



National Audit Office

A SHORT GUIDE

The NAO's work on the Department of Energy and Climate Change



National Audit Office

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This short guide is one of 17 we have produced covering our work on each major government department. It summarises our work during the last Parliament, reflecting programmes and spending before the May 2010 General Election, and as such does not reflect changes introduced by the new Government.

These guides are designed to provide Members of Parliament, and particularly select committees, with a quick and accessible overview of our recent work and how we can help with the scrutiny of government. The guides are not intended to provide an overall assessment of the departments' performance but simply to illustrate, with examples, the range of our work. Where the examples refer to specific weaknesses and recommendations, departments have in many cases taken action since to address them.

In 2009, we supported the Energy and Climate Change Select Committee by preparing a Performance Briefing which gave an overview of the work and performance of the Department based on 2008-09 data. We also supported the Environmental Audit Committee with an examination of the European Union Emissions Trading Scheme. We will continue to support all select committees in 2010-11, providing further briefing on each major department and supporting specific inquiries where our expertise and perspective can add value.

introduction

about

On climate change policy, the Department is taking a leading role to meet international commitments to reduce greenhouse gas emissions.

TO FIND OUT MORE ON OUR
WORK IN THIS SECTOR VISIT
WWW.NAO.ORG.UK



About the Department

The Department's responsibilities

The Department of Energy and Climate Change was created in October 2008, and is responsible for government policy on energy and climate change.

On climate change policy, the Department is taking a leading role to meet:

- international commitments to reduce greenhouse gas emissions;
- European Union targets to obtain 15 per cent of energy from renewable sources by 2020; and
- national statutory obligations to reduce UK carbon emissions by 34 per cent by 2020 compared to 1990 levels.

The Department is also working with other countries to agree new commitments and, with the Department for International Development, supporting developing countries in reducing emissions and adapting to climate change.

On energy policy, the Department is responsible for the security of UK energy supplies and certain liabilities inherited from the nuclear and coal industries previously under public ownership. Liabilities include nuclear decommissioning, coal pensions, claims relating to the health of former coal workers and liabilities arising from subsidence and mine water contamination. As at March 2009, these liabilities included a £2.2 billion provision for British Energy's historic nuclear fuel liabilities (which excludes the Nuclear Decommissioning Authority's £44.5 billion provision for nuclear decommissioning) and £726 million for coal health and concessionary fuel costs. A further £870 million of coal

liabilities arising from subsidence and from mine water contamination are managed by the Coal Authority and are reported within its financial statements.

Other departmental responsibilities include:

- policy responsibility for certain levies on industry, such as the £1 billion Renewables Obligation which is administered on the Department's behalf by Ofgem; and
- the collection of receipts from climate change and energy programmes that are payable to the Consolidated Fund. The Department paid £644 million into the Fund for 2008-09 from receipts it collected, which included £94.5 million from the auction of carbon allowances under the European Union Emissions Trading Scheme.¹ During 2008-09, the Department also received other income of £1.3 billion from the Nuclear Decommissioning Authority, which was used to part-fund the Department's contribution to the Authority and was paid as grant-in-aid.

The Department devolves most of its responsibilities for service delivery and for managing liabilities to a number of other organisations, including Ofgem, the Nuclear Decommissioning Authority and the Coal Authority.

