BRIEFING FOR
THE BUSINESS
AND ENTERPRISE
COMMITTEE

OCTOBER 2008

Performance of the Department for Business, Enterprise and Regulatory Reform 2007-08

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This document provides briefing for the Business and Enterprise Committee on the performance of the Department for Business, Enterprise and Regulatory Reform in the 2007-08 financial year and subsequent months.

Contents

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Summary

1 This paper provides briefing for the Select Committee on the performance of the Department for Business, Enterprise and Regulatory Reform (BERR) [the Department] in the 2007-2008 financial year and subsequent months.

2 It takes as its basis the Department's main objectives and targets as set out in the Department's annual report together with relevant findings and recommendations from recent work published by the National Audit Office and other reviews of departmental performance that may be of relevance to the Committee.

3 The Department's annual report has been published at a time of significant economic uncertainty, created by increasing energy and food prices and a significant tightening in credit availability across the globe. Major fluctuations in global financial markets in September 2008 have underlined how quickly potentially far-reaching events can arise. In its Annual Report, the Department has emphasised its commitment to boost productivity and keep the UK economy competitive and equipped to respond to the opportunities and challenges of the future. This briefing draws together evidence on the Department's performance in 2007-2008. The extent to which the Department's performance in the recent past can be read into the future will, however, depend on the Department's ability to respond to the changing environment within which the UK economy finds itself. This briefing should therefore be read in that context.

4 Additionally there has been machinery of government changes which will significantly affect the Department's portfolio: on 3 October 2008, the Government announced the creation of the Department of Energy and Climate Change. The new Secretary of State for Energy and Climate Change said: "The new department reflects the fact that energy policy and climate change are directly linked. My job is to make sure our policy on climate change is fair for ordinary families and our policy on energy is sustainable for future generations. We will do all we can to ensure affordable fuel bills for people, put Britain at the forefront of creating green jobs and play our part in ensuring every country meets the climate change challenge. Climate change cannot be tackled by politicians on their own but through politicians and people working together. I look forward to playing my part". At the time of writing there is no additional policy information available on the structure and scope of this new department. This briefing, therefore, reflects the position of the Department for Business, Enterprise and Regulatory Reform at 2 October 2008.

5 The contents of the briefing have been shared with the Department to ensure that the evidence presented is factually accurate.

6 In June 2007, The Department took on most of the responsibilities of the former Department for Trade and Industry. The new Department's role is to ensure that the business environment in the United Kingdom actively promotes business success. The Department aims to achieve these goals by:

- boosting productivity in the United Kingdom;
- keeping the United Kingdom economy competitive;
- ensuring free and fair markets;
- ensuring safe, secure energy supplies at competitive prices; and
- reducing the burden of regulation.

7 Many of the Department's responsibilities were delivered through its two executive agencies and 35 non-departmental public bodies (including the Regional Development Agencies). A full list of these bodies is at Appendix 4.

8 This paper comprises two parts:

- Part One: considers the Department's financial performance; and
- Part Two: reviews the Department's performance against its Public Service Agreement (PSA) targets in 2007-2008.

The Department's financial performance (page 9)

9 The net resource outturn for 2007-08 was £3,767 million, an increase of £1,079 million on the restated outturn for 2006-07 driven by nuclear decommissioning activities and support for Royal Mail. Compared to the final Estimate the Department had an underspend of £529 million. Consolidated net assets increased by £477 million against the restated 2006-07 figures. (Page 9, paragraph 1.4)

10 The Department requested a Spring Supplementary to address a possible budgetary shortfall. Subsequent discussions resolved issues arising over the accounting treatment to be applied to income from some of the Nuclear Decommissioning Authority's commercial activities. As a consequence, £362 million of the additional £400 million granted was not required, thereby contributing to the Department's underspend noted above. (Page 10, paragraph 1.6)

11 The Comptroller and Auditor General was able to give an unqualified opinion on the Department's accounts. (Pages 12-13, paragraphs 1.14-1.17)

12 The Department has reported efficiency savings of £365 million and headcount reduction of 1,527. It has exceeded its Gershon Report targets for both efficiency savings (£209 million) and reducing headcount (1,010). Comprehensive Spending Review 2007 challenged the Department to make annual value for money savings of three per cent on its core programme budgets and five per cent on its administrative budget. The Department estimates that it will need to deliver savings of some £307 million by 2010-11 (Page 10, paragraph 1.5)

13 Alleged frauds of £1.57 million relating to the Phoenix Fund which the Small Business Service (formerly an Executive Agency of the Department) administered from 2000-2006 have emerged during the 2007-2008 financial year. (Page 10, paragraph 1.6)

14 The Department has a new set of Public Service Agreements (PSA) and Departmental Service Objectives (DSO) to cover the 2008-2011 spending period (CSR07). The 2007 Comprehensive Spending Review defined 30 cross-Government PSAs and requires departments to develop a set of DSOs. BERR will be lead Department for targets on raisings UK productivity, delivering the conditions for business success in the UK and improving the economic performance of the English regions. Appendix 3 shows which Departmental targets will not be rolled forward into the 2008-11 period. (Page 16, paragraphs 1.31-1.32)

Delivery performance in 2007-2008 (page 19)

15 The Department reports that, in line with its shared objective with HM Treasury, productivity growth has increased compared to previous economic cycles. Productivity as measured by growth in labour output per hour in the current economic cycle averaged 2.4 per cent per year, compared with 1.9 per cent over the previous two cycles. It also reported progress in narrowing the gap in both output per worker and per hour measures with the UK's main competitors (USA, France and Germany). (Page 19, paragraph 2.4)

16 The Department slipped against its target of increasing the number of people considering going into business. The current economic climate could well influence the propensity of people to go into business in the near future and hence the extent to which this aim can be achieved. (Page 20, paragraph 2.6)

17 The Department reports it is on course to achieve its target of closing the gap in growth rates between regions, but a full assessment of progress can only be made over a complete economic cycle. Overall, however, the Department reports slippage against PSA 7 – which includes the metric of making sustainable improvement in all the English Regions. (Pages 21-22, paragraphs 2.12-2.13)

18 **UK Trade & Investment is on course to meet four of the five targets that underlie its Public Service Agreement.** The Department has suggested that as a result of UKTI support more than 9,000 companies improved their performance. The target for supporting new-to-export firms was partly met. This target has been dropped from the new set of objectives agreed as part of the 2007 spending round. (Page 22, paragraphs 2.14-2.15)

19 **In its 2006 budget the Government announced that the number of business support programmes should be reduced from over 3,000 to 100 or fewer by 2010.** As part of its programme to simplify its business support, the Department has announced 18 "high level offers" with the full range of products to become available no later than March 2009. It is not clear from this to what extent the original target will be met. (Page 21, paragraph 2.11)

20 **Post Offices Ltd continues to implement its Network Change Programme.** The Government has outlined minimum access criteria to help ensure that most of the UK population will still have easy access to a Post Office outlet. (Page 26, paragraph 2.27)

21 **The Better Regulation Executive has reported that across Government savings in annual administrative burdens of £3.5 billion have been identified.** A recent NAO report found that the Administrative Burdens Reduction Programme had raised the profile of regulatory reform within departments and had created stronger incentives to deliver. The report noted that reported savings should be treated with caution as they were only indicative estimates of actual savings. (Pages 23-24, paragraphs 2.19-2.22)

22 **International studies quoted by the Department suggest the UK maintains a strong international reputation for the effectiveness of its competition regime.** Over the last year, the NAO has reported on the removal of price controls by a number of regulators. We highlighted that vulnerable people had found it harder to benefit from competition due to complex tariffs and a lack of good consumer information. (Pages 25-26, paragraphs 2.24-2.26)

23 **The Department has had mixed success with achieving the goals that underpin the Public Service Agreement on maximising potential in the workplace.** The self-employment rate of under-represented ethnic groups rose from 5.6 per cent to 7.1 per cent between the year ending Spring 2005 and 2007. The gap in the self-employment of all under-represented groups and other groups fell from four per cent to 2.7 per cent over the same period. The measure of labour market flexibility has stabilised since 2001 after rising between 1992 and 2001. (Page 27, paragraphs 2.29-2.30)

24 **The Department reports that it is on course to deliver the greenhouse gas component of the climate change target and the security of supply and competitiveness targets, but meeting the carbon dioxide emissions and fuel poverty targets remains extremely challenging.** (Pages 28-30, paragraphs 2.32-2.36)

25 The Department reports that it has met its objective to maintain the reliability of energy supplies. An NAO review of the data system used to measure progress against the Department's target concluded that it was not fit-for-purpose. The Department has been considering how to improve its reporting on energy security. (Page 16, paragraph 1.32 and page 30, paragraphs 2.37-2.38)

26 The Department has been slipping against its target of eliminating fuel poverty in vulnerable households in England by 2010. As fuel prices continue to rise faster than incomes, the proportion of households in fuel poverty will continue to increase – as has been the case since 2005. (Page 31, paragraphs 2.39-2.40)

27 The Nuclear Decommissioning Authority exceeded its target to achieve two per cent net efficiency savings on the decommissioning programme over the 2004 comprehensive spending review period. (Page 32, paragraph 2.42)

28 The Department has revised the Nuclear Decommissioning Authority's target "to ensure successful competitions management of at least 50 per cent of UK nuclear sites by the end of 2008" in order to bring forward the competition for Sellafield, which represents more than 60 per cent of the nuclear legacy. The Authority expects to complete the competition for the Sellafield site in autumn 2008. (Page 32, paragraph 2.43)

29 The Capability Review of the former Department of Trade and Industry identified Leadership as a "development area". In December 2006, the former Department of Trade and Industry was assessed as "well placed" in four of the ten elements in the Cabinet Office Review of capability; four were assessed as "development" areas; and two as "urgent" development areas. The Cabinet Office led a 'One Year On' stock take. It concluded that "BERR has made significant progress in all four of its areas for action, and in responding to the creation of the new Department. BERR's key challenge now will be to demonstrate delivery on its remit as the voice for business in Government by setting clear milestones, meeting them and ensuring that its successes are recognised". (Pages 17-18, paragraphs 1.33-1.36)

Part One

Financial performance

1.1 This Part examines the Department's capacity to deliver its aims. It looks at:

(i) financial management;

(ii) performance measurement; and

(iii) the Capability Review.

