

Institutional design for a low-carbon economy

Green Alliance submission to the Performance and Innovation Unit's Energy Policy Project

Contents

Introduction

The nature of low carbon policy

Low carbon policy making

- Current institutional arrangements

- Weaknesses in current arrangements

- Objectives for low-carbon policy making

- Recommendations for low-carbon policy making institutions

Low carbon policy implementation

- Current institutional arrangements

- Weaknesses in current arrangements

- Objectives for low-carbon policy implementation

- Recommendations for low-carbon policy implementation

Conclusions

Introduction

This submission focuses on the institutional change that will be necessary if the UK is to move to a low-carbon future. It is based on the recent Green Alliance report, *Institutional design for a low carbon economy*. It argues that current institutional arrangements for low carbon policy design and implementation are not sufficiently powerful or coordinated enough to bring about the policy shifts required to deliver the 60% reduction in carbon dioxide emissions recommended by the Royal Commission on Environmental Pollution. It proposes new institutional structures that would improve the co-ordination and effectiveness of both low carbon policy *making* and policy *implementation*. It recommends that these new institutions should have a strong emphasis on creating networks between key stakeholders, both within Whitehall and beyond.

The Energy Policy project scoping note sets out the three main challenges which must be met by future energy policy in the UK. Firstly, it refers to the challenging Royal Commission on Environmental Pollution recommendation on carbon dioxide emissions reductions, on which our report is based. Secondly, it sets out the need to ensure security of energy supply to the UK in a world where competition for fossil fuel resources is rapidly increasing, and where supply is at risk from geopolitical developments. Thirdly, it discusses the difficulties that will be created by conflicts between policy goals on energy prices, such as the conflict between the goal of reducing prices through competition, and the goals of facilitating the investments needed to deliver long term energy security and of encouraging efficient energy use through sending clear price signals to end users.

This submission takes as its starting point the assumption that the need to radically reduce carbon dioxide emissions presents a policy challenge which is unprecedented in its complexity. It goes on to ask what sort of institutional

structures will be needed to ensure that we have sufficient political and intellectual capacity to meet this challenge.

The challenges of carbon dioxide emission reduction, ensuring energy security and resolving conflicts over pricing policies will require strong, joined up institutional structures capable of taking account of diverse policy objectives, identifying policy synergies and making decisions on trade-offs. Institutions that are developing policy in these areas will also need to provide political leadership where difficult decisions must be made. We believe that the new ministerial committee, Cabinet Office unit and networks recommended in this submission could play a key role in delivering policy on these important objectives for future energy policy.

Responsibility for key aspects of energy and climate policy is currently divided between several Whitehall departments (DTI, DEFRA, DTLR and the Treasury), and between central, local regional and devolved government. Delivering new energy policy is inevitably going to require the creation of institutional frameworks that can enable different parts of government to work together to develop and implement a co-ordinated and effective energy policy for the UK. Delivering new policy will also present a tricky political challenge, and will need clear and powerful leadership. We believe that the institutional structures described in this report could meet both of these requirements, and in doing so could create an important blueprint for modern, joined up government in the UK.

The Energy Policy project scoping note also recognises that energy policy will need “to be sufficiently flexible to cope with large economic, technical and scientific uncertainties in the transport, domestic, and industrial and commercial sectors”. This is a crucial point. At this point in time it is impossible to design and implement all the policy that will be needed to radically reduce our greenhouse gas emissions and ensure future security of supply. In order to meet these challenges energy policy is going to need to be in a state of permanent evolution, responding to innovation, experimenting with new policy models, finding new ways of engaging stakeholders and of using technology. Designing the right institutions to manage this exciting and challenging process of change will be crucial to its success. We hope that our analysis and recommendations will help Government to do so.

Below, we examine the nature of low-carbon policy, in terms of the actors and institutions required. We then examine current institutional arrangements for low-carbon policy-making, and recommend how they could be improved. Finally, we look at institutional arrangements for low-carbon policy implementation, and, again, make suggestions for a new approach.