Where the Department spends its money

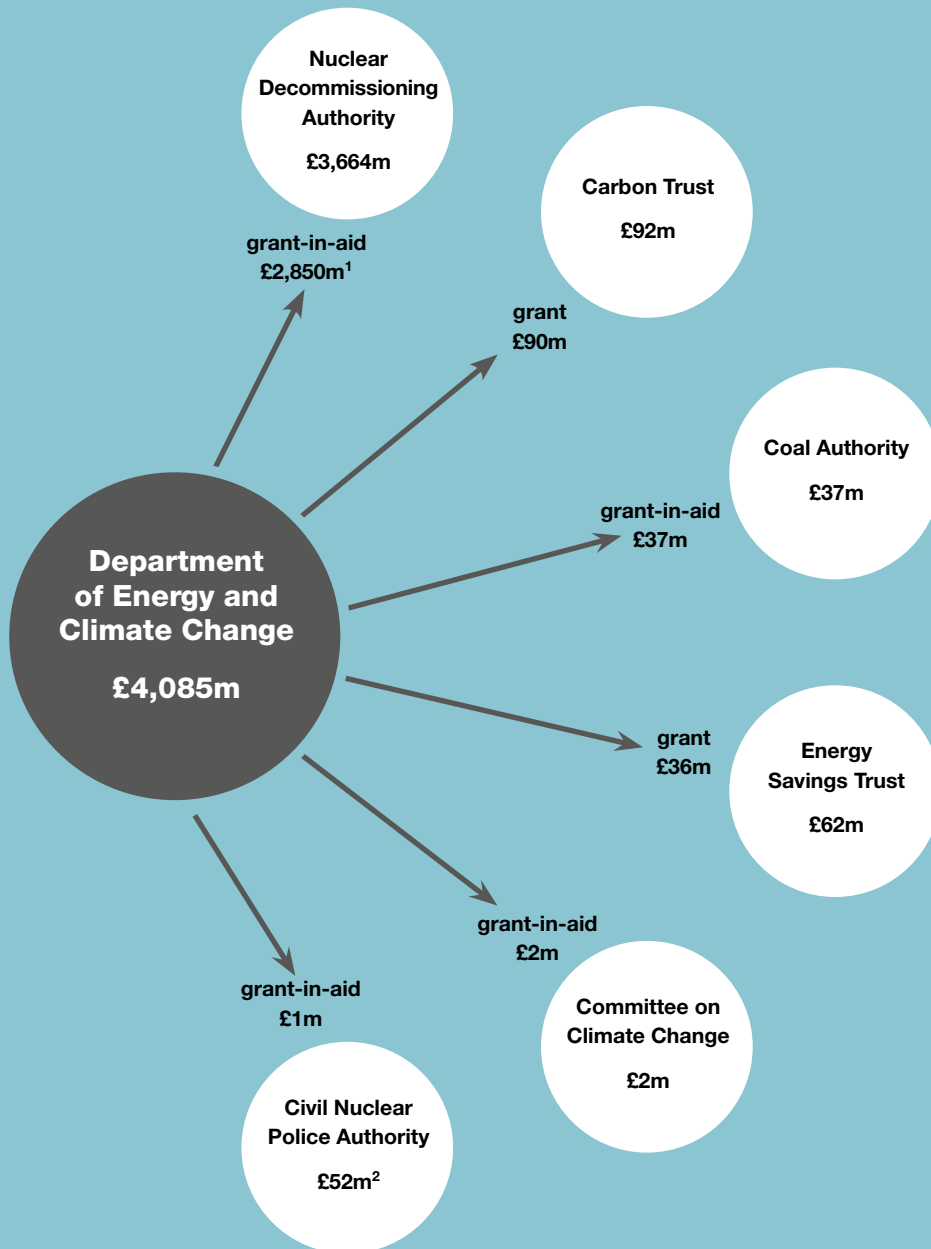
In 2008-09, the Department spent £4 billion (gross):

- around 70 per cent was spent on grant-in-aid payments to the Nuclear Decommissioning Authority; and
- around 1 per cent related to the cost of its 891 staff.²

¹ *European Union Emissions Trading Scheme: A Review by the National Audit Office, April 2009.*

² This is the average number of full-time equivalent staff employed by the Department of Energy and Climate Change in 2008-09.

