

Prime Minister

CLIMATE CHANGE: NEW PUBLIC SECTOR ENERGY EFFICIENCY CAMPAIGN

At our 12 January meeting on climatic change it was agreed that there should be a new campaign to promote energy efficiency in the public sector; I subsequently announced this campaign on 15 January. Since then there have been detailed discussions with the Treasury on the components of the campaign, resulting in the proposals set out in the attached paper (which deals primarily with the Central Government element).

The campaign will serve two main objectives:

- (i) to demonstrate the Government's own commitment to efficiency, thus setting an example for others;
- (ii) to achieve real and continuing savings in energy costs in the public sector.

I propose that the campaign should concentrate at first on Central Government, where I believe it is realistic for Departments to aim to reduce energy use by 15% over 5 years. In cash terms this would represent a £45m annual saving on the present annual energy bill of around £300m. This would probably require a doubling of the present level of investment in energy efficiency to about £30m per annum (in line with the recommendation by the Audit Commission for Local Government that annual investment in energy efficiency measures should be about 10% of expenditure on energy).

I have discussed the expenditure implications of what is proposed for Government departments with John Major. He is satisfied that the campaign will improve value for money in running costs, and



has suggested the reference in paragraph 9 which makes clear the potential benefit to departments in undertaking the generally quite small initial expenditure required to generate the savings. And he has most helpfully offered, in suitable cases, to raise with individual Ministers their energy improvement intentions in expenditure Surveys. When I circulate the material to our colleagues for action he will write in parallel to make this clear.

The campaign will later be extended to other areas of the public sector such as the NHS and Local Government.

Although there have been previous initiatives to promote energy efficiency in Government departments, the effects have been patchy and, with a few exceptions, usually short-lived. I believe it is essential to have high level commitment if we are to launch a credible campaign with measurable results. I am therefore proposing that if you are content, each Department should have a Minister responsible for energy use who will oversee progress towards meeting set targets. My Department will set up a small team to provide advice and co-ordinate monitoring and reporting arrangements.

I should therefore be grateful for your endorsement of this campaign, following which I will write to colleagues to put it into action.

I am copying this minute and the attachment to Geoffrey Howe, Nicholas Ridley, David Young, Kenneth Baker, Paul Channon, John MacGregor, Peter Brooke, Malcolm Caithness, (who were all present at your meeting on 12 January) and to John Major and Sir Robin Butler.

O.R.

Secretary of State for Energy

23 June 1989



## CLIMATIC CHANGE : A NEW CAMPAIGN TO PROMOTE ENERGY EFFICIENCY IN THE PUBLIC SECTOR

### Summary

1. At the meeting on climatic change chaired by the Prime Minister on 12 January colleagues decided that there should be a new campaign to promote energy efficiency in the public sector.

2. The aims of this campaign should be:

- (i) to demonstrate the Government's commitment to energy efficiency and so set an example for other energy users;
- (ii) to achieve savings in public sector energy costs, rising to around £45m pa for Government Departments.

To achieve these aims we need to tackle the barriers which have inhibited progress so far.

3. We propose a phased campaign starting with Government Departments. It would subsequently be adapted and extended to public services, such as the National Health Service, and used as an exemplar for Local Government. This paper concentrates on the first phase. The principal recommendations are:

- (i) as a first step a Minister should be given responsibility for energy efficiency in each Department. We will create a small team to brief each Minister, enabling them to set targets for their departments and agree plans on how those are to be achieved.
- (ii) Where improved energy efficiency occurs in areas covered by running costs, departments will be able to put the expected savings towards their targets for efficiency improvements in three-year running costs management plans.

### Background

4. There have been considerable advances in the last five years in the efficiency of energy use in industry. Progress in the commercial and domestic sectors has been slower, but the most



successful private sector organisations have shown what can be done.