(i) Financial management

Overview of financial performance

1.2 Chapter 4, Section 4.4 of the Annual Report provides a detailed commentary on the financial performance of the Department in the context of the Resource Accounts. The key features are noted below.

1.3 The Department was formed from the core of the former Department of Trade and Industry during 2007-08 following the transfer of functions and responsibilities to, or from, other Government departments under machinery of government changes. The 2006-07 comparative figures have been restated to reflect these changes. The total impact of these changes was a reduction of £3,360 million in expenditure and, in relation to the balance sheet, there was a reduction in net assets as at 1 April 2007 of £39.4 million to £2.37 billion, primarily related to the transfer of the science and innovation aspects of the former Department of Trade and Industry's work to the Department for Innovation, Universities and Skills (DIUS).

1.4 The net resource outturn for 2007-08 (as shown in the Statement of Parliamentary Supply) was £3,767 million. This represents an increase of £1,019 million compared to the restated outturn for 2006-07. The increase was mainly a result of net expenditure on nuclear decommissioning activity increasing by £538 million to £1,646 million (44 per cent of net resource outturn), support for the Royal Mail Group increasing by some £400 million, and the creation of the £194 million onerous property lease provisions. Compared to the final Estimate the Department had an underspend of £529 million. Of this total, £362 million was accounted for by the underspend on the Nuclear Decommissioning Authority as above. This illustrates the continuing extent to which the Department is vulnerable to movements in the Nuclear Decommissioning Authority's budget caused by the uncertainty of the cost of decommissioning and reliance on volatile commercial income.

1.5 The Department was set an efficiency target under Comprehensive Spending Review 2004 (CSR04) of annual efficiency savings of 2.5 per cent (some £209 million by 2007). Its annual report highlights efficiency savings of £365 million[1], exceeding its Gershon Report efficiency target. Additionally the Department was set headcount reduction targets. The core Department, including staff in Government Offices, has delivered 1,527 staff reductions against a target of 1,010. Its agencies have delivered 235 staff reductions against a target of 275. Comprehensive Spending Review 2007 (CSR07) rolled forward the efficiency challenge with a requirement for the Department to make annual value for money savings of three per cent on its core programme budgets and five per cent on its administrative budget. The Department estimates this will result in savings of some £307 million by 2010-11.[2]

1.6. In his statement on the Department's internal control the Accounting Officer reported the following issues:

- The Department requested a Spring Supplementary Estimate to address a possible budgetary shortfall arising from a likelihood that the accounting and budgeting treatment for Waste Substitution Income adopted by the Nuclear Decommissioning Authority might differ to that applied in the 2007-08 estimate and CSR07 settlement. Discussions were ongoing at the time of the request and the final treatment adopted meant that the anticipated difference did not occur. As a consequence, £362 million of the additional £400 million granted in the Spring Supplementary Estimate was not required. While the Department adopted a prudent position in requesting the Supplementary, the circumstances do highlight continued communication difficulties between the Department and the Authority. A lessons-learned exercise was subsequently undertaken and a report and action-plan produced.

- In 2006-07, the Department vacated two of its central London buildings, deemed surplus to operating requirements, and subsequently sub-let these on short term leases. The head leases on these buildings do not however expire until 2021 and 2026 and the initial reviews failed to identify the need for a provision for the element of costs that the Department would not be able to recover by either the current or future potential subleases. This issue was identified only in 2007-08, and the Department utilised £72 million of their non-cash End of Year flexibility stock and requested a £122 million Spring Supplementary estimate to provide for the £194 million estimated shortfall in the recovery of lease costs.

- Alleged frauds of £1.57 million relating to the Phoenix Fund which the Small Business Service (formerly an Executive Agency of the DTI) administered from 2000-06 have emerged during the 2007-08 financial year. The organisation involved in the first alleged fraud is currently being investigated by the Metropolitan Police and the District Auditor is assessing the conduct and findings of the internal reviews by the London Development Agency (LDA) to decide whether further investigation is needed. The Department is currently investigating the second alleged fraud and are due to begin a wider audit of beneficiaries of the Phoenix Fund to identify whether there are any other potential cases that require remedial action.

1 *BERR Annual Report and Accounts 2007-08*, p.100.
2 See http://www.berr.gov.uk/about/strategy-objectives/value%20for%20Money%20Delivery%20Agreements/page43140.html.

1.7 The Government continues to provide financial support to the Royal Mail Group via: a £430 million equity injection; £500 million National Loans Fund (NLF) loan facility which attracts £29 million in annual interest payments; debt financing facilities; and up to £1.7 billion in subsidy payments to the end of 2010-11 to support the Post Office Network. The European Commission are currently examining some aspects of the support package provided to Royal Mail, to determine whether they constitute state subsidies or whether they meet 'market investor' conditions. The Department believes that it has taken appropriate steps to ensure that all areas under examination represent funding on commercial terms.

1.8 The Department has commissioned an independent review of developments in the UK postal services market and their likely impact on the Royal Mail business plan. The review is due to conclude later this year.

1.9 The consolidated Department's total net assets at 31 March 2008 had increased by £477 million, compared to the restated position at 31 March 2007. The main reasons for this change relate to an increased bank balance arising as a consequence of machinery of government changes where the Department was reimbursed for cash spent on activities transferred to other departments, and a reduction in Coal Health provisions of £742 million as outstanding claims under the closed Chronic Obstructive Pulmonary Disease and Vibration White Finger schemes are being settled, though these were offset by reductions in the value of the Coal Pension Fund investments.

1.10 The general downturn in the economy is likely to have an impact on the valuations of the Small Firms Loans Guarantee provision (£114 million). The Small Firms Loans Guarantee Scheme is the Department's main instrument for supporting debt finance for small businesses. The provision is based on the expected value of defaults of all outstanding loans and this has, to date, been forecast using a model designed primarily to predict the demand for loans. The Department is intending to develop a new model for forecasting the provision based on the actual performance of live loans and informed by macro-economic conditions.

1.11 The delivery and management of finance interventions in support of small and medium enterprises interventions has, since April 2008, been transferred to a newly created non-departmental public body (NDPB) called Capital for Enterprise Limited (CfEL). This body will function at arm's length from Government and on a commercial basis through an Investment Management Agreement with the Department. It has been established as a company limited by shares and it is wholly owned by Government (BERR). It will take over responsibility for all fund management activities currently undertaken by the Department, including the Small Firms Loan Guarantee Scheme and the Enterprise Funds. The Department will retain ownership of the associated assets and liabilities.

1.12 The Government holds an indirect economic interest in British Energy Group plc via the Department's subsidiary, the Nuclear Liabilities Fund, and the mechanism known as the cash sweep whereby British Energy transfer a percentage of its free cash flow into the Nuclear Liabilities Fund. On 1 June 2007, at the direction of the Secretary of State for Trade and Industry, the cash sweep was converted into shares in British Energy and subsequently sold, generating £2.34 billion for the Nuclear Liabilities Fund and reducing the economic interest in British Energy from 64 per cent to 36 per cent. The Board of British Energy are currently in discussions with interested parties in the context of its future and plans for involvement in any new nuclear programme and the Department are actively monitoring developments.

1.13 The Department's accounts disclose a contingent asset in relation to British Energy. This arises as a result of the Government's undertaking to underwrite the Nuclear Liabilities Fund, in respect of British Energy's uncontracted and decommissioning liabilities to the extent that the assets of the Fund fall short. On the basis of the Department's current estimate of the assets available to the Nuclear Liabilities Fund of £7.8 billion, and British Energy's unaudited estimate of the relevant liabilities of £4.4 billion, a contingent asset of £3.4 billion was disclosed.

Production of resource accounts

1.14 The Department's resource accounts are audited by the National Audit Office, in accordance with International Auditing Standards, on behalf of the Comptroller and Auditor General who is appointed as the statutory auditor under the Government Resources and Accounts Act 2000.

1.15 This year, as in 2006-07, the Department produced a combined annual report and accounts. The draft accounts presented for audit were of a good standard. The good quality of the draft account was evidenced by the low number of significant adjustments required to produce the final version of the accounts, and the Comptroller and Auditor General was able to give unqualified audit opinions.