The nature of low-carbon policy

The fundamental purpose of low-carbon policy is to manage a process of radical change across all sectors of the economy in such a way as to minimise costs and risk, and maximise opportunity. In order to implement such change, actors throughout the economy need to be provided with clear, consistent guidance from Government about what they will be expected to deliver, and effective support to enable them to respond to that guidance.

While many different policies and initiatives will be needed to manage the process of change towards a low-carbon economy, each tailored to the specific needs of different sectors and target groups, it is possible to make some generalisations about the nature of low-carbon policy. These generalisations can help us to assess the effectiveness of both current and potential models of institutional design.

Developing and implementing low-carbon processes and technologies will require businesses and other actors to make significant changes in their investment strategies and operational practices. Making such changes will create risks for actors. Low-carbon policy institutions therefore need to establish long term frameworks with clear targets and timetables to minimise risk and to enable actors to plan ahead. It is also important that policy frameworks are as stable as possible, again to minimise risk, and that they are consistent with other areas of policy, to send clear messages to decision makers.

Carbon emission reductions can be made in all sectors of the economy, and by many different technologies and processes. While in the long run most sectors and technologies will need to contribute to emission reductions, pursuing all of these options in the short to medium term is likely to dilute resources and reduce policy effectiveness. Policy institutions therefore need to be able to develop clear routemaps to help direct and manage the process of change, and identify priorities for action.

Low-carbon policy tends to be systemic in nature. Single policy instruments are seldom sufficient to create the conditions required to produce change. For example, while the fundamental building block of renewable energy policy may be the creation of a market mechanism such as the renewables obligation, planning, regulatory and fiscal policy also need to be changed to enable new renewable plant to be built and operate commercially. If such complementary policies are not adjusted, low-carbon policies are likely to fail. Low-carbon policy institutions therefore need to be able to take a systemic approach to policy making and fully engage all relevant policy making departments and other bodies.

The objective of developing a low-carbon economy will require actions by all departments in Government. The RCEP report recommends that “the need to reduce greenhouse gas emissions... should be taken into account in all government policies”¹. Low-carbon policy making institutions will need to be able to integrate low-carbon objectives into policy throughout Whitehall.

Implementing low-carbon policy will also require complex interactions between a wide range of stakeholders including government funded agencies, academics, consultants, local governments, trade associations, and individual businesses. Effective implementation will require the creation of institutional frameworks that will enable low-carbon stakeholders to interact effectively.

Low-carbon policy will often require individual actors such as businesses or households to change their behaviour. Implementation bodies need to give actors clear messages about why they should change, and clear advice about any

¹ Paragraph 10.67 RCEP, “*Energy – the changing climate*” HMSO, June 2000

support mechanisms that may be available to them. Implementation strategies should aim to bring together different policies and programmes in a client centred approach in order to meet these objectives.

Low-carbon policy has the potential to meet other important objectives in addition to reducing greenhouse gas emissions, such as creating employment and export opportunities, and meeting social needs. Policy making institutions need to take these other objectives into account, and be able to identify synergies and make trade-offs between different policy objectives, such as reducing fuel poverty through reducing emissions.

Finally, given that the aim of low-carbon policy is to achieve radical change, some difficult trade-offs with other important political objectives will be needed. It is crucially important that policy making institutions have sufficient political clout to implement controversial policies in the face of potential opposition from both within Whitehall and elsewhere.

Low carbon policy making

Current institutional arrangements for low-carbon policy making
Low-carbon policy is currently designed in many different nodes of government in the UK, including several departments in Whitehall, the devolved administrations, at a local government level and by the Gas and Electricity Markets Authority (GEMA).

Following the recent restructuring, the main responsibility for low-carbon policy making within Whitehall is split between three departments, the Department for Environment, Food and Rural Affairs (DEFRA), the Department for Trade and Industry (DTI) and the Department for Transport, Local Government and the Regions (DTLR).

Other Whitehall departments with a significant involvement in low-carbon policy making include the Treasury, which administers the climate change levy, the fuel duty escalator and other fiscal mechanisms; and the environment policy department of the Foreign and Commonwealth Office (FCO) which plays an active role in climate negotiations and international aspects of climate policy. The Department for International Development (DfID) also plays a role in promoting low-carbon technologies and strategies in developing countries. In addition the deputy prime minister, in the Cabinet Office, has maintained responsibility for Kyoto Protocol negotiations.

