



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

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MR BUTLER



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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.