Where the money goes (2008-09 data)



NOTES

- 1 The grant-in-aid payment of £2,850 million to the Nuclear Decommissioning Authority included commercial income of £1,952 million the Authority received from electricity generation, nuclear fuel manufacturing and spent fuel processing. The net cost to the Exchequer was £898 million.
- 2 The Civil Nuclear Police Authority recover full operating costs from the nuclear industry. The £1 million grant-in-aid payment from the Department is for capital expenditure.

financial management

Financial management

The ability of departments to control costs and drive out waste requires professional financial management and reporting. In particular, departments need to be better at linking costs to services and benchmarking performance to determine whether costs are justified and value for money can be improved. To provide assurance that resources are being appropriately managed and controlled, organisations have to publish Statements on Internal Control with their annual financial statements.³

Financial governance and reporting

We audit the accounts of the Department and its sponsored bodies, but not the Energy Savings Trust and the Carbon Trust. Our audit work involves understanding the business of each organisation, examining internal controls, agreeing the accounting policies, auditing their transactions, liabilities and assets and confirming that the accounts present a true and fair view. We also consider whether the transactions of the Department are in accordance with Parliament's intentions.

The Department was created in October 2008, so to date it has only produced one set of accounts, for 2008-09. We gave an unqualified audit opinion on these accounts.⁴ We also gave unqualified opinions on the 2008-09 accounts of its sponsored bodies.

We work with the Department and its sponsored bodies to improve their published Statements on Internal Control to ensure that they are supported by robust evidence that controls are sufficiently reliable, and that they comply with Treasury guidance.

Although the Department has not raised any significant control issues, the Nuclear Decommissioning Authority, which accounts for 70 per cent of Departmental expenditure, highlighted in its 2008-09 Statement on Internal Control the need to:

- prepare a disaster recovery plan to respond to major disasters such as loss of premises; and
- improve how it manages the development of its nuclear liability estimate and its understanding of underlying data to enable comprehensive risk identification and the prioritisation of its funding.

In 2010, we are working with the Department to identify how its Statement on Internal Control could be developed further to increase the usefulness and transparency of reporting. We have also provided the Department's Audit Committee with our own **guidance on the Statement**.⁵

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FINANCIAL MANAGEMENT WORK
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³ *NAO Strategy 2010-11 to 2012-13*, www.nao.org.uk/publications/0809/nao_strategy_2010-11_to_2012-1.aspx

⁴ *Department of Energy and Climate Change Resource Account 2008-09*.

⁵ *The Statement on Internal Control: A Guide for Audit Committees*, www.nao.org.uk/guidance_good_practice/audit_of_financial_statements.aspx

Efficiency

We are undertaking a programme of work to validate the value for money savings reported by major government departments between 2008-09 and 2010-11. The Department had an ongoing programme of efficiency savings at the time of the May 2010 General Election, aiming to achieve cumulative efficiency savings of £279 million by 2010-11. Around 45 per cent of this total relates to savings by the Nuclear Decommissioning Authority. However, we are not planning a review of the Department at present as its own savings target represents less than 1 per cent of the cross-government target.

Examples of validation work⁶

we have performed on the savings reported by other departments can be found on our website.

The NAO also produces a wide range of cross-cutting work that considers aspects of efficiency across government (Appendix 3).

We have in our value for money work examined specific aspects of the efficiency of the Department and its sponsored bodies.

Taking forward nuclear decommissioning⁷

January 2008

Our report examined the Nuclear Decommissioning Authority's performance in decommissioning sites since April 2005. We found that:

'There is scope for the Authority to make greater use of fixed cost, or longer-term target cost plus fee arrangements to cover support services and those decommissioning activities, such as demolition or deplanting of non-radioactive buildings, that do not entail substantial risk or uncertainty and, in doing so, deliver better value for money.'

We recommended:

- The Nuclear Decommissioning Authority incorporate elements of fixed price, or longer-term target cost plus fee, for work streams or sites where analysis of risks – including awareness of experience abroad – indicates that work scope and cost are sufficiently well defined.

Following our report, the Authority reported that it is working to identify opportunities for reducing fixed costs, including the use of benchmarking processes and encouraging greater use of collaborative procurement to deliver efficiency savings.

