.

I am copying this minute to the Chancellor of the Exchequer, to the Secretaries of State for the Environment, Trade and Industry, Transport, Scotland and Wales, to the Chief Secretary and to Sir Robert Armstrong.

Secretary of State
for Energy

6 July 1983



The Board has to do its utmost to ensure that the
 financial position of the Board is maintained at a
 satisfactory level and is not allowed to deteriorate to any
 extent. It would be a great pity if the Board were to
 incur a deficit which would necessitate the raising of
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 The Board would not like to be in a position where
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JUL 1983

Faint text at the bottom of the page, possibly a signature or reference number.



Secretary of State for Industry

MBPM
MCS 20/5
DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

17 May 1983

The Rt Hon Nigel Lawson
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
London SW1

Dear Nigel,
ENERGY CONSERVATION

Thank you for sending me a copy of your letter to Tom King of 28 April. The implications of your proposals seem to bear largely upon the Department of the Environment but I am willing to go along with them if Tom is content. I have no objection to your establishing a unified budget for energy conservation, but the size of any PES transfer from this Department will have to be considered by officials. It would only be appropriate for us to transfer what we currently plan to spend on the schemes mentioned in your Annex since, as you say, it is not intended to be a signal for increased public expenditure, and as you are aware, the Industry Energy Thrift and Audit schemes are intended to expire this year and there has never been any intention on our part to set up new schemes to replace them. As far as projects under the Energy Conservation Demonstration Project Scheme are concerned, we would be willing to transfer the non-staff costs associated with the existing projects once your Department has agreed to take over responsibility for funding and monitoring them.

2 I am also content that you should have responsibility for the unified budget and for setting priorities within it, although I would naturally expect that you would consult this Department before setting priorities as between industrial and non-industrial activities and as between different activities impinging on industry. I am glad to see that you are intending to consult us on policy issues which impinge on industry.

3 In order to devise economical and effective arrangements for administration as you propose, I feel it is necessary to have consultation over the way in which resources - both money and manpower - are deployed. As you know, there are a number of Regional Energy Conservation Officers on the staff of this Department and while I welcome the recognition in the Finer Report that they should receive greater guidance on how to do



their work, it is necessary for officials who are concerned with the management of my Department's resources to be consulted about such guidance. As you will recall, I expressed support for the idea of setting up an Energy Efficiency Office when I first responded to you on the Finer Report last year and I hope that you will find these further comments helpful to you in the course of drafting the reply to the Select Committee. We would, however, like to see that reply in draft.

4 I am copying this to the Prime Minister, Leon Brittan, Tom King and Sir Robert Armstrong.

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You ever
Patel

■Z MAY 1983



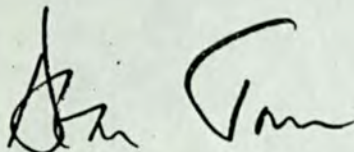
SECRETARY OF STATE FOR ENERGY
CHARLES HOUSE SOUTH
PARLIAMENTARY HOUSE

01-211-6402

The Rt Hon Tom King MP
Secretary of State for the Environment
2 Marsham Street
London SW1

A
C PS/AUSS (Lords)
PS/AUS
Mr Manley
Mr Wilson
Mr Gullis
Mrs Gittleson
Dr Finer
Mr Bwan
Miss Cohen
Mr Moss
Mr Bowler

28 April 1983



ENERGY CONSERVATION

Following our meeting shortly before Easter, I have been considering further how we can meet the political requirement to clarify our energy conservation policy as well as implementing the recommendations of the Rayner Scrutiny report on energy conservation. You may recall that Derek Rayner personally commended this report, known now as the Finer Report after its author.

I do think that it is now urgent to reach a conclusion on this. The Government is under pressure on it from Select Committees in both Houses of Parliament. We have hitherto been unable to produce a Government reply to the July 1982 report of the Energy Select Committee on Energy Conservation in Buildings. I have had to instruct officials to stonewall in the Energy Select Committee on the Government's response to the question of organisation in Government for energy conservation policy in spite of this 9 months delay, to the considerable irritation of the Committee. The Rayner report is already in the hands of the Commons Committee, by agreement with the Prime Minister, and they have released it to the press.