BERR Departmental Group – Other Accounts

1.16 With regard to other accounts of the Department and its agencies and NDPBs, all met the accounts preparation and audit timetables and were laid in Parliament before the Summer recess deadline. With one exception the Comptroller and Auditor General was able to issue unqualified audit opinions. The Department's 2007-08 combined resource accounts for the United Kingdom Atomic Energy Authority (UKAEA) Pension Schemes were qualified by the Comptroller and Auditor General on regularity grounds in July 2008.

1.17 The qualification occurred due to shortcomings in recording and monitoring during 2007-08; the Department failed to identify the need to pay over £7 million of cash receipts as Excess Appropriations in Aid relating to the prior year employer contributions and this resulted in an understatement of the net cash requirement estimate for 2007-08. The error was only identified during preparation of the 2007-08 Resource Accounts, and came too late for the Department to correct through a Spring Supplementary Estimate. The net cash requirement outturn was therefore £5.78 million (eight per cent) in excess of the authorised limits for 2007-08. The Department propose to ask Parliament to make good the shortfall by approving the application of excess operating Appropriations in Aid of £5.78 million during 2008-09. The Department is also taking appropriate steps to ensure that the Supply Estimate for the UKAEA Pensions Resource account is properly constructed in future.

Looking Ahead

1.18 The March 2007 budget confirmed the Government's intention to introduce International Financial Reporting Standards (IFRS) to the public sector. The transition from UK Accounting Standards to IFRS, and the IFRS version of the Treasury's Financial Reporting Manual, may require changes in accounting treatments in a number of areas and represents the biggest change to UK Public Sector financial reporting since the introduction of resource accounting. This requires early consideration as, whilst the implementation of the IFRS will not take effect until 2009-10, the Department will need to produce 2008-09 comparative figures under IFRS for inclusion in their 2009-10 financial statements.

1.19 The Department is currently assessing the implications of the move to IFRS and will be submitting a restated 1 April 2008 balance sheet for audit by the NAO by 31 December 2008.

1.20 In 2008-09, the Department will be overseeing further machinery of government changes. The Department will be taking over responsibility, for example, for the Defence Export Service Organisation from the Ministry of Defence. The organisation, renamed the Defence and Security Organisation, has been incorporated into UK Trade & Investment. The scale and complexity of this transfer is significant and will require the integration of key workstreams in human resources, finance, IT and accommodation, as well as the challenges of merging two culturally distinct organisations.

1.21 The Department sponsored the National Consumer Council (NCC), Postwatch and Energywatch. On 30 September 2008, these three Executive NDPBs ceased to exist and were replaced by the new Consumer Focus, created as part of the Consumers, Estate Agents and Redress Act 2007 to act as a cross sector consumer representation body. The Department needs to work closely with the outgoing NDPBs and Consumer Focus to ensure the closure and transfer process is planned and managed effectively to help ensure that the Council retains sufficient staff and infrastructure and secures the involvement of stakeholders.

Risk management

1.22 The Department's arrangements for risk management are outlined in its Statement on Internal Control. The Department's Management Board reviews the strategic risks facing the Department on a monthly basis and the register of risks identified at Group level on a quarterly basis. In addition, the Board also reviews every six months the long-term risks that may pose a significant threat to the Department in the future. The current fast-changing economic outlook is likely to pose new challenges to the Department's ability to identify, evaluate and manage emerging risks over the coming period and to the achievement of some of its objectives.

Companies House

1.23 Following delays reported last year in the implementation of the Companies House Information Processing System (CHIPS) and continued write-downs in the value of the asset (£7.5 million in 2006-07 resulting in a total write-down of £12.1 million) the system was introduced in February 2008.

1.24 The total costs of the project were £50.5 million compared with the final budget approved by Treasury of £51 million, with additions in the year totalling £5.4 million. The book value of the system when brought into use was £27 million net of previous write-downs. The current estimated useful life is 10 years, although this will be kept under review.

The Insolvency Service

1.25 In 2006-07 the Insolvency Service decided to terminate the contract for the development and procurement of the CAMEO IT banking system on the grounds that it was unlikely to succeed. As a consequence of this decision, the Service wrote off a balance of £3.4 million representing the associated assets under the course of construction. During 2007-08 a feasibility project was undertaken to identify options for a new replacement system and, in October 2007, the Service reached a decision on a replacement system which is planned to be ready for deployment in late 2008-09. The actual deployment date will, however, be dependent on the roll out of the Agency's wider infrastructure upgrade project which we understand has suffered some slippage compared to the original timetable.

Management of assets

1.26 The Department incorporates the work of the Shareholder Executive (the Executive). The Executive is responsible for the management of shareholdings in 19 Government-owned businesses either on behalf of, or in cooperation with, the sponsoring departmental shareholding team. The Executive also plays an advisory role to the relevant team for a further nine businesses.

1.27 The Committee of Public Accounts reported in September 2007 on the work of the Executive. The Committee found that the Executive had improved the way that Government shareholdings had been managed since the Executive's establishment in 2003. The Executive had, for example, strengthened the role of non-executive directors. It had used its shareholder powers in a timely way to hold the management teams in these businesses to account. The Report suggested the Executive could improve its performance by:

- establishing governance arrangements to ensure that there is no conflict of interest between the Executive's position within BERR (which has a policy role in businesses such as the Post Office and British Energy) and the Executive's role of building shareholder value;
- marketing the Executive's advisory role more widely and creating a presumption that all Government businesses should come within the Executive's portfolio unless specifically exempted;
- implementing a systematic valuation programme for Government businesses;
- setting performance targets that measure increases in shareholder value for individual businesses as well as at a portfolio level; and
- addressing pay flexibility so as to continue to attract high calibre staff.

1.28 The Government's response to the Committee[3] addressed many of these issues. The Executive has appointed a non-executive chair to head an advisory board which will help develop the Government's overall model of share ownership and management. The Executive will agree with HM Treasury a list of Government's businesses that should fall within its remit, and will also carry out a comprehensive marketing exercise. From 2008-09, the Executive aims to introduce better performance targets and a programme of valuations.

3 Treasury Minute on Public Accounts Committee 42nd Report of Session 2006-07, paragraphs 2,3,6 and 11-12.

(ii) Performance management

1.29 During 2007-2008 the Department was responsible for achieving 10 Public Service Agreement (PSA) targets set following the 2004 Spending Round (shown in the box below). These targets comprised nine PSAs inherited from the former Department of Trade and Industry and one, on better regulation, from the Cabinet Office. The individual PSAs, in many instances, comprise a number of sub-targets. The previous Department of Trade and Industry PSA relating to science and innovation was transferred to the Department for Innovation, Universities and Skills.

CSR04 Public Service Agreements

PSA 1 Productivity	PSA 6 Enterprise
PSA 2 Better Regulation	PSA 7 Regional Economic Performance
PSA 3 Competition and Consumers	PSA 8 UK Trade & Investment
PSA 4 Energy	PSA 9 Nuclear Decommissioning Authority
PSA 5 Trade Barriers	PSA 10 Maximising Potential in the Workplace

1.30 The NAO reviewed the PSA targets in 2007 and published the results of its validation in December 2007. We found that just over half of the Department's PSA targets were fit for purpose compared with a quarter for the former Department of Trade and Industry in the previous 2003-06 spending period. The remaining data systems were assessed as follows:

- 16 per cent were 'broadly appropriate';
- 16 per cent were 'not fit for purpose'; and
- 13 per cent were 'too early to form a view or not established'.

1.31 The period covered by these PSA targets has now ended. Some PSA targets have been carried forward into the Comprehensive Spending Review 2007 which reduced the total number of PSAs across Government from over 100 to 30, many of which are the responsibility of more than one Department. Henceforth, we understand the Department will report performance only against the new PSAs. Appendix Two details the new PSAs and Departmental Strategic Objectives.

1.32 Most of the new PSAs and DSOs carry forward elements of the existing performance measurement system. Appendix Three shows how the new targets relate to existing PSA targets. Targets not taken forward from CSR04 include the reduction of nuclear liabilities by 10 per cent by 2010 and reducing the incidence of racial discrimination in the workplace. Where new targets have been set (such as DSO 7: *Provide the professional support, capability and infrastructure to enable BERR's* *objectives and programmes to be successfully delivered)*, the Department will need to develop appropriate measurement systems. Of the targets that the Department is carrying forward, the NAO's validation work found that only the data systems for *maintaining the reliability of energy supplies* were not fit-for-purpose. This target, which formed part of PSA 4 for the CSR04 period, will now contribute to Departmental Strategic Objective 4.

(iii) The Capability Review

1.33 Since October 2005, the Cabinet Office has carried out departmental Capability Reviews. The purpose of these external reviews is to identify the specific steps that departments must take to match their capability to future challenges. In December 2006, the Cabinet Office published its capability review on the former Department of Trade and Industry. The Department's capability was assessed as "well placed" in four of the ten elements in the Cabinet Office model of capability; four were assessed as "development" areas; two as "urgent development areas". There were no areas of serious concerns. These findings are outlined in **Figure 1**.