⁶ *Independent Reviews of reported CSR07 Value for Money savings*, www.nao.org.uk/publications/0910/independent_reviews_of_vfm_sav.aspx

⁷ *The Nuclear Decommissioning Authority: Taking forward decommissioning*, www.nao.org.uk/publications/0708/the_nuclear_decommissioning_au.aspx

information

Use of information

The life blood of a successful organisation is the quality of information on which it makes decisions and monitors and assesses performance. Poor quality information leads to inefficiency and waste and can result in excess or unnecessary costs. Departments need reliable information on which to design and deliver services and monitor quality, be confident about their productivity, and drive continuous improvement.⁸

Testing the reliability of performance data across government

We carry out work across government to test the systems used by departments to report on their performance. This work provides assurance to Parliament and the public about whether these systems are adequate, and supports better performance management by Government.

Under the previous Government, Public Service Agreements (PSAs) were the agreements between the Treasury and individual departments which set out priority areas for the Government's work and against which the departments reported their performance. For the period 2008-2011, 30 PSAs were used by departments to measure and report progress, each underpinned by several indicators.

In October 2009 we published our **Fifth Validation Compendium Report**,⁹ which reviewed data systems underpinning 13 of the Government's PSAs:

'... the slow progress being made by some government departments in achieving better quality information about their own performance is a matter for concern. The NAO has found that one third of the PSA data systems used by departments have weaknesses and just over a tenth remain unsatisfactory.'

Our Sixth Compendium Report, for PSAs across the whole of government, will be published shortly.

The Treasury announced in June 2010 that it had ended the system of Public Service Agreements and that in future departmental business plans would include the data the public can use to hold departments to account.¹⁰

We will continue to apply the lessons from our work validating the PSA data systems when looking at Government's performance data in future.

TO FIND OUT MORE ON OUR
PERFORMANCE MANAGEMENT
WORK VISIT WWW.NAO.ORG.UK



⁸ *NAO Strategy 2010-11 to 2012-13*, www.nao.org.uk/publications/0809/nao_strategy_2010-11_to_2012-1.aspx

⁹ *Measuring Up: How good are the Government's data systems for monitoring performance against Public Service Agreements?* www.nao.org.uk/publications/0809/5th_validation_report.aspx

¹⁰ *HM Treasury: The Spending Review framework*, June 2010 (paragraph 2.7).

Use of information by the Department of Energy and Climate Change

The Department of Energy and Climate Change had lead responsibility for PSA 27 to 'lead the global effort to avoid dangerous climate change'.

Our **May 2010 report**¹¹ looked at the Department's data systems to support PSA 27. We concluded that two of the six data systems were fit for purpose and the remaining four data systems were broadly appropriate but in need of strengthening.

We also provided briefing to the Energy and Climate Change Select Committee on the **Performance of the Department of Energy and Climate Change**¹² in October 2009, which included commentary on the Department's assessment of its progress against its PSA and other objectives. The most recent public statement provided by the Department on progress against its PSA and other performance indicators was in its 2009 Autumn Performance report.¹³

We have reported to Parliament on specific weaknesses in the use of information in the delivery and evaluation of programmes which the Department is now responsible for.



Programmes to reduce household energy consumption¹⁴ July 2008

Our report examined the effectiveness of programmes across government departments to reduce household energy consumption. We found that:

'To achieve their longer-term targets, programmes must focus increasingly on homes that are harder to treat, technologies that are newer and more expensive, and householders who are less keen to act. These challenges make the risks to cost-effective delivery of energy savings in the future all the greater. Departments have done good work to identify these risks, but as yet there is not convincing evidence that these risks can be overcome.'

We recommended:

- Departments collect more evidence to be sure that their programmes are working as well as they could be. The evidence base about programme effectiveness needs further work. There is as yet a lack of genuine ex-post evaluations of effectiveness based on real practice in homes.

¹¹ *Public Service Agreement data systems reviews 2010 index*, www.nao.org.uk/PSA-validation-2010

¹² *Performance of the Department of Energy and Climate Change: Briefing for House of Commons Energy and Climate Change Committee 2008-09*, www.nao.org.uk/publications/0809/dept_energy_and_climate_change.aspx

¹³ *Department of Energy and Climate Change: Autumn Performance Report 2009*.