5. By contrast, progress in the public sector has been patchy and disappointing. Within central Government, investment of both money and management effort has varied widely between Departments and from year to year. In general it has not approached the guidelines of 10% of energy expenditure, and one man-year of energy management per £1 million energy expenditure recommended by the Audit Commission for Local Government in a 1985 report. Only the Ministry of Defence and the Departments of Transport and Environment have adopted a strategy covering more than one year with quantified targets. The development of contract energy management under the joint 1987 Energy Efficiency Office/Treasury guidelines has also been disappointing. Similarly, within Local Government, monitoring by the Audit Commission has shown a disappointing take-up of the recommendations in their 1985 report.

6. The evidence suggests that there is substantial scope for improvement. In 1987, excluding transport, public sector energy expenditure was £1770 million or 8% of the UK total. From an analysis of surveys on the civil estate the Property Services Agency have estimated that if all cost effective measures were adopted they would reduce the bill by over 20% - although this might require investment amounting to 70% of current annual expenditure on energy. We believe it would be realistic to aim to reduce Departmental energy use by 15% over 5 years. In 1985, the National Audit Office reported that it might be possible to save 25% of National Health Service expenditure on energy. In Local Government the Audit Commission has estimated that savings of 12-17% might be possible.

7. Progress within central Government has been inhibited because expenditure on energy is seen as an uncontrollable overhead, and because of a lack of clear responsibility. This is changing. Departments are already accountable for their energy consumption; from April 1990 they will assume greater responsibility for their energy payments and investment - the details have not yet been finalised. But some important barriers remain:

- (i) a lack of clear strategies to which Departments are committed;
- (ii) a lack of commitment of technical and financial resources.



### Recommended Measures

8. We recommend a phased approach, concentrating initially on Departments and then extending to public authorities and Local Government. Departments need to put their own houses in order and to gain more experience of how successful programmes work in order to require changes in their client bodies. The NHS also needs to digest its new reforms, which will, of course, give the service new incentives to manage all its costs efficiently.

9. For Departments we propose the following steps:

- (i) A Minister should be given responsibility for energy use in each Department. We will set up a small team to brief the Minister. Departments can then set target levels of savings and investment over a five year period and identify how those savings are to be achieved. We propose that the targets should be based on the Audit Commission recommendations for Local Government (see para 5).
- (ii) Existing Treasury/Energy Efficiency Office guidelines on the use of contract energy management should be streamlined to leave Departments free to invest on the basis of their own judgements of value for money within agreed limits. Discussions with the Treasury on this aspect are already under way.
- (iii) A system for monitoring progress should be established. This should include the publication, where appropriate, of measures on performance within the Public Expenditure White Paper and the construction of a league table. The monitoring and reporting arrangements will be co-ordinated by the team envisaged in para 9(i).
- (iv) For Government departments, the £14 million extra expenditure on energy efficiency measures implied in the new campaign is equal to about 0.1% of overall running costs. Cost reductions resulting from energy efficiency investments should mount up over a small number of years to some £45 million per year in all, and these savings would then continue year after year at little or no extra cost. Departments will be able to count these new gains towards their targets for efficiency improvements in three-year running costs management plans. They therefore have the incentive to plan and undertake the relatively small expenditure required to produce potentially substantial savings.



### **Local Government**

10. As noted above, it is too early to make specific recommendations for other public services and Local Government. However, we propose that a further exercise with the Audit Commission in England and Wales (and the equivalent body in Scotland) should be initiated now. We also propose that the Department of the Environment and the Territorial Departments examine their existing arrangements for giving support to local Government to ensure that those arrangements do not obstruct the introduction of initiatives along the lines proposed for central Government.

### **Resource Implications**

11. At present levels of expenditure on energy, adoption of the above guidelines by Government Departments could increase investment in energy efficiency from £16 million per annum to perhaps £30 million. Adoption of the proposals would not involve an equivalent increase in public expenditure because of the savings generated.

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DEPARTMENT OF ENERGY