Figure 1

Assessment of the DTI's capability for future delivery – published by the Cabinet Office in December 2006

1.34 The Capability Review set the Department four key areas for action:

- Use the vision, role and purpose to set priorities and drive the business for the future;
- Improve capacity for developing strong, confident, visible and decisive leadership and for building future capability;
- Ensure that business models are appropriate for delivering excellent joined-up services and for enabling agencies and non-departmental public bodies to operate within a strategic corporate framework; and
- Consolidate the corporate behaviours, systems and discipline needed to drive high-level performance and prioritisation.

1.35 In July 2007 and February 2008 the Capability Review Team returned to the Department to review its performance against the four areas for action. It found that "BERR has made significant progress in all four of its areas for action, and in responding to the creation of the new Department. BERR's key challenge now will be to demonstrate delivery on its remit as the voice for business in Government by setting clear milestones, meeting them and ensuring that its successes are recognised".[4]

1.36 The annual report, pages 89 to 91, outlines two steps the Department has taken to improve capability: a leadership programme; and a skills strategy. It also undertook a staff survey took during November 2007 which aimed to inform senior management of the staff's thoughts on: what it is like to work for the Department; and views on strategy, leadership and management. The survey results are not publicly available but the Department gives the following summary:

- The results for 37 of the 66 attitudinal questions show a statistically significant improvement on those for the DTI in 2006 across a range of issues and the results exceed central Government averages for 20 out of 34 available benchmarks.
- The results paint a cautiously optimistic picture of the new Department, compared with the DTI in 2006, with stronger leadership capability, improvements in performance management, a real commitment to career development and higher levels of staff satisfaction.
- Less positive results relate to the pressures of increasing workloads, the time available for developing skills, remuneration and the physical working environment.

In response to findings outlined in the final bullet the Department observes that it has developed innovative approaches to learning and development, such as an online Virtual Learning Resource Centre, and introduced a major programme to improve ventilation and cooling in its main offices.

4 http://www.civilservice.gov.uk/about/accountability/capability/web_reports/BERR_oneyear.asp.

Part Two

Delivery performance in 2007-08

2.1 This Part considers the Department's performance against its Public Sector Agreement (PSA) targets.

2.2 The Department has reported a mixed performance against its PSA targets. For three of the targets 2008 marks the final assessment. The Department reports success in: meeting the promoting fair and competitive markets target; maintaining the reliability of energy supplies; and partly meeting the target for the Nuclear Decommissioning Authority, a subset of which is to ensure the successful competitions for at least 50 per cent of nuclear sites by the end of 2008.

2.3 It has, however, faced particular challenges in meeting its targets on increasing the level of entrepreneurship; promoting regional growth across the United Kingdom; tackling fuel poverty; and reducing carbon dioxide emissions. The Department's performance is discussed in more detail later in this Chapter. Appendix One provides a comparison: the Department's reported performance in 2007-2008 against the same targets in 2006-2007.

2.4 The Department has an overarching PSA target, jointly held with HM Treasury, to raise the rate of UK productivity growth over the economic cycle. The Department's annual report, on page 26, states that productivity growth in labour output per hour in the current economic cycle averaged 2.4 per cent a year, compared with 1.9 per cent over the previous two cycles. Additionally there has also been progress in narrowing the gap in both output per worker and per hour measures with the UK's main competitors (USA, France and Germany). The Department aims to further boost productivity through its other PSA activities, such as business support, effective competition regimes and efficient regulation.

2.5 The following sections examine the Department's delivery performance in 2007-08 under the following themes:

(i) supporting successful business;

(ii) ensuring fair markets that are efficiently regulated; and

(iii) ensuring secure, sustainable and affordable energy.

(i) Supporting successful business

Sections 2.2- 2.4 of the Annual Report, pages 21-44

PSA 6: Enterprise

'Build an enterprise society in which small firms of all kinds thrive and achieve their potential, with:

(i) an increase in the number of people considering going into business, **SLIPPAGE**

(ii) an improvement in the overall productivity of small firms, and **ON COURSE**

(iii) more enterprise in disadvantaged communities'. **NOT YET ASSESSED**

PSA 7: Regional economic performance

'Make sustainable improvements in the economic performance of all the English regions by 2008 and over the long term reduce the persistent gap in growth rates between the regions, demonstrating progress by 2006.' A joint target with HM Treasury and the Department for Communities and Local Government. **SLIPPAGE**

PSA 8: UK Trade and Investment (UKTI)

'By 2008 deliver a measurable improvement in the business performance of UK Trade & Investment's international trade customers, with an emphasis on new to export firms; and maintain the UK as the prime location in the EU for foreign direct investment'. A joint target with the Foreign and Commonwealth Office. **ON COURSE**

PSA 6: Enterprise

2.6 The Department slipped against its target of increasing the number of people considering going into business. The 2005 Household Survey of Entrepreneurship shows that 11.6 per cent of adults in England were considering going into business, the same as 2001. The Department estimates that to achieve its target of a statistically significant increase in entrepreneurship, it would need to change the intentions of some 300,000 people. The Department has not indicated when the next survey will be conducted. A change in the wider economic climate could well influence the propensity of people to go into business and hence the extent to which this aim can be achieved.

2.7 The Department's annual report observes that latest available data from the Office of National Statistics show that over the five years 200-01 to 2004-05, the total increase in productivity of small and medium enterprises exceeded that in all firms by two per cent. It concludes, therefore, that this measure is on course even though it has not been met in every individual year.

2.8 The level of self-employment in disadvantaged communities has been stable at 6.4 per cent for the last three quarters, but the Department considers that it is still not yet possible to assess progress in the 2004 Spending Review period; final assessment for this target in early 2009 will cover the period to September 2008 and will depend upon finding a comparable point in the economic cycle.

Services for small business

2.9 In July 2007, the Department reorganised its services to small businesses. The Small Business Service relinquished its service delivery role and its policy function was brought back into what was named the Department's Enterprise Directorate. Most of the Small Business Service's former service delivery functions have been devolved to regional delivery partners.

2.10 The NAO last reported on services to small businesses in 2006. Our findings related to the Small Business Service but may still be of some guidance to the Enterprise Directorate:

- the Small Business Service needed to increase its influence in and outside Government. Sixty-eight per cent of Government respondents to our 2005 survey considered the Small Business Service was not well-placed to set a Government-wide agenda on small businesses, although it was considered to be a reliable source of information;
- the Small Business Service needed to improve its strategic planning. It had a very complex system of targets and objectives that did not match clearly with the government objectives for small business; and
- the Small Business Service needed to get better at measuring its performance so as to demonstrate the value of its work. It had been difficult to isolate the impact of the Small Business Service from the broader economic drivers.

2.11 In its 2006 budget the Government announced that the number of business support programmes should be reduced from over 3,000 to 100 or fewer by 2010. In December 2007 the Government published a response to a public consultation outlining an initial portfolio of 18 high-level future business support offers. This was followed, in March 2008, by a BERR publication *Simple Support, Better Business* setting out the benefit to companies of this rationalisation of programmes which it aims to deliver by no later than March 2009.[5]

PSA 7: Regional economic performance

2.12 Between 2002 and 2008 all English regions experienced some economic growth but performance was mixed. The Gross Value Added (GVA) data released in December 2007 showed that, between 2002 and 2006 and relative to the baseline period (1990-2002), the North East, East Midlands, London and the South West had all experienced stronger growth; The South East, East of England, West Midlands and Yorkshire and Humber regions had all experienced weaker growth; and the North West Region remains unchanged. Between 2002 and 2006, the gap in growth rates between what the Department has termed the Greater South East (London, South East and East) and less prosperous regions decreased from 0.6 per cent over the baseline period to 0.3 per cent.

5 *Simple Support, Better Business: Business Support in 2010*, BERR, March 2008.

2.13 The Department cannot definitively measure whether it is on course to close the growth rate gap between regions. It considers there are indications it is on course but it also concedes that a full assessment can only be made over a complete economic cycle. Our work demonstrates how difficult it is to accurately measure success against this PSA: in our report on the measurement of PSA targets across Government, published in December 2007, we noted that data supporting the target was published with a one year lag and may also be subject to revision as updated data are received. As the gap in the growth rates is measured by comparing the average growth rate of the three best performing regions with that of the bottom six regions based on the period 2003-12, we observed that the Department would not be able to judge progress against the target until 2014, once the Office for National Statistics had published data for 2012. Our report concluded that when data for PSAs are collected with a time lag, as here, the usefulness of such data to inform management decisions and drive performance improvement is much reduced.

PSA 8: UK Trade & Investment

2.14 The Department's annual report observes that UK Trade & Investment (UKTI) is on course to meet four of the five performance targets that underlie its PSA target. The Department's report suggests that, as a result of UKTI support, more than 9,000 companies improved their performance, generating around £3 billion additional profit. The United Nations Conference on Trade and Development (UNCTAD) reported that the UK was the top investment destination in Europe in 2006.[6]

2.15 The target for supporting new-to-export firms was partly met. Provisional UKTI figures for 2007-08 show a 13 per cent increase in trade development resources focused on new-to-export firms, against a target of 30 per cent.[7] This target has been dropped from UKTI's targets for the 2007 spending period, and UKTI is no longer pursuing this objective.

2.16 The NAO is currently undertaking an examination of the work of UKTI. The study is looking at the organisation's ability to deliver its strategy in the high growth markets. A report is due to be published in early 2009.