¹⁴ *Programmes to reduce household energy consumption*, www.nao.org.uk/publications/0708/household_energy_consumption.aspx

delivery

Service delivery

Public services are different in the way they are delivered but their quality and cost effectiveness depends on a number of common minimum requirements. For example, service delivery requires sound programme and project management, strong commercial skills, effective IT enabled business change, and a real understanding of customer needs. Many of our reports to Parliament cover these issues. We summarise below some of this work, organised by key areas of the Department's business.¹⁵

The Department and its sponsored bodies manage the delivery of a broad spectrum of services, ranging from the improvement of domestic households' energy efficiency to the decommissioning of nuclear power stations. We have published a number of reports to Parliament on the service delivery by the Department and its sponsored bodies, and also on the Departments which previously had responsibilities for energy and climate change policy.

Energy markets and liabilities

We have published a number of reports on managing the Government's interests in energy markets and energy liabilities.

Coal Health Compensation Schemes¹⁶ July 2007

Our report examined the Government's arrangements for the accumulated personal injury liabilities of the British Coal Corporation and delivering schemes to compensate miners affected by Chronic Obstructive Pulmonary Disease and Vibration White Finger.

'The Department produced limited strategic oversight or forward planning on how it would handle any resulting liability and insufficient resource was allocated to the task. This lack of preparation was to make the Department's task significantly more difficult to administer, require substantial effort to put right, and cause frustration and upset to some claimants. These schemes illustrate vital lessons that should be learned should Government departments be required to establish other compensation schemes in the future.'

We recommended:

- When a potential new liability is identified it must be monitored regularly and action should be taken to manage the risks. The Department should also have a strategy in place for managing the expectations of likely claimants and other stakeholders.

¹⁵ *NAO Strategy 2010-11 to 2012-13*, www.nao.org.uk/publications/0809/nao_strategy_2010-11_to_2012-1.aspx

¹⁶ *Coal Health Compensation Schemes*, www.nao.org.uk/publications/0607/coal_health_compensation.aspx

The sale of the Government's interest in British Energy¹⁷ February 2010

Our report examined the extent to which the Government met its strategic objectives for the sale of the Government's interest in British Energy; and the management of the sale and the proceeds raised.

'The Government received a good price when selling its interest in British Energy. But it is too early to say whether the sale will enable the Government to achieve its strategic objective of ensuring nuclear operators are able to build and operate new nuclear power stations from the earliest possible date and with no public subsidy.'

We recommended:

- In future sales where, unlike the sale of British Energy, the Government is leading the process, it should seek to assess the specific value of its shareholding to acquiring companies and reflect this in its negotiating strategy and assessment of offers.

Encouraging energy efficiency and mitigating climate change

Our reports have examined the management of programmes to reduce carbon emissions, improve household energy efficiency and address the problem of fuel poverty.

Fuel poverty¹⁸ February 2010

Memorandum for the Energy and Climate Change Committee

This memorandum drew together findings from previous NAO reports on progress against Government targets; the coherence of the Government's initiatives on energy efficiency; the methods used to target assistance at households which need it most; and support for households which are not connected to the mains gas grid.

We found that there are a range of Government initiatives and programmes at local and national levels targeting fuel poverty. There are some instances of cooperation between initiatives but there is a risk of duplication of effort between some schemes.



¹⁷ *The sale of the Government's interest in British Energy*, www.nao.org.uk/publications/0910/british_energy.aspx

¹⁸ *Energy and Climate Change Committee inquiry into Fuel Poverty – Memorandum for the House of Commons Energy and Climate Change Committee*, www.nao.org.uk/publications/0910/ecc_memorandum.aspx



European Union – Emissions Trading Scheme¹⁹

March 2009

A review for the Environmental Audit Committee

Our review reported on the operation and performance of the European Union Emissions Trading Scheme, incorporating available emissions data and assessing the outcome of the negotiations on the future implementation of the Scheme.

We found that rigorous monitoring, reporting and verification requirements are essential for sustaining confidence in the European Union Emissions Trading Scheme, and robust procedures are in place. The Scheme had achieved a functioning carbon market and may have influenced company behaviour, but the price of carbon allowances was lower than required to incentivise major investment in low carbon technologies.