It is of course possible to draft some sort of reply to the Select Committee, and drafting is now in hand. But on the key question of organisation and responsibility the reply can at present only say that the matter is under consideration. This is politically very unattractive during a pre-election period. Policy on energy conservation is directly linked to the nuclear controversy, which is clearly an important electoral issue. The position in which we now find ourselves on organisation for energy conservation leaves an impression of dilatoriness and dissension; puts arguments into the hands of opponents of our policy on nuclear power generation; and makes it practically impossible to present coherently our policy on energy conservation. Not surprisingly, we are receiving an appalling press on this issue.

Against this background I would like to propose that we agree as a matter of urgency on the following arrangements which also concern other colleagues, including the Chief Secretary to the Treasury:-

- (i) There should be a unified budget for public expenditure specifically ear-marked for energy conservation. I believe that the main components of this budget would be as set out in the annex to this letter. I do not however suggest any change in expenditure responsibilities of the Secretaries of State for Scotland, Wales or Northern Ireland.
- (ii) Responsibility for this budget should be unified in the Secretary of State for Energy, with the duty to administer priorities within it. In particular, I believe we should face the decision whether we are to regard the home insulation grant, for which £34m was allocated in 1982/83, as a minor part of a housing investment programme of well over £2bn; or as a major part of an energy conservation budget on the lines shown in the annex. This is a key decision and the answer in my view should be the latter. Without it we have no adequate focus for our energy conservation policy.
- (iii) Within these key decisions on responsibility for policy and expenditure, we should make the most economical and effective arrangements for administration which we can devise.

There would of course be no question of disregarding the needs of adjoining sectors under this policy. There would be full consultation on the relationship between energy conservation policy and policy on housing investment and standards, just as there would be on industrial aspects where conservation policy affected industry. I foresee no special difficulty. What we do on energy conservation is likely to be supportive of these other policies.

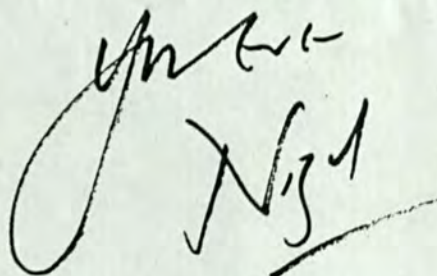
This plan would be consistent with proper financial control and the determination of priorities. It would be in the spirit of the Rayner report, and would meet the pressures of the Select Committees and the political need for a clear conservation policy. It would not be a signal for increased public expenditure; on the contrary it would be, as the Rayner report envisaged, a plan for making better use of the resources now being applied. It would give a clearer focus to the Government's conservation policy at a time when that is particularly needed.

When we discussed this, you were good enough to recognise the need for an energy conservation budget and for a new Government move in this area. You also agreed that the Department of Energy should be in the lead on energy conservation policy and specifically should be responsible for conservation in non-domestic buildings. I do not believe there is a great deal between us. But I cannot compromise on the need for a clear and unified Ministerial responsibility for such a budget, to include home insulation expenditure, which would put responsibility to Parliament and others for policy beyond doubt.

I know that the home insulation grant is at present subsumed into your arrangements for managing housing capital expenditure generally. Indeed, I understand that there is scope for virement between home insulation grant and other housing capital expenditure both at Departmental and at the local authority level, notwithstanding that home insulation grant is a 100% Exchequer financed and demand determined service. I believe it would be most economical if the DoE Regional Offices continued to make provisional allocations of funds for the home insulation scheme to the local authorities on behalf of the Department of Energy but on the basis that the funds were provided by the Department of Energy and retained a separate identity as an Exchequer financed energy conservation service. In the home insulation area only a handful of staff concerned with policy on this grant would be transferred from your Department to mine, although there may be a further small number of staff concerned with energy conservation standards and research who might also need to be transferred.

I very much hope that you will now feel able to agree that we should proceed as I have proposed in this letter and should implement the recommendations of the Rayner report to establish an Energy Efficiency Office, with an appropriate transfer of resources from your Department to mine. In proposing this I can assure you that I would seek your agreement before I made any change in the home insulation grant scheme to householders. But what I must now do is to make the long overdue reply to the Select Committee Report on Energy Conservation in Buildings. More broadly, I believe that it is a political requirement for the Government that we should resolve this matter without further delay.