Although there have been recent attempts to improve co-ordination between the two Sustainable Energy units in the DTI and the DETR, links between most of the UK's different nodes of low-carbon policy making are made on an ad-hoc basis, with relevant departments and other governmental bodies being engaged as necessary during the policy design process.

Outside Whitehall, the Gas and Electricity Markets Authority (GEMA) has direct responsibility for designing some important low-carbon policies, such as the Energy Efficiency Standards of Performance, which are implemented by the Office of Gas and Electricity Markets (Ofgem). Other policies over which GEMA has control, such as distribution price controls and the New Electricity Trading Arrangements (NETA) also strongly influence the effectiveness of low-carbon

policy. For example, NETA may undermine the commercial competitiveness of some renewable energy generation technologies.

The devolved administrations in Scotland, Wales and Northern Ireland all have some level of responsibility for low-carbon policy making. The Scottish Executive has full responsibility for all issues concerning the environment, including air quality, climate change and sustainable development, and for transport. Powers of energy policy in general remain with Westminster, although energy efficiency is fully devolved and the Executive has the power to set its own renewable energy obligation in Scotland if it chooses to do so. The Welsh Assembly has power over energy efficiency policy, but renewables policy making is not devolved.

Weaknesses in current arrangements for low-carbon policy making
The central problem created by the dispersed nature of current arrangements for low-carbon policy making is a lack of institutional capacity to take a systemic and strategic approach to policy development. This leads to a lack of coherence between different low-carbon policies and programmes, between departments within Whitehall, between Whitehall and non departmental bodies like Ofgem, and between Whitehall and devolved, regional and local governments.

The fact that many of the different actors involved in policy making are working within different organisational cultures and have different priorities to one another creates further incoherence. It is also frequently unclear which department or organisation, if any, has the power to take final decisions on new policy. This problem seems to have been a major factor behind the lengthy delay in developing new renewable energy policy during the last Parliament.

The lack of coherence between low-carbon policies, programmes and the different parts of government also means that non-governmental stakeholders, including businesses and the general public, are not being sent clear messages about what action they should take. Information about the different support programmes that may be available to them is not co-ordinated. This issue is dealt with in more detail in the section on policy implementation.

There is also no institutional mechanism to ensure that the need to reduce carbon emissions is taken into account in general policy making. As a result, low-carbon objectives are not consistently integrated into Government policy as a whole. Some areas of policy which have a strong impact on carbon emissions, such as general energy policy, agricultural policy and industrial policy do not sufficiently reflect low-carbon objectives.

Delivering a systemic approach to low-carbon policy making, and ensuring that low-carbon objectives are integrated into wider Government policy, will require strong political leadership. Previously the split in responsibility between the DTI and DETR meant that low-carbon policy lacked an obvious champion in the Cabinet and within Whitehall. The recent departmental restructuring has exacerbated this problem as responsibility for the central areas of low-carbon policy is now split between three departments.

There is already considerable evidence that the lack of institutional coherence is undermining the effectiveness of low-carbon policy making. As the UK moves

towards making deeper cuts in emissions, the need for joined-up policy making will become even more pressing.

Objectives for low-carbon policy making

Any new arrangement for low-carbon policy making needs to:

- have the capacity to take a systemic approach to policy development;
- ensure that low-carbon objectives are consistently integrated into Government policy as a whole;
- develop long-term route maps for change and ensure that coherent, stable policy frameworks are created that send non-Governmental stakeholders clear messages about what action they should be taking;
- create a clearly identified, politically influential champion for low-carbon policy with influence both in the Cabinet and throughout Whitehall.