(ii) Ensuring fair markets that are efficiently regulated

Sections 2.5 & 2.6 of the Annual Report, pages 45-65

2.17 The Department had four PSA targets related to its objective of ensuring fair markets that are efficiently regulated. Progress against these targets, as reported in the Department's annual report, is shown below.

6 *World Investment Report 2007*, United Nations Conference on Trade and Investment, 2007, p.221.
7 *BERR Annual Report and Accounts 2007-08*, p.34.

PSA 2: Better regulation

'By April 2008, ensure that departments deliver better regulation and tackle unnecessary bureaucracy in both the public and private sectors through:

(i) Reducing the overall administrative burden;

(ii) Maintaining the UK's international standing on better regulation; and

(iii) Improving the perception of regulation.' **ALL ON COURSE**

PSA 3: Competition and consumers

'Promote fair competitive markets by ensuring that the UK framework for competition and for consumer empowerment and support is at the level of the best by 2008, measuring the effectiveness of the regime through international comparisons, supported by a broader evidence base.' **Competition, MET; Consumers, NOT YET ASSESSED**[8]

PSA 5: Trade barriers

'Ensure that the EU secures significant reductions in EU and world trade barriers by 2008 leading to improved opportunities for developing countries and a more competitive Europe.' A joint target with the Department for International Development. **ON COURSE**

PSA 10: Maximising potential in the workplace

'By 2008, promote ethic diversity, cooperative employment relations and greater choice and commitment in the workplace, while maintaining a flexible labour market.' **ON COURSE**

PSA 2: Better regulation

2.18 The Better Regulation Executive (BRE), now part of the Department, is charged with minimising bureaucracy for businesses and front-line staff in the public sector. On 28 June 2007, responsibility for the BRE passed to the Department from the Cabinet Office along with the PSA target.

2.19 The PSA includes a Government target to reduce the administrative burdens of regulation by 25 per cent by May 2010, against a baseline administrative cost of £13.4 billion in May 2005. To show how this 25 per cent net saving in administrative burdens would be achieved in the years to 2010, departments also agreed to publish annual rolling Simplification Plans. The Department's annual report states that in December 2007, 19 simplification plans were published. Across Government, savings in annual administrative burdens of £3.5 billion have been identified that will be delivered by 2010; some 26 per cent of the cross-Government baseline of £13.4 billion. Over £800 million of annual net administrative burdens are reported as delivered.[9]

2.20 By December 2007, the Department had claimed £57 million in net annual savings against its projected reduction of £1,049 million by 2010 – some five per cent of its target. It is confident that it has savings in the pipeline to deliver a substantial amount of the outstanding target.

8 Since publication of its Annual Report the Department completed an independent assessment of the UK consumer regime: *Benchmarking the performance of the UK framework supporting consumer empowerment through comparison against relevant international comparator countries*, University of East Anglia, August 2008.

9 *BERR Annual Report and Accounts 2007-08*, p.47.

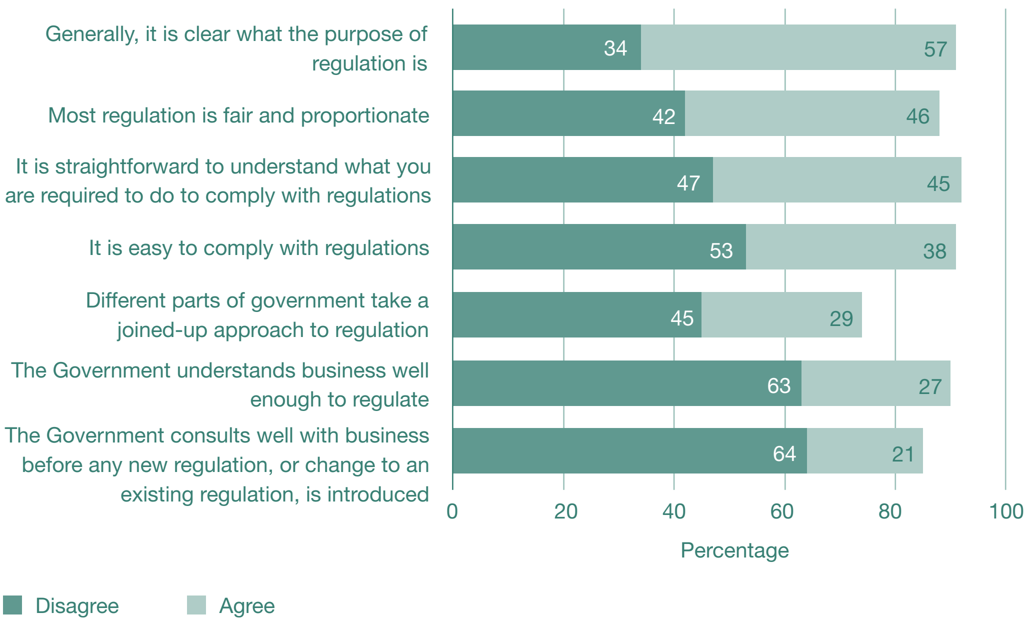
2.21 The NAO reported on progress on the Administrative Burdens Reduction Programme in October 2008. It found that the Programme and its most recent targets had raised the profile of regulatory reform within departments and had created stronger incentives to deliver. The report noted that the reported savings should be treated with caution as they were only indicative estimates of actual savings.

2.22 In early 2008, businesses reported a small positive shift between 2007 and 2008 in perceptions about regulation. Many, nonetheless, felt that the time taken to comply with regulation had increased over the preceding 12 months and almost none considered it had reduced. **Figure 2** outlines findings from our survey on organisation's perception of regulation.

Figure 2

The Perception of the Government's approach to regulating

Do you agree or disagree with the following statements about the Government's approach to regulating in this area?



Source: National Audit Office/IPSOS MORI business survey

2.23 The Department's annual report also records progress with improving the wider regulatory framework in the UK:

- A review conducted by Sir Philip Hampton, a leading businessman, in 2005[10] identified a need to merge regulators and inspectorates to avoid overlapping inspections or enforcement costs. Twenty one of the 63 regulators covered by the report have merged, with seven more regulators considering some form of merger. Eleven regulators have disbanded or lost their inspection functions.
- The Regulatory Enforcement and Sanctions Bill was introduced in Parliament during November 2007 and received Royal Assent in July 2008. It promises greater consistency and coordination of local authority regulatory enforcement and reduced regulatory burdens for compliant businesses; and
- The World Bank's study of 178 countries, *Doing Business 2008*, placed the UK second in the EU (behind Denmark) and sixth in the world for the best business conditions.[11]

PSA 3: Competition and Consumers

2.24 International studies quoted by the Department suggest the UK maintains a strong reputation for the effectiveness of its competition regime. One such study the Department quotes is *The Global Competition Review*, published in June 2007 by Law Business Research, which found that the UK competition bodies are among the best in the world with the Competition Commission sharing the "Elite" category with the US Federal Trade Commission, the European Commission's Directorate General Competition, and the Office of Fair Trading (OFT) as one of the world's top ten anti-trust authorities. BERR has commissioned a project to benchmark the performance of the UK consumer empowerment regime against six other developed regimes, which will allow assessment against this PSA target.[12]

2.25 Over the last year, the NAO has reported on the removal of price controls by a number of regulators. Between 2002 and 2006, Ofcom, Ofgem and Postcomm removed retail price controls from fixed line telephone provision, gas and electricity supply, and Special Delivery (Next Day) for business account users respectively. The controls had been used to protect consumers from potentially unfair pricing, and encourage efficiencies amongst suppliers that had once been monopolies and which retained large market shares. The regulators judged that it was timely to remove controls because competition had developed sufficiently to rely on the market, and on restrictions imposed by competition law and consumer protection rules.

10 *Reducing administrative burdens: effective inspection and enforcement*, Philip Hampton, March 2005.
11 *Doing Business 2008*, World Bank, September 2007, p.6 & www.doingbusiness.org/economyrankings.
12 *BERR Annual Report and Accounts 2007-08*, p.220.

2.26 Alongside these developments the regulators had encouraged people to take advantage of competition by making it easier to switch supplier. We nonetheless reported that vulnerable people had found it harder to benefit from competition due to complex tariffs and a lack of good consumer information. And that some consumers had actually switched to a more expensive supplier. We also noted that the ex-monopoly suppliers still have a substantial share of the markets. The incumbent electricity and gas suppliers, for example, still hold close to 50 per cent of the market share of their respective markets. Our report concluded that the regulators could do more to understand consumer behaviour; and that regulators could help consumers by doing more to clarify their roles in filling consumer information gaps. Consumer Focus (see Box), which absorbed Postwatch and energywatch, has no legal duty to provide consumer information although the Act states that, as one of its core functions, it *may* 'facilitate the dissemination to consumers of advice and information...about consumer matters': whereas Ofcom has intervened in the market by accrediting internet price comparison services.

The creation of Consumer Focus

On 1 October 2008, the three existing consumer bodies Postwatch, energywatch and the National Consumer Council were closed and replaced by a new consumer representation and advocacy body – Consumer Focus. The new organisation, which operates on a statutory footing, was created as part of the Consumers, Estate Agents and Redress Act 2007. The Act also provides for the establishment of new consumer redress schemes in the gas, electricity and postal services markets. These schemes aim to improve consumers' access to out-of-court resolutions in the case of complaints with their service providers.