As these proposals involve some adjustment in the machinery of Government I am copying this letter to the Prime Minister and to Sir Robert Armstrong; as well as to the Chief Secretary and to other colleagues who have seen the earlier correspondence on this subject.

A handwritten signature in black ink, appearing to read 'Nigel Lawson', with a large flourish on the left side.

NIGEL LAWSON

ENERGY CONSERVATION BUDGET

This budget would bring together public expenditure which was specifically earmarked for national energy conservation purposes. It would thus consist of conservation schemes, demonstration projects, research and development work, publicity effort etc with an energy conservation objective. It would not extend to expenditure on schemes with different or wider objectives (eg support for small businesses), parts of which might in fact be devoted to energy conservation activity; nor would it include expenditure by the Government (or local authorities) on energy conservation with their own services (eg Government or Health Service buildings).

Department of Energy	£ million 1982/83	
(i) Information and advice	0.665	
(ii) Energy Survey Scheme, other schemes and services	2.005	
(iii) Demonstration projects	5.300	
(iv) R&D, including Combined Heat and Power	1.540	
(v) CoI publicity and information	2.300	
		11.810
Department of Environment		
(i) Home Insulation Scheme	33.700	
(ii) Other, including R&D	0.300	
		34.000
Department of Industry		
(i) Industrial Energy Thrift and Audit Schemes*	0.460	
(ii) Demonstration projects (excluding staff costs)	0.700	1.160
Department of Transport		
Car fuel consumption publicity	0.150	0.150
		<hr/>
		£47.120
		<hr/>

* It is understood that these schemes are expected to end during 1983/84; other schemes are expected to replace them.

ENERGY IN THE HOME - THE WINTER CAMPAIGN Pm: 1/10/80

Because winter is a time of particularly high energy use, now is the time to make special efforts to ensure that everyone recognises the importance of conserving our precious energy resources and the fact that, by using those resources more efficiently, we can all save ourselves money. R 27.

Energy resources are becoming more scarce and dearer. In order to encourage more efficient use of energy, the Government is this winter mounting a strong TV and press advertising campaign directed primarily at advice on the ways insulation can help reduce consumers' fuel bills. The campaign will be in two phases, the first this autumn and the second in January 1981.

Protection for those in hardship

In a world of increasing energy prices it is essential to protect the poorer sections of the community, who would otherwise feel the impact of such increases particularly sharply. The Government has already announced a series of measures, more generous than any provided in previous years, to help those in hardship with their fuel bills. These include a new 90% grant rate (up to a maximum of £90) towards the cost of loft insulation for the elderly on low incomes which has been introduced under the Homes Insulation Scheme. The measures are described in a leaflet "Winter Heating Costs: A Quick Guide to the Help Available", issued on 6 November, a copy of which is attached to this note. The help the Government will be giving with heating costs will be worth over £200m; and over 2m people will benefit from it.

The need for a better understanding of the energy problem

These forms of help and publicity on specific measures cannot however be a substitute for a greater understanding by members of the public

of the nature of the energy problem. We live in a world of soaring energy costs, and energy prices are bound to reflect this, in the UK as elsewhere.

British energy reserves

In the UK we are fortunate to have our own supplies of oil, gas and coal. They are not only an important source of national wealth but also reduce our dependence on energy imports.

But it is vital that we do not fall into the trap of imagining that our energy supplies can insulate us from the world's energy problems.

- First, they cannot shield us from the effects of rising energy prices. Costs of energy production are rising. So is the real value of the limited resources we are using up; this will continue as prices rise throughout the world.
- Second, while they do give us additional protection and security, they cannot provide a full or permanent insurance against the risk of shortages. As a trading nation, our prosperity depends almost as much on our trading partners' security of energy supply as on our own. And the quicker we use up our gas and oil reserves the sooner will our dependence on imports begin to increase again. That process may start well within the lifetime of most people living today.

High and rising energy prices are a fact of life in the 1980s. Consumers in all countries will have to pay them. If we sold our own energy to ourselves at less than its true value, we should not only be encouraging people to waste a precious national asset, but would also stand to lose valuable revenues from our North Sea gas and oil fields. These provide a large and growing income to the Exchequer which helps to reduce the pressure on taxation and on public borrowing. It is through this means, not through artificially low prices, that the nation as a whole can best benefit from our national self-sufficiency in energy.