Recommendations for low-carbon policy making institutions

Green Alliance recommends the creation of a new low-carbon policy unit to coordinate and integrate low-carbon policy making across all relevant departments in Whitehall and beyond. Associating the unit strongly with any one department, or even with the three departments with the greatest involvement in climate related policy (DEFRA, DTI and DTLR), could make it difficult for the unit to ensure that low-carbon objectives were taken on board by other departments. This type of arrangement would make it less likely for the low-carbon unit to criticise or challenge its own department(s) over failures to integrate low-carbon objectives into general areas of policy (e.g. energy, planning, transport etc.). We therefore recommend that the unit be situated in the Cabinet Office where it can have an equal relationship with all departments, and the freedom to challenge any department over policy failures.

A low-carbon unit within the Cabinet Office would need to have strong and constructive relationships with all relevant departments. The report recommends the creation of a new low-carbon ministerial committee. This committee would ensure a joined-up approach to low-carbon policy making at the highest level. It would build understanding of, and political commitment to, low-carbon policy objectives in all relevant departments. The committee would have a close relationship with the new low-carbon unit within Whitehall. It would ensure that the unit's recommendations were taken up throughout Government. The chairmanship of the committee should rotate between the Secretaries of State from DEFRA, the DTI and the DTLR. This would ensure that the heads of each of the most important departments for climate policy are fully engaged, and that low-carbon issues are well represented in the Cabinet.

Several areas of low-carbon policy are developed outside Whitehall, by devolved and local governments, and by organisations such as the Gas and Electricity Markets Authority (GEMA). Given the need for joined-up and coherent policy frameworks, effective mechanisms for engaging other bodies in a systemic approach to policy making will be needed. The creation of low-carbon policy networks would meet this need. The networks would create permanent frameworks in which officials from relevant departments, non departmental organisations like Ofgem, and other levels of government could work together to design and monitor the effectiveness of different areas of low-carbon policy. The main function of the networks would be to make recommendations to the low-

carbon policy unit and ministerial committee about: gaps and weaknesses in current policy, and recommendations for overcoming them; strategic objectives and priorities for future policy; and proposals for new low-carbon policy to meet these objectives.

Low carbon policy implementation

Current institutional arrangements for low-carbon policy implementation
There are currently a plethora of organisations involved in implementing low-carbon policy in the UK. Several different executive organisations have low-carbon implementation as their main business, including the Energy Saving Trust, the Carbon Trust, the Climate Change Projects Office and the planned Emissions Trading Authority. Other executive organisations with more general remits are responsible for implementing some of the most important low-carbon policies. Ofgem implements Energy Efficiency Standards of Performance and the Renewables Obligation; the Environment Agency is responsible for energy efficiency under IPCC. Recently privatised research bodies such as AEA Technology and BRE have contracts to implement major low-carbon programmes - the New and Renewables and Energy Efficiency Best Practice Programmes - as do other private consultancies. Local governments have responsibility for transport, renewables and land use planning, for Agenda 21 and for promoting energy efficiency responsibilities under the Home Energy Conservation Act.

Scotland and Wales have their own dedicated officers and programmes in the Energy Savings Trust and the Carbon Trust, which in Scotland are wholly funded by the Scottish Executive. The Scottish Executive also has its own Scottish Energy Efficiency Office which runs the Energy Efficiency Best Practice Programme in Scotland.

Many existing low-carbon policies also require businesses to play a sophisticated role in policy implementation. These include the Energy Efficiency Standards of Performance, which requires energy businesses to develop and fund their own domestic energy efficiency and fuel poverty programmes; the Renewables Obligation, which requires energy supply businesses to support renewable electricity; and the Emissions Trading Scheme, which will not only require businesses to make (at present voluntary) cuts in their overall emissions, but will also be largely operated by private companies. This engagement has led many businesses to develop a strong expertise in low-carbon policy design and implementation.

Weaknesses in current arrangements for low-carbon policy implementation
The fact that so many different organisations are involved in low-carbon policy implementation is both a strength and weakness. The strength comes from having high levels of expertise distributed widely across different types and sizes of organisation, all of which have different and potentially complementary roles to play in developing a low-carbon economy. However the weakness stems from the fact that at present we lack any overarching mechanism to ensure that the many different areas are properly co-ordinated.