The Warm Front Scheme²⁰

February 2009

Our report examined the administration and design of the Warm Front Scheme and assessed the management and costs of contracting-out the delivery of the Scheme.

‘Delivery of the Scheme has been largely effective and to that extent has provided value for money. Value for money has, however, been impaired by problems in Scheme design. Reliance on benefits may be a pragmatic, proxy measure to determine eligibility, but the inclusion of non-means tested benefits has led to households unlikely to be in fuel poverty being able to claim a grant.’

We recommended:

- The Department should amend the Scheme eligibility rules to exclude those households where the property is already energy efficient and focus efforts to help those in hard to treat homes through the use of alternative technologies.
- The Department employ specialist staff with relevant contract management and procurement expertise and re-examine the contract with the company delivering the scheme.

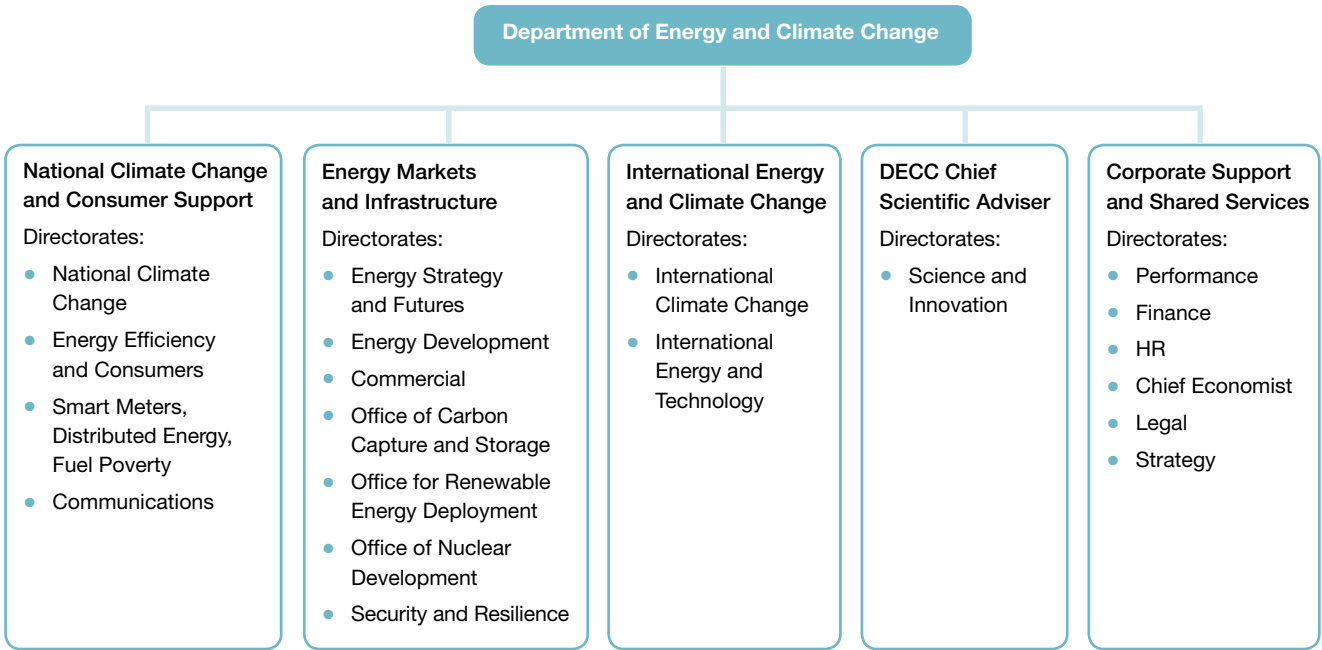
The Department has acted on our recommendations, and renegotiated the contract with the company to secure more advantageous terms and achieve greater value for money for the Department.