Prices and conservation

So prices must be realistic. It is a surprising fact that for us in Britain prices for fuel used in the home generally rose only slightly faster than inflation, and more slowly than incomes, in the 1970s. In particular, gas prices fell by about a third in real terms while demand more than doubled. At the end of the decade the average wage-earner needed to work only half as many hours to buy a given quantity of gas as he did in 1970. But now all that has changed. Crude oil prices increased by over 100% during 1979. There is no escape from realistic prices for all fuels reflecting the rising trend of world energy costs. The Government must help people to understand the new energy situation. So we are greatly increasing what we spend on telling people how they can cope with higher prices by using energy more efficiently. The move to realistic energy prices is now well under way and will continue in the years ahead. The one sure way of limiting fuel bill increases is to break away from the wasteful habits of the past and make the most of the energy we use. This message is at the heart of the Government's energy conservation information campaign.

Individual fuels

But why are the various fuels going up in price? Looking at each fuel in turn:

Gas First, the gas from the North Sea which we will be consuming in the 1980s costs BGC up to six times more than the gas we consumed in the 1970s. It comes from deeper waters, much further out to sea. Increasingly too, we have to buy gas in international competition with others who are willing to pay much higher prices than in the past, prices that will rise as world oil prices rise.

Second, peak demand for gas exceeds supply. If prices were held back, rationing and controls would be needed to allocate supplies. Were there to be more competition in the market, gas prices would tend to rise until supply and demand were in balance. Assertions that BGC is using its monopoly position to drive up prices are therefore misconceived.

Third, sales of gas for use in the home have been barely breaking even, and so made no contribution to any of the cost of investment in future supplies.

These are some of the factors underlying the decision to allow partial de-control of gas prices into the home earlier this year (upon which the industry's 3 year financial target has been based). We expect prices of gas for use in the home to increase by about 10% a year over the next three years over and above whatever is necessary to keep pace with inflation. At the end of that time real gas prices will be just about back to where they were ten years ago.

We have large reserves of coal but to make full use of them we must develop a competitive low cost industry for the future. To achieve this, the coal industry has accepted the aim of standing on its own feet, after Government help with social costs, by the mid 1980s. A viable, fully efficient coal industry is in everyone's interest.

North Sea oil is a small part of an internationally traded commodity, whose price is effectively determined by world forces. World prices have increased 20-fold in the last decade in dollar terms and last year alone they doubled.

Electricity is produced mainly from other fuels. We cannot make cheap electricity out of expensive coal and oil, because fuel costs account for over half the final price of electricity. If we ignored this fact the electricity industry would soon start making losses and the taxpayer would have to meet the bill.

Investment in Increasing Supply. So energy in the 1980s will not come cheaply. This is also seen in the scale and cost of new investment. New projects such as Selby coalfield; Magnus oilfield; the proposed new gas-gathering pipeline; and Heysham B power station; are for instance each estimated to cost over £1,000m. These enormous investments to secure future energy supplies will have to be paid for.

Investment in Restraining Demand. If we as a nation are to gain maximum benefit for as long as possible from our investment in supply, we must also invest in restraining energy demand in all sectors; at

work, in transport and in the home. Unlike the major investments in the supply industries, where individual project costs are so huge that only Government or the largest organisations can meet them, investment to reduce our energy demands can be made in smaller units and therefore rests with decisions by millions of individuals. Put together however these decisions also represent a major national investment and one which can have an important effect in the short as well as the longer term. This is why the Government attaches such importance to this investment and provides a wide range of information and assistance to encourage it, particularly in industry and the home.

Efficiency, The increasing world scarcity of energy requires us all to make changes in our attitudes and habits. The energy nationalised industries are in the special position that their prices must reflect the rising trend in world energy prices and increases in the industries' own primary energy costs. This makes it all the more important that prices should not rise even higher because of any waste or inefficiency in the supply industries.

So the Government has set tight financial disciplines for the coal, gas and electricity industries and is pressing them hard to seek further economies. The Central Electricity Generating Board's efficiency and costs are also being investigated by the Monopolies and Mergers Commission.