2.27 Since July 2007, Post Office Ltd has been implementing its Network Change Programme. This programme involves the compulsory compensated closure of up to 2,500 branches, with around 500 replaced by local outreach services such as a home delivery service and mobile post offices. The Government has outlined minimum access criteria to help ensure that most of the UK population will still have easy access to a Post Office outlet. The NAO has started an examination of the Department's oversight of the Post Office's implementation programme[13] and is due to report in 2009. We will examine the extent to which the Department has been able to ensure that the various criteria governing the change programme have been met.

PSA 5: Trade barriers

2.28 The Department's annual report observes that the main driver for meeting this target is the Doha Development Agenda (DDA) negotiations of the World Trade Organisation (WTO)[14]. It also observes that negotiations are ongoing and the UK continues to work with the European Commission, other EU Members States and key WTO members to achieve an ambitious, pro-development outcome.

13 More details are available at the Network Change Programme official website at www.postoffice.co.uk.
14 Additional drivers contributing to the removal of trade barriers include Economic Partnership Agreements.

PSA 10: Maximising potential in the workplace

2.29 The Department has had success in achieving the goals that underpin the PSA target on maximising potential in the workplace. The self-employment rate of under-represented ethnic groups rose from 5.6 per cent to 7.1 per cent between the year ending spring 2005 and 2007. Additionally, the gap in self-employment of all under-represented groups and other groups fell from four per cent to 2.7 per cent over the same period. By contrast, the measure of labour market flexibility (the Index of Labour Market Adaptability) has stabilised since 2001 after rising between 1992 and 2001.

2.30 The NAO review of the Department's PSA targets published in December 2007 identified shortcomings in the systems used to measure progress in reducing the incidence of racial discrimination at work reported by ethnic minority employees. We concluded that the Department would not be able to report success against this target as it could not be measured with sufficient confidence using the current survey methods. The Department has informed us that, in recognition of this, work is now taking place to establish a more robust baseline and progress measure using the Citizenship Survey.

(iii) Ensuring secure, sustainable and affordable energy

Sections 2.7- 2.8 of the Annual Report, pages 66-80

2.31 BERR had two PSA targets related to its objective of ensuring secure, sustainable and affordable energy. Progress against these targets, as reported in the Department's annual report, is shown below.

PSA 4: Lead work to deliver the goals of energy policy

"To reduce greenhouse gas emissions by 12.5 per cent from 1990 levels in line with our Kyoto commitment and to move towards a 20 per cent reduction in carbon dioxide emissions below 1990 levels by 2010, through measures including energy efficiency and renewables".

(i) "A joint target with the Department for the Environment Food and Rural Affairs and Department for Transport." **ON COURSE**

(ii) "Maintain the reliability of energy supplies." **MET**

(iii) "Eliminate fuel poverty in vulnerable households in England by 2010 in line with the Government's Fuel Poverty Strategy objective". A joint target with the Department for the Environment Food and Rural Affairs. **SLIPPAGE**

(iv) "Ensure the UK remains in the top three most competitive energy markets in the EU and G7." **MET**

PSA 9: Nuclear Decommissioning Authority

'Reduce the civil nuclear liability by 10 per cent by 2010, and establish a safe, innovative and dynamic market for nuclear clean-up by delivering annual two per cent efficiency gains from 2006-07; and ensuring successful competitions have been completed for the management of at least 50 per cent of UK nuclear sites by end 2008'. **PARTLY MET**

PSA 4: Lead work to deliver the goals of energy policy

2.32 BERR considers that it is on course to deliver the greenhouse gas component of the climate change target and the security of supply and competitiveness targets, but meeting the carbon dioxide emissions and fuel poverty targets remains extremely challenging.

Reducing greenhouse gas emissions

2.33 BERR estimates that in 2010, CO2 emissions will be about 16 per cent below 1990 levels (against a target of 20 percent). Emissions of all greenhouse gases will be about 24 per cent below 1990 levels (against a target of 12.5 per cent).[15]

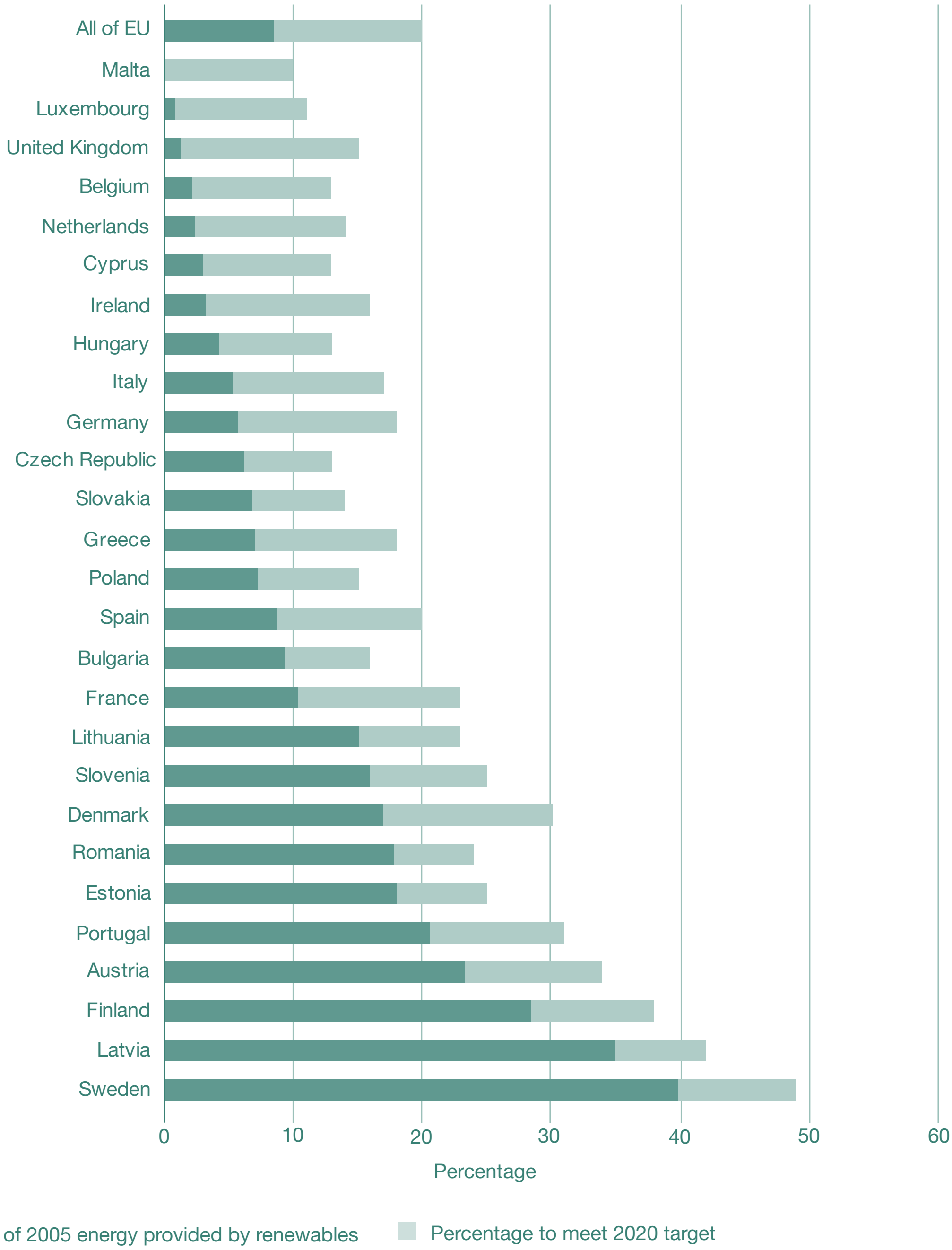
2.34 The NAO's July 2008 briefing on *Renewable energy: Options for scrutiny*[16] for the Environmental Audit Committee found that the UK has much work to do if it is to achieve its targets for adopting renewable energy sources. Research by both BERR and Cambridge Econometrics estimates, for example, that under current policies the UK would miss its European Union target of obtaining 15 per cent of its energy from renewable sources by 2020. The Government plans to introduce a new Renewable Energy Strategy in spring 2009. At present, only 1.8 per cent of UK energy is renewable;[17] within the European Union, only Malta and Luxembourg have lower performance (see **Figure 3**).

2.35 The Department is consulting on a renewable energy strategy for publication in Spring 2009. It estimates that the strategy will cost £56-66 billion over the next 20 years. Proposed measures to boost renewable energy include increasing the Renewables Obligation under which energy suppliers must provide a proportion of their energy from renewable sources, wider financial support and incentives, and encouragement of new energy technologies. Some new policies have already been implemented. From April 2008, the Carbon Emissions Reduction Target provides incentives for energy suppliers to install energy saving measures in households. The Renewable Transport Fuels Obligation (RTFO), based on the Renewables Obligation, now places an obligation on road transport fuel suppliers to ensure that a certain percentage of their sales are made up of biofuels. Under the RTFO, five per cent of all fuel sold on UK forecourts must come from a renewable source by 2010-11.