¹⁹ *European Union Emissions Trading Scheme*, www.nao.org.uk/publications/0809/eu_emissions_trading_scheme.aspx

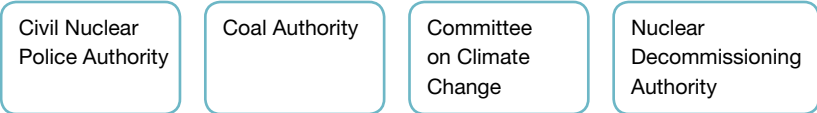
²⁰ *The Warm Front Scheme*, www.nao.org.uk/publications/0809/the_warm_front_scheme.aspx

Appendices

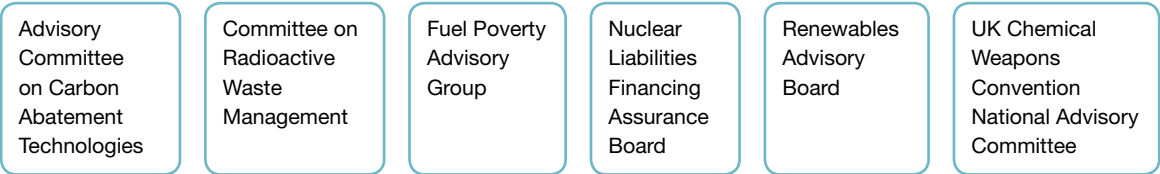
1 The Department's Delivery Framework



Executive Non-Departmental Public Bodies (NDPBs)



Advisory NDPBs



Sponsored Partners



Other delivery partners



2 Reports presented to Parliament by the National Audit Office on the energy and climate change sector since 2006

			Parliamentary Session
22 January 2010	The sale of the Government's interest in British Energy	HC 215	2009-2010
July 2009	Adapting to climate change, A Review for the Environmental Audit Committee		
March 2009	European Union Emissions Trading Scheme		
4 February 2009	The Warm Front Scheme	HC 126	2008-2009
11 November 2008	Programmes to reduce household energy consumption	HC 1164	2007-2008
July 2008	Renewable energy: Options for scrutiny		
May 2008	Transport and the environment: Options for scrutiny		
March 2008	UK greenhouse gas emissions: measurement and reporting		
30 January 2008	The Nuclear Decommissioning Authority: Taking forward decommissioning	HC 238	2007-2008
December 2007	Energy consumption and carbon emissions in government departments		
22 November 2007	The Carbon Trust: Accelerating the move to a low carbon economy	HC 7	2007-2008
August 2007	The Climate Change Levy and Climate Change Agreements, Briefing to the Environmental Audit Committee		
18 July 2007	Coal Health Compensation Schemes	HC 608	2007-2008
26 April 2007	Central Government support for Local Authorities on Climate Change		
January 2007	Cost-effectiveness analysis in the 2006 Climate Change Programme Review		
December 2006	Emissions projections in the 2006 Climate Change Programme Review		
28 April 2006	Climate change policy: Options for scrutiny		
17 March 2006	The restructuring of British Energy	HC 943	2005-2006
10 February 2006	The Office of Gas and Electricity Markets: Sale of gas networks by National Grid	HC 804	2005-2006

3 Recent cross-government NAO reports of relevance to the energy and climate change sectors

			Parliamentary Session
18 March 2010	Reorganising central government	HC 452	2009-2010
6 November 2009	Commercial skills for complex government projects	HC 962	2008-2009
29 April 2009	Addressing the environmental impacts of Government procurement	HC 420	2008-2009

4 Other sources of information

Reports from the Committee of Public Accounts

24 March 2010	Twenty-second Report of Session 2009-10 The sale of the Government's interest in British Energy	HC 356
24 July 2009	Thirty-ninth Report of Session 2008-09 The Warm Front Scheme	HC 350
20 May 2008	Twenty-first Report of Session 2007-08 The Carbon Trust: Accelerating the move to a low carbon economy	HC 157

Cabinet Office Capability Reviews

<http://www.civilservice.gov.uk/about/improving/capability/reports.aspx>

December 2009 Cabinet Office Department of Energy and Climate Change: Baseline Assessment

Where to find out more

The National Audit Office website is
www.nao.org.uk

If you would like to know more about the NAO's work on the Department of Energy and Climate Change, please contact:

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