But again there must be no illusions. Increased efficiency by the energy industries cannot offset the whole burden of rising energy costs.

Conclusion

There is no escape from the real energy world of the 1980s. The Government cannot shield the whole population from the direct effect of energy price increases. We have to recognise that dear energy is here to stay. The Government cannot change these realities, but it has alerted people to them and is constantly giving advice to them on how to take decisions about energy consumption and Conservation in the light of the facts.

A process of adjustment to higher energy prices must be accepted if we are to make proper use of our energy resources. The Government has aimed to soften the impact on those in greatest need. But for most of us it would be an illusion to look for automatic protection. The more we try to compensate ourselves for rising prices - whether energy prices in particular or price levels in general - by un-earned wage increases, the higher unemployment will be and the longer it will take to bring inflation down.

Paymaster General's Office
Privy Council Office
68 Whitehall
LONDON SW1

25 November 1980



file

Energy

089

10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG

ENERGY CONSERVATION

You may be slightly puzzled by the attached letter to the Department of Energy. But the Prime Minister was absolutely adamant that she did not wish Mr. Howell to circulate even his revised draft, and it was only after I had gone back to her that she reluctantly agreed that Mr. Howell should raise this subject orally in Cabinet. She then suggested that Mr. Howell might send round a paper after the Cabinet discussion - I did not think it was worth arguing!

I know this is not the best way of doing business in Cabinet, but after many months of trying, I think it is the only way of getting this particular bit of business done.

J. P. LANKESTER

8 August 1980

02

CONFIDENTIAL



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DSG

10 DOWNING STREET

From the Private Secretary

8 August 1980

The Prime Minister has now read your Secretary of State's minute of 31 July on energy conservation and the draft paper for Cabinet or E Committee which he enclosed with it.

The Prime Minister suggests that, rather than circulate the draft paper to colleagues, Mr. Howell should raise the subject orally in Cabinet in the autumn; and that in the light of the discussion in Cabinet, he might consider circulating a paper subsequently.

I am sending a copy of this letter to Sir Robert Armstrong.

I. P. LANKESTER

Julian West, Esq.,
Department of Energy.

CONFIDENTIAL

DS

Prime Minister

1

PRIME MINISTER



In the light of your discussion with Mr Howell at lunch, do you wish the attached paper to be circulated - presumably to all Ministers in charge of Deptts (i.e. Cabinet)?

ENERGY CONSERVATION

When my colleagues and I lunched with you on 14 July you explained that you were reluctant to agree that this subject should be put to E Committee on the basis of the draft paper which I sent you on 3 July because that paper did not provide a sufficiently specific basis for ministerial endorsement. An alternative might be for me to raise the subject orally in Cabinet and invite my colleagues to develop discussions with Mr Moore.

12

1/8

My objective in suggesting a paper for agreement in Cabinet or E Committee was to secure a strong general endorsement of the need for all Departments to pay a lot of attention in both administration and policy to the efficient use of energy. I think it would help to secure this commitment for me to circulate a short paper. I have somewhat revised the draft of 3 July to meet your points but it is still in general terms - that is inherent in the approach.

I hope you will agree that I should now circulate this paper to Cabinet or E either for discussion if colleagues wished to raise points or for agreement by correspondence. This might be the quickest and best way of getting our efforts carried forward, although if you still wished me to raise the subject orally in Cabinet I would be glad to do so.

I am sending a copy of this minute and enclosure to Sir Robert Armstrong.

I think the enclosed paper will not go down at all well. 1/4.

Secretary of State for Energy
31 July 1980

Further,

- it sets up or perpetuates yet another committee - which will achieve very little.

Discussed with the Prime Minister who has now agreed that Mr Howell must be orally should

12 1/8

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CONFIDENTIAL

DRAFT PAPER FOR CABINET OR E COMMITTEE

THE EFFICIENT USE OF ENERGY IN THE PUBLIC SECTOR

1 The Venice Economic Summit set the objective of breaking the link between economic growth and the consumption of oil within the coming decade. More efficient use of energy as well as the replacement of oil by other fuels is essential to achieve this objective. The UK's present energy strategy depends on reducing fuel consumption through improved efficiency by about 20% or 100 million tonnes of coal equivalent a year by 2000. This is a formidable task.