15 *BERR Annual Report and Accounts 2007-08*, p.68.
16 *Renewable Energy: Options for scrutiny*, National Audit Office, July 2008, paragraph 3 (www.nao.org.uk/publications/renewable_energy.pdf).
17 *Digest of UK Energy Statistics* (DUKES) 2008, page 176.

Figure 3

Percentage of renewable energy in final energy consumption in 2005 and amount needed to meet the 2020 EU target



Source: European Directorate General for Transport and Energy; and Eurostat

NOTE

1 The 'All of EU' figure is the overall percentage of energy consumption provided by renewable energy within the EU and the associated target rather than the average of the EU states. This shows that to meet the target, the proportion of energy consumption provided by renewables within the EU must more than double, from 8.5 per cent in 2005, to 20 per cent by 2020.

2.36 In its response[18] to the Trade and Industry Committee's report on Local Energy, the Government outlined the steps that it is taking to support sustainable energy. These include:

- a target for all new houses to be zero carbon by 2016;
- researching potential incentives to encourage renewable heat technology;
- removing the requirement for small electricity generators to engage in sale-and-buyback agreements;
- offering a reduced rate of VAT (five per cent) for microgeneration technologies;
- removing stamp duty on zero carbon houses valued at less than £500,000; and
- implementing the Sustainable Procurement Action Plan, to encourage a low carbon, more resource-efficient public sector; for example Departments have a target to increase their energy efficiency by 30 per cent by 2020 as compared with their efficiency in 1999-2000.

Maintaining the reliability of energy supplies

2.37 The Government's May 2007 response[19] to the Trade and Industry Committee's report on *Local Energy* emphasised the need for an efficient and economic energy supply infrastructure. Ofgem intends to consider a range of future scenarios that could arise as a consequence of government policy and market developments and will assess the most appropriate approach to investment in light of the wide range of possibilities that this work will identify. The 2007-12 Transmission Price Control contained allowances for capital investment by suppliers. The Department's annual report notes that suppliers are investing in gas import facilities, with capacity expected to more than double by 2015.[20]

2.38 The NAO's recent review of the Department's sub-target for maintaining the reliability of energy supplies concluded that the data system used was not fit for the purpose of measuring and reporting performance against the sub-target. The Department has been considering how to improve its reporting on energy security. A new security of supply information service, the Energy Markets Outlook, is intended, amongst other objectives, to address the current weaknesses in the data system.

18 *Local Energy – Turning Consumers into Producers*. Trade and Industry Committee 2nd Special Report of Session 2006-07.

19 *Local Energy – Turning Consumers into Producers*. Trade and Industry Committee 2nd Special Report of Session 2006-07.

20 *BERR Annual Report and Accounts 2007-08*, p.71, paragraph 2.102.

Fuel poverty

2.39 Households needing to spend more than 10 per cent of their income on fuel are said to be in fuel poverty. The Department, in its annual report, notes that the 2005 English House Condition Survey estimates that at least 1.5 million households in England are in fuel poverty and that 1.2 million vulnerable households could still be in fuel poverty by 2010. On 2 October 2008 the UK Fuel Poverty Strategy 6th Annual Progress Report included the findings of the 2006 English House Condition Survey; this estimated that the number of households in fuel poverty in England had risen to some 2.4 million. The number for the whole of the UK is 3.5 million households. As fuel prices continue to rise faster than incomes, the proportion of households in fuel poverty will continue to increase – as has been the case since 2005 – projections in the Fuel Poverty Strategy indicate a further 1.2 million households in England might be in fuel poverty by the end of 2008. The Department has reported[21] that it is working with its partners to tackle fuel poverty, by:

- encouraging energy suppliers to offer voluntary financial support to vulnerable customers;
- ensuring that Ofgem and other consumer support services advise vulnerable people on obtaining good deals from suppliers and on using energy efficiently; and
- working to increase take-up of benefits.

2.40 In September the Department for Environment, Food and Rural Affairs announced[22] a £1 billion household energy efficiency support package to help households save money on their energy bills: the Government will propose legislation to require an estimated £910 million commitment from energy companies including, for the first time, electricity generating companies, to invest in making homes more energy efficient. This will be in addition to the existing obligation on companies to spend £2.8 billion over the next three years helping customers save energy. The Government's aim is the insulation of all Britain's homes, where practical, by 2020.

Competitiveness of the energy markets

2.41 In October 2007, research carried out by Oxera on behalf of the Department found that the UK's energy market remains the most competitive in overall structure in the EU and G7.[23] Oxera found that the UK has the most competitive electricity and gas markets separately and the most competitive energy market in aggregate.

21 *BERR Annual Report and Accounts 2007-08*, p.69.
22 http://www.defra.gov.uk/news/2008/080911a.htm.
23 *The Energy Market Competition in the EU and G7: Final 2005 Rankings*, Oxera, October 2007 (www.oxera.com/main.aspx?id=7092).

PSA 9: Nuclear Decommissioning Authority

2.42 The nuclear decommissioning programme accounts for some 44 per cent of the Department's aggregate spend. The Nuclear Decommissioning Authority (the Authority) was established on 1 April 2005 to ensure the safe and efficient clean-up of the United Kingdom's first generation of civil public sector nuclear facilities. It exceeded its target to achieve annually a two per cent net efficiency saving on the decommissioning programme; in its 2007-08 report and accounts the Chief Executive observes that expenditure on the site programme was £2,181 million, and Authority's contractors delivered positive cost efficiencies of £110 million (a saving of some five per cent).

2.43 The Department has revised the original target given to the Authority to *ensure successful competitions management of at least 50 per cent of UK nuclear sites by the end of 2008* in order to bring forward the competition for Sellafield, which represents more than 60 per cent of the nuclear legacy. In March 2008, the Authority completed the competition for the management of the low level waste repository near Drigg and expects to complete the competition for the Sellafield site in autumn 2008.[24]

2.44 The NAO reported during 2007-08 on the work of the Authority. The key themes of these reports were as follows:

- **Uncertainty over commercial income is hampering value for money:** In 2006-07, the Authority was uncertain about the commercial income it would receive from processing waste. Consequently it reduced the budgets for decommissioning at nuclear sites at short notice. Cancelling scheduled decommissioning work affects VFM because on-site contractors can find it difficult to retain the skilled staff who would have carried out the work. In addition, as at December 2007 the Authority lacked the resources to commit to an accelerated decommissioning process at Harwell and Winfrith. Accelerated decommissioning can be more cost-effective in the long-term and makes better use of the existing workforce's knowledge of the site, but is more costly in the short term.[25]

- **Volatility in estimated costs of decommissioning:** The Authority has prepared the first ever unified strategy for decommissioning the first generation of civil nuclear sites. The total estimated cost of decommissioning continues to rise sharply. The Authority's current best estimate of the undiscounted future cost of decommissioning and clean-up at its 19 sites over their remaining life, plus the lifetime costs of the geological disposal facility for radioactive waste, is around £73.6 billion at 2008 prices. This comprises around £63.5 billion for the cost of decommissioning and around £10.1 billion for the Authority's share of the cost for construction and operation of the geological disposal facility, but does not reflect the anticipated revenue from these sites. The estimated discounted cost of decommissioning and clean-up liability is £44 billion, an increase of £7 billion on the 2006-07 estimate. Total Authority expenditure in 2007-08 was £2.65 billion in both 2006-07 and 2007-08.[26]

24 *BERR Annual Report and Accounts 2007-08*, p.77.
25 *The Nuclear Decommissioning Authority: Taking forward decommissioning*, NAO, January 2008, paragraph 1.8.
26 *Nuclear Decommissioning Authority Annual Report and Accounts 2007-08*, pp.27 & 34-35.

- **The Authority could improve its contracting procedures:** The volatility of decommissioning costs can make it hard to determine whether bids received from contractors offer value for money. The Authority could adopt more testing forms of contracts, such as fixed cost or target cost plus fee. In 2006-07, the Authority paid £75.4 million in performance incentives, but it has proved difficult to check whether efficiencies are carried forward into future years. The Authority is considering setting some incentive targets on a multi-annual or contract term rather than annual basis.

- **There is scope to improve performance measurement:** The Authority's 2005-08 PSA target, introduced in the 2004 Spending Review, required it to reduce the size of the UK's civil nuclear liabilities by 10 per cent by 2010, against a baseline to be established in 2008. The Department considered that this target would be difficult to measure against a background of uncertainty in the estimates of lifetime costs, and questioned whether it would be a meaningful measure of progress against the objective of decommissioning. The measure has not been carried forward into the 2007 Comprehensive Spending review period (see Appendix Three)

2.45 The International Atomic Energy Agency's Convention on Nuclear Safety was adopted in June 1994. Through a triennial process of a report, questioning and peer review at an international meeting, it aims to assist in the continual process of raising standards of civil nuclear safety world wide. In September 2007, the Department published *The United Kingdom's Fourth National Report on Compliance with the Convention on Nuclear Safety Obligations*. The purpose of the Report is to assess how well the UK complies with the Convention. The report concluded that the nuclear safety licensing regime in the UK is effective. It did, however, highlight that during 2007, the Office for Civil Nuclear Security passed from the former Department of Trade and Industry to the Health and Safety Executive; and to address the challenges posed by the ageing of the civil nuclear fleet, paragraph 5.1 of the Report noted that the nuclear industry and its regulators will need to recruit more personnel with nuclear safety skills. A National Skills Academy for Nuclear has been established to help meet this demand.

