

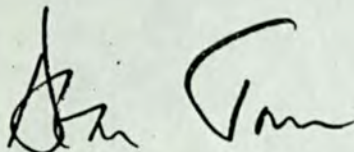
SECRETARY OF STATE FOR ENERGY
CHARLES HOUSE SOUTH
PARLIAMENTARY HOUSE

01-211-6402

The Rt Hon Tom King MP
Secretary of State for the Environment
2 Marsham Street
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A c PS/AUSS (Lords)
PS/AUS
Mr Manley
Mr Wilson
Mr Gullis
Mrs Gittleson
Dr Finer
Mr Bewan
Miss Cohen
Mr Moss
Mr Brown

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.

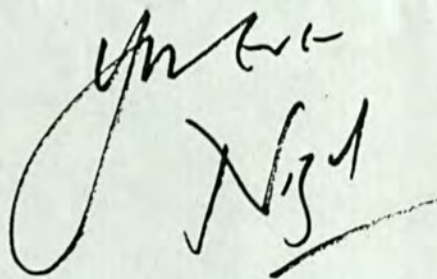
This plan would be consistent with proper financial control and the determination of priorities. It would be in the spirit of the Rayner report, and would meet the pressures of the Select Committees and the political need for a clear conservation policy. It would not be a signal for increased public 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 dark ink, appearing to read 'Nigel Lawson', with a large, sweeping initial 'N' and a horizontal line underneath.

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
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		£47.120
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* It is understood that these schemes are expected to end during 1983/84; other schemes are expected to replace them.