2 Realistic pricing supported by a strong information campaign is the key to our energy conservation policy. It is already beginning to have an effect. After allowing for changes in the weather and the low level of economic activity our energy consumption has shown an appreciable fall this year with an even sharper contraction in consumption of petroleum products. But if we are to look to the private sector to be more efficient in its energy use we must set the example in the public sector. That example cannot be set by the Department of Energy alone. Responsibility for different sectors of the economy is so widely spread among us that I am bound to look to my colleagues to promote actively the efficient use of fuel in their areas of responsibility.

3 Much has been achieved. For example, the Property Services Agency has reduced the consumption of energy in the Government estate by about 35% since 1972/73: and has set the target of a further 12% reduction of current consumption by 1982. The National Health Service has achieved a saving of about 20% in its annual fuel bill since 1973/4. The Department of Transport are making a major effort to promote energy conservation in transport. With the agreement of my colleagues, I have made an Order to reduce to 19°C the maximum heating limit in many buildings including offices, shops and factories.

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4. But much remains to be done. With the pressure we are putting on public expenditure and manpower some Departments and public sector bodies are giving efficient use of energy a relatively low priority compared with their main objectives. This is a natural tendency but unacceptable. To overcome it we need collectively to give a strong lead to our Departments and to be ready to accept that efficiency in the use of energy may have to over-ride other policies to which we attach importance except of course the over-riding need to constrain public expenditure to which the efficient use of energy should contribute.

5. Specifically I suggest that:-

- (a) Energy efficiency, as a major element of Government policy, should be included as a matter of course in consideration of new policies.
- (b) All Ministers should ensure that energy conservation is given high priority in the work of their Department and should instruct their Principal Establishment Officers to see that this is done.
- (c) All Ministers concerned should actively promote energy efficiency in the nationalised industries, local authorities and other public bodies.
- (d) Reduction in public expenditure should not be achieved at the expense of fuel efficiency - the necessary savings must be found in other ways.
- (e) Progress with energy conservation in the public sector should be simply but rigorously monitored.

6. Much work will be needed to develop effective detailed policies on these lines. Officials should be instructed to carry it out under the supervision of the informal committees of Junior Ministers under the Parliamentary Under Secretary of State, Department of Energy (Mr Moore). I will report regularly to Cabinet/E Committee.

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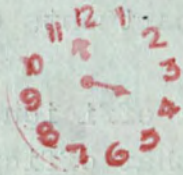
7 I ask my colleagues to:-

- (a) recognise that efficiency in the use of energy is an important concern of all Departments of Government;
- (b) endorse the approach to fuel efficiency in the public sector in para 5 and agree that officials under the supervision of the informal Committee of Junior Ministers under Mr Moore should urgently prepare detailed proposals to give effect to it.

30 July 1980

31 JUL 1980

CONFIDENTIAL



Faint, mostly illegible text, possibly bleed-through from the reverse side of the page.

CONFIDENTIAL



Energy

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01 211 6402

Mik ✓ *MS*

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London SW1

R
14/7

14 July 1980

See memo

HEATING CONTROL ORDER

Following the announcement made by John Moore in a written Parliamentary Answer on 10 December of our proposal to reduce the maximum heating in non-domestic buildings, the required consultation procedure has now been completed. You will wish to know that I propose to announce the reduction of the limit to 19°C during my Department's oral Parliamentary Questions on Monday 21 July.

It is intended that the Order will come into operation on 1 October.

I am copying this letter to the Prime Minister, the Lord Chancellor, Attorney General, Solicitor General and to all Ministers in charge of Departments.

James

David

D A R HOWELL

CONFIDENTIAL



10 DOWNING STREET

From the Principal Private Secretary

14 July 1980

Dear Julian,

ENERGY CONSERVATION

When the Prime Minister entertained your Secretary of State and his colleagues to lunch today, the conversation turned to energy conservation, on which Mr. Howell minuted the Prime Minister on 3 July 1980.