Appendix One

Department performance against PSA targets in 2007-2008 compared to reported performance in 2006-2007

PSA Target	Performance in 2006-07	Performance in 2007-08
Productivity: Raise the rate of UK productivity, improve competitiveness and narrow the gap with competitors. Joint with HM Treasury.	On course	On course
Better regulation: By April 2008, ensure that departments deliver better regulation and tackle unnecessary bureaucracy in both the public and private sectors through: i Reducing the overall administrative burden; ii Maintaining the UK's international standing on better regulation; and iii Improving the perception of regulation.		On course
(i) Competition and (ii) consumers: Promote fair competitive markets by ensuring that the UK framework for competition and for consumer empowerment and support is at the level of the best by 2008, measuring the effectiveness of the regime through international comparisons, supported by a broader evidence base.	On course	i Met ii yet assessed
Energy: Lead work to deliver the goals of energy policy: i Reduce greenhouse gas emissions by 12.5 per cent from 1990 levels in line with our Kyoto commitment and move towards a 20 per cent reduction in carbon dioxide emissions below 1990 levels by 2010, through measures including energy efficiency and renewables. Joint with the Department for Environment, Food and Rural Affairs (DEFRA) and Department for Transport (DfT). ii Maintain the reliability of energy supplies. iii Eliminate fuel poverty in vulnerable households in England by 2010 in line with the Government's Fuel Poverty Strategy objective. Joint with DEFRA. iv Ensure the UK remains in the top three most competitive energy markets in the EU and G7.	i On course ii On Course iii Slippage iv On course	i On course ii Met iii Slippage iv Met

PSA Target	Performance in 2006-07	Performance in 2007-08
Trade barriers: Ensure that the EU secures significant reductions in EU and world trade barriers by 2008, leading to improved opportunities for developing countries and a more competitive Europe. Joint with the Department for International Development (DFID).	Slippage	On course
Enterprise: Build an enterprise society in which small firms of all kinds thrive and achieve their potential, with: i An increase in the number of people considering going into business; ii An improvement in the overall productivity of small firms; and iii More enterprise in disadvantaged communities.	i Slippage ii On course iii On course	i) Slippage ii) On course iii) Not yet assessed
Regional economic performance: Make sustainable improvements in the economic performance of all the English regions by 2008 and over the long term reduce the persistent gap in growth rates between the regions, demonstrating progress by 2006. Joint with HM Treasury and the Department for Communities and Local Government.	On course	Slippage
UK Trade & Investment: By 2008, deliver a measurable improvement in the business performance of UK Trade & Investment's international trade customers, with an emphasis on new to export firms; and maintain the UK as the prime location in the EU for foreign direct investment. Joint with the Foreign and Commonwealth Office.	On course	On course
Nuclear Decommissioning Authority: Reduce the civil nuclear liability by 10 per cent by 2010, and establish a safe, innovative and dynamic market for nuclear clean-up by delivering annual two per cent efficiency gains from 2006-07; and ensuring successful competitions have been completed for the management of at least 50 per cent of UK nuclear sites by end 2008.	On course	Partly met
Maximising potential in the workplace: By 2008, promote ethnic diversity, cooperative employment relations and greater choice and commitment in the workplace, while maintaining a flexible labour market.	Not yet assessed	On course

Source: BERR Annual Report and Accounts 2007-08

Appendix Two

Future targets

1 The Comprehensive Spending Review 2007 (CSR07), published in October 2007, set the Government performance framework for the next three years: 2008-11. CSR07 defined 30 cross-Government PSAs. The new framework also requires departments to develop a set of Departmental Strategic Objectives (DSOs). Between them, these DSOs cover the full breadth of a department's work, and are no less important than PSAs. Like the PSAs, the DSOs will last for the period of the CSR until 2011.

2 BERR is the lead Department for the following three PSAs:

- PSA 1: Raise the productivity of the UK economy;
- PSA 6: Deliver the conditions for business success in the UK; and
- PSA 7: Improve the economic performance of all English regions and reduce the gap in economic growth rates between regions

3 BERR is a key delivery partner for a further three PSAs:

- PSA 2 Improve the skills of the population, on the way to ensuring a world class skills base by 2020 (led by the Department for Innovation, Universities and Skills);
- PSA 8 Maximise employment opportunity for all (led by the Department for Work and Pensions); and
- PSA 27 Lead the global effort to avoid dangerous climate change (led by the Department for Environment, Food and Rural Affairs)

4 BERR will have seven DSOs, each underpinned by a number of performance indicators that will be used to assess progress towards delivering these objectives:

- DSO 1: Promote the creation and growth of business and a strong enterprise economy across all regions;
- DSO 2: Ensure that all government departments and agencies deliver better regulation for the private, public and third sectors;
- DSO 3: Deliver free and fair markets, with greater competition, for businesses, consumers and employees;
- DSO 4: Ensure the reliable supply and efficient use of clean, safe and competitively-priced energy;
- DSO 5: Manage energy liabilities effectively and responsibly;
- DSO 6: Ensure that Government acts as an effective and intelligent shareholder, and provides a source of excellent corporate finance expertise within Government; and
- DSO 7: Provide the professional support, capability and infrastructure to enable BERR's objectives and programmes to be successfully delivered.

Appendix Three

The relationship between Comprehensive Spending Review 2004 and 2007 performance targets

Comprehensive Spending review 2004 PSA indicator		Related Comprehensive Spending review 2007 PSA/DSO Indicator
1	Productivity	PSA 1
2.1	Administration burdens	PSA 6/DSO 2.1
2.2	International standing	Not rolled forward
2.3	Business perceptions	DSO 2.2
3.1	Competition regime	PSA 6/DSO 3.2
3.2	Consumer regime	DSO 3.7
4.1	Emissions	PSA 27/DSO 4.1
4.2	Security of supply	DSO 4.2 (modified)
4.3	Fuel poverty	DSO 4.3
4.4	Competitive energy markets	PSA 6/DSO 4.3 (modified)
5	Reduce trade barriers	DSO 3.1 (modified)
6.1	Adults considering going into business	Not rolled forward
6.2	Small/Medium Enterprise productivity	Not rolled forward
6.3	Enterprise in disadvantaged areas	Not rolled forward
7	Regional economic performance	PSA 7
8.1	Resources to new to export firms Not rolled forward	
8.2	Performance of new to export firms	
8.3	Performance of established exporters	However, UKTI's new performance framework for the CSR07 period is covered in DSO 1.5
8.4	UK ranking on Foreign Direct Investment (FDI)	
8.5	Securing inward investment	
9.1	Reduce nuclear liability by 10 per cent by 2010	Not rolled forward
9.2	Two per cent efficiency savings	DSO 5.2
9.3	Competitions for NDA sites	Not rolled forward

Comprehensive Spending review 2004 PSA indicator	**Related Comprehensive Spending review 2007 PSA/DSO Indicator**
10.1 Self employment rate of under-represented groups	Not rolled forward
10.2 Racial discrimination in the workplace	Not rolled forward
10.3 Labour market flexibility	PSA 6/DSO 3.5
10.4 Employee access to information and consultation procedures	Not rolled forward
10.5 Awareness of rights at work	DSO 3.6 (modified)
National Standard: Maintain the UK's standing as one of the best places in the world for online business	Not rolled forward

Source: BERR Annual Report and Accounts 2007-08

Appendix Four

BERR Delivery partners

(as at July 2008)

Agencies

- Companies House
- Insolvency Service

Executive NDPBs

- Advisory Conciliation and Arbitration Service (Acas)
- Capital for Enterprise Ltd
- Civil Nuclear Police Authority
- Coal Authority
- Competition Commission
- Competition Service
- Hearing Aid Council
- Local Better Regulation Office
- National Consumer Council
- Nuclear Decommissioning Authority
- Simpler Trade Procedures Board (SITPRO)
- United Kingdom Atomic Energy Authority

Regional Development Agencies

- Advantage West Midlands
- East Midlands Regional Development Agency
- East of England Development Agency
- North West Development Agency
- One North East

- South East England Development Agency
- South West of England Development Agency
- Yorkshire Forward

Advisory NDPBs

- Advisory Committee on Carbon Abatement Technologies
- Better Regulation Commission
- Fuel Poverty Advisory Group
- Industrial Development Advisory Board
- Low Pay Commission
- Regional Industrial Development Boards
- Renewables Advisory Board
- UK Chemical Weapons Convention, National Authority Advisory Committee
- Union Modernisation Fund Supervisory Board

Tribunal NDPBs

- Central Arbitration Committee
- Competition Appeal Tribunal
- Insolvency Practioners' Tribunal
- Persons Hearing Consumer Credit Licensing Appeals
- Persons Hearing Estate Agents Appeals

Other partners

- British Energy
- British Nuclear Fuel
- British Shipbuilders
- Citizens Advice
- Citizens Advice Scotland
- Financial Reporting Council
- London Development Agency
- Nuclear Liabilities Fund

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