This lack of co-ordination of low-carbon policy implementation creates a number of problems. Gaps in policy coverage and/or overlaps between programmes and policies are likely. Potential synergies between programmes and

activities may be missed. There is no systematic way in which stakeholders working on the same or similar issues can share experience and best practice; neither is there any mechanism for developing coherent, prioritised implementation strategies. Funding is spread out between many relatively small scale programmes, rather than being focused on larger projects, which may reduce its overall impact on low-carbon development.

While many programmes and activities include activities aimed at raising public/business awareness, these activities are not co-ordinated, which means that there is a lack of consistency in the way in which low-carbon messages are communicated, and that the impact of communications work is reduced. As ACBE have pointed out² the multiplicity of programmes and activities aimed at target groups, like domestic households or business energy users, mean that if they do decide to take action, they are faced with a potentially confusing array of different low-carbon support options.

The main weaknesses in current arrangements for low-carbon policy implementation can be summarised as a lack of interaction and co-ordination between stakeholders involved in implementation, and a failure to bring together information and support on the different policies and programmes in a client-centred way.

Objectives for joining up low-carbon policy implementation

The four main objectives for any new institutional structures aimed at increasing join-up between low-carbon implementation programmes should be as follows.

- Programme co-ordination: New arrangements need to enable the different low-carbon implementation programmes and policies to work together more effectively by identifying potential synergies, overlaps or gaps in policy coverage. They should also encourage different groups to work together to develop new ideas for joint or co-ordinated initiatives.
- Maximised effectiveness and economic efficiency: New arrangements should help ensure that funds spent on low-carbon programmes have as great an impact as possible. This may mean that some programmes are merged.
- Stakeholder interaction: New arrangements should create a framework in which stakeholders from the different programmes can exchange experience and best practice, and can identify how work done in other programmes might contribute to their own work.
- Client-centred approaches: Perhaps most importantly the new arrangements should enable stakeholders from different programmes to work together to ensure that existing and new programmes are designed to meet client needs, and that the information offered to client groups about programmes is clear and coherent, and can be obtained easily. Raising client groups' awareness of climate and low carbon issues is also a high priority.

² "From the business perspective, the current range of programmes focusing on energy efficiency, fuel poverty and climate change in general can be confusing for companies trying to use the services provided" ACBE Climate Change Working Group Carbon Trust Proposal, October 2000.

Recommendations: low-carbon policy implementation

There are too many organisations involved in low-carbon policy implementation at present. Green Alliance recommends that several of these, including the Carbon Trust, the Energy Savings Trust and the Emissions Trading Authority should be brought together in a single low-carbon agency.

The agency would be directly responsible for monitoring and implementing low-carbon policies and programmes. It would also be responsible for providing feedback on the effectiveness of policies and programmes to the policy-making bodies - departments, the cabinet office low-carbon unit, and the low-carbon ministerial committee.

Given the importance of delivering an integrated, client-centred approach to low-carbon implementation, we recommend that the new agency be required to set up low-carbon policy portals for client groups, including households, general business, low-carbon businesses and local authorities. These would be “one-stop shops” delivering general low-carbon advice and client-specific information on all available low-carbon programmes. In order to be effective, these portals would need high levels of resourcing, some of which could be transferred from existing low-carbon information services. The co-ordination of the portals would require high levels of co-ordination between implementing bodies, which should help build strong lines of communication between implementing organisations. The process of setting up and maintaining the portals would help highlight policy overlaps and gaps, information on which could be fed back to the low-carbon policy unit and the relevant low-carbon policy network.

Conclusion

As this submission has shown, getting the right institutional arrangements for energy policy is of crucial importance. Green Alliance strongly recommends that the PIU’s review of energy policy examine the institutional change required to deliver effective energy policy. The recommendations we outline for a low-carbon ministerial committee and policy network, together with a low-carbon agency to oversee policy implementation, would provide the focus and co-ordination needed to drive through the policy measures that are necessary to deal with the complex challenges faced.

Copies of the full Green Alliance report *Institutional design for a low carbon economy* are available from ga@green-alliance.org.uk.

Green Alliance 18 September 2001