The Prime Minister said that she was reluctant to agree that this matter should be put to E because the paper in its present form did not seem to her to contain anything specific enough to provide a basis on which Ministers could reach decisions. Some consideration was then given to the suggestion that your Secretary of State might raise the matter orally in Cabinet and invite his Cabinet colleagues to agree to enter into bilateral discussions with Mr. Moore. But after further discussion your Secretary of State said that he would prefer to take the question away and reflect further on how best to proceed, and the Prime Minister agreed that he should do this.

I am sending a copy of this letter to David Wright (Cabinet Office).

Yours sincerely,

Alan White

Julian West, Esq.,
Department of Energy.

CONFIDENTIAL

E.R.

1

PRIME MINISTER

In your comment on the attached papers you say that "This paper contains nothing to put to Cabinet Committee". Am I to understand from this that you don't even want an improved version of the paper to be circulated for comments? I doubt whether there is any need for a discussion, but I think that a paper reminding Ministers of what has to be done to conserve energy would be worth while. Otherwise, as Mr. Howell suggests, Departments will simply forget about it.

Can it be raised orally

R

10 July, 1980.

Prime Minister

Ref. A02561

MR. LANKESTER

This paper contains nothing to put in the committee. I see little points in nominating special officials when work should be done by establishments. No need to discuss it.

I agree with the Cabinet Office that the draft paper is unsatisfactory. But this is an important issue. Shall I ask for the draft to be improved as suggested?

The Secretary of State for Energy has asked the Prime Minister to agree

Para A

that he should put to Cabinet or to E Committee the paper attached to his minute of 3rd July about promoting energy conservation by Government Departments and other public sector bodies.

2. In the view of the Cabinet Office, this paper does not offer an adequate basis for Ministerial discussion. If it is to carry conviction it needs to be revised to set out much more clearly what are the problems and who are the offenders in giving a low priority to conservation.

3. The paper's main weakness is in paragraphs 4 and 5 where Mr. Howell enumerates a number of proposals. These need clarification and greater precision. The Departments and public sector bodies which are giving energy conservation a relatively low priority need to be specified and the conservation performance of each Department analysed. There should be an explanation of what the paper means by "other policies to which we attach importance" which may have to take second place to the efficient use of energy. Similarly it would be helpful to have examples of any cases in which reductions in public expenditure are being achieved at the expense of fuel efficiency. It may be that this refers to the relative priority being given to Government support of promoting energy conservation in private industry and of domestic heat insulation schemes. If so, this should be made clear. It is not immediately evident that an Under Secretary in each Department should be appointed to ensure that energy conservation is given a high priority. Savings in energy costs in Government buildings should already be a matter within the responsibility of Establishment Officers. If the Prime Minister is ^{to be} able to take a view on whether the informal Committee of junior Ministers under the Parliamentary Under Secretary of State, Department of Energy, is to continue it would be useful to know what it has achieved so far.

The answer seems to be: not much.

Do you want the relevant paragraphs struck out?

P.

CONFIDENTIAL



4. If the Secretary of State for Energy could revise his paper to take account of these points, and the revised draft were acceptable to the Prime Minister, it might then be circulated to the Cabinet who could be given the opportunity to say whether they accepted the general proposals or whether they saw difficulties in them. These comments might, in the first place, be offered in correspondence and the question discussed only if that proves necessary.

5. If the Prime Minister agrees with this advice I suggest that you write to the Secretary of State's office accordingly.

A handwritten signature in black ink, which appears to read 'D. J. Wright', is written over a horizontal line.

D. J. WRIGHT

8th July, 1980

CONFIDENTIAL

*6 advice only**A*

PRIME MINISTER

ENERGY CONSERVATION

You agreed last November to the continuation of the informal "ginger" group of junior Ministers chaired by John Moore to promote energy conservation and asked for a report by the end of May. Subsequently your Private Secretary agreed that we could postpone a report until now.

A primary aim of John Moore's committee is to ensure that the public sector sets a good example. John Moore has rightly set his face against lengthy papers and a series of meetings. Instead he has had talks with individual colleagues in key Departments. In these discussions it was agreed that a series of presentations should be made to the committee on the conservation programmes in local authorities, hospitals and the Post Office. But in practice a number of Departments under pressure on staff numbers have given this work relatively low priority compared with their main objectives. Thus your scepticism about the value of this committee has so far been confirmed.

