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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Cecil Parkinson MP
Secretary of State for Energy
Thames House South
Millbank
London
SW1P 4QJ

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14/3

14 March 1989

Dear Secretary of State,

CLIMATIC CHANGE: ENERGY EFFICIENCY IN THE PUBLIC SECTOR

Thank you for your letter of 6 March, enclosing the draft of a paper you propose to put to colleagues for a new campaign to promote public sector energy efficiency.

I fully agree with your assessment of the need to improve the public sector's approach, and welcome many of the proposals in your draft paper.

However the reference in paragraph 3 to the need for "new arrangements" to enable departments to retain part of the savings likely to accrue from further energy efficiency measures suggests a misunderstanding of the effects of the existing expenditure control and Survey procedures.

We do not insist that all savings from management action or investment to secure better value for money should be surrendered to the Treasury rather than retained by departments. The overall position of each department or programme is considered individually and on their merits. Whether savings are retained or offset against any bids or cash provision depends on questions affecting the department or programme as a whole, including priority and affordability.

For running costs, we now have a collectively agreed policy that all departments should plan their management expenditure on a rolling three-year time horizon to deliver efficiency gains worth at least 1½ per cent a year of their annual expenditure. I should be happy for your paper to make clear that departments can count energy efficiency savings resulting from your proposals towards their cumulative targets. That, taken with the full responsibility for energy use that departments will assume from April 1990, which you rightly recognise as an important development, gives them with a clear interest to make the relatively small initial investments you have in mind to yield the fairly rapid savings that you foresee.

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I should be happy for our officials to discuss how this can best be got across to departments. I shall be circulating the general guidelines for the 1989 Survey a day or so after the Budget, so a revised version of your own paper may prove the most practicable vehicle.

I can see that in many cases at least you may want to persuade departments to include performance measures on energy efficiency in the departmental reports that will replace the Public Expenditure White Paper. I can see some merit, too, in the construction of a departmental league table though I assume that your department would take responsibility for this and for the monitoring system you are proposing.

I agree that our officials should look quickly at the existing Treasury/EEO guidelines on the use of contract energy management.

I am copying this letter to the Prime Minister and Nicholas Ridley.

Yours sincerely,

P. Wainwright

PP JOHN MAJOR

[Approved by the Chief Secretary and signed in his absence.]

Geo AFFAIRS: Acid Rain P18