But I do not think we can leave things at that. More efficient use of energy is essential if the Venice objective of breaking the link between economic growth and the consumption of oil within the coming decade is to be achieved: and we must see that the public sector sets the right example. I believe John Moore and his colleagues will only get results if we give a strong lead from the top. I would therefore like to put the enclosed paper to Cabinet or E Committee. I hope you will agree and indeed feel able to give it your support.



- 2 -

Para 6 is in square brackets because it deals with a question of Government machinery which is particularly your concern. I should be glad to omit it if you prefer to keep open the question of future arrangements until after discussion in Cabinet or E Committee.

I am sending a copy of this minute and enclosure to Sir Robert Armstrong.

DH.
2

Secretary of State for Energy

3 July 1980

CONQUEROR

DRAFT

THE EFFICIENT USE OF ENERGY IN THE PUBLIC SECTOR

1. The Venice Economic Summit set the objective of breaking the link between economic growth and the consumption of oil within the coming decade. More efficient use of energy as well as the replacement of oil by other fuels is essential to achieve this objective. The UK's present energy strategy depends on reducing fuel consumption through improved efficiency by about 20% or 100 million tons of coal a year by 2000. This is a formidable task.
2. Realistic pricing supported by a strong information campaign is the key to our energy conservation policy. It is already beginning to have an effect. After allowing for changes in the weather and the low level of economic activity our energy consumption has shown an appreciable fall this year with an even sharper contraction in consumption of petroleum products. But if we are to look to the private sector to be more efficient in their use of energy we must set the example in the public sector. That example cannot be set by the Department of Energy alone. Efficiency in the use of energy must be an important concern of all Departments of Government. It would create a very bad impression if, during the coming winter while people struggled to cope with heavier fuel bills, it was felt that overheating and energy waste was continuing unchecked in public offices and buildings.
3. Much has been achieved. For example, the Property Services Agency has reduced the consumption of energy in the Government estate by about 35% since 1972/3: and has set the target of a further 12% reduction of current consumption by 1982. The National Health Service has achieved a saving of about 20% in its annual fuel bill since 1973/4. The Department of Transport are making a major effort to promote energy conservation in transport. With the agreement of my colleagues, I will shortly be making an Order to reduce to 19°C the maximum heating limit in offices and factories. This should also help, provided that it is observed by Departments and Authorities.

(2)

4. But much remains to be done. With the squeeze we are putting on public expenditure and manpower some Departments and public sector bodies are giving efficient use of energy a relatively low priority compared with their main objectives. This is a natural tendency but unacceptable. To overcome it we need collectively to give a strong lead to our Departments and to be ready to accept that efficiency in the use of energy may have to override other policies to which we attach importance except of course the overriding need to constrain public expenditure to which the efficient use of energy should contribute.

5. Specifically I suggest that:-

- a) All Ministers should ensure that energy conservation is given high priority in the work of their Department and should appoint a senior official (Under Secretary) to see that this is done.
- b) All other public bodies should be pressed strongly to give similar priority to the efficient use of energy.
- c) Reductions in public expenditure should not be achieved at the expense of fuel efficiency - the necessary savings must be found in other ways.
- d) Progress with energy conservation in the public sector should be simply but rigorously monitored.
- e) The implications for energy efficiency should be considered as a matter of routine when new policies are under considerations.

6. The Informal Committee of Junior Ministers under the Parliamentary Under Secretary of State, Department of Energy (Mr Moore) should follow up these suggestions and keep progress under review. I will bring their reports regularly to Cabinet/E Committee 7.

C O N F I D E N T I A L

(3)

7. I ask my colleagues to:-

- a) Recognise that efficiency in the use of energy is an important concern of all Departments of Government.
- b) Give wholehearted support to the approach to fuel efficiency in the public sector in para 5 and to ensure that it is carried through in their Departments.
- [c) Agree that the Committee of Junior Ministers should follow up the other suggestion in para 5 and keep progress under review.]

3rd July 1980

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F-4 JUL 1980

... of energy in ...
... of ...

... to the ...
... to ...

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... in ...

PART 1 ends:-

PM to M. Morris 8/4/ 1980

PART 2 begins:-

Cab. Office to TR 8-7-80.

