National Audit Office

INFORMATION ASSURANCE SUMMARY REPORTS

Department of Energy and Climate Change

The purpose and scope of this review

1 During November and December 2011, the National Audit Office (NAO) carried out an examination of a sample of indicators and operational data systems used by the Department of Energy and Climate Change (the Department). This involved a detailed review of:

- the match between the indicators the Department publishes, the operational data its uses to manage itself and the Department's priorities and key business areas;
- the process and controls governing the selection, collection, processing and analysis of data; and
- the Department's reporting of results.

2 Our conclusions are summarised as numerical scores. The ratings are based on the extent to which departments have put in place and operated internal controls over their data systems that are effective and proportionate to the risks involved.

3 This report provides an overview of the results of our assessment. It does not provide a conclusion on the accuracy of the out-turn figures included in the Department's public performance statements. This is because the existence of sound data systems reduces, but does not eliminate, the possibility of error in reported data.

Overview

4 Good performance information helps identify what policies and processes work and why they work, and is key to effective management. Externally, performance information allows Parliament and the public to better understand the issues involved and to exert pressure for improvements.

5 The Department's Business Plan is intended to help the public scrutinise costs and judge whether the Department's policies and structural reforms are having the desired effect. We found that the Business Plan indicator set is broadly reflective of the Department's Structural Reform Priorities. However, in trying to monitor and report on the Department's business in just 11 indicators, there are inevitably some areas that are not covered. The 'other data' that is referred to in the Business Plan and other indicators that the Department uses to manage its business help to address these gaps. However, there are still some omissions, notably for the Department's first Structural Reform Priority – to save energy with the Green Deal and support vulnerable consumers – which does not have an associated input indicator as reliable data is not currently available.

6 There are also areas where the Department is using proxy measures of the impact of its policies, most notably in using the impact of other countries' pledges to decrease their greenhouse gas emissions on predicted global emissions as a measure of the Department's performance.

7 Assessing the Department's performance will be challenging for stakeholders. For example, the Department expects the cost of supporting renewable energy to increase, and its measure of success is for the cost to be as low as possible, but stakeholders may expect costs to decline over time. Providing a supporting narrative that explains the Department's interpretation of the outcome, including the significance of changes over time, would help stakeholders interpret the indicator. Additionally, the impact indicator for the reduction in the estimated future cost of nuclear decommissioning liabilities is prone to uncertainty in that it relates to activities stretching several decades into the future and, on its own, does not provide a good measure of how effectively the civil nuclear legacy is being managed.

8 We examined the data systems for a sample of 12 indicators, of which four were Business Plan indicators and eight were operational indicators that the Department uses to manage its business. This gave coverage to all of the Department's main policy functions and Structural Reform Priorities, with the exception of energy efficiency measures, as the data systems in this area are likely to change as the implementation of the Green Deal is taken forward. We will examine the remaining indicators in subsequent years.

9 We did not identify any significant weaknesses in the Department's wider control environment. However, we did identify scope for improvement in the controls that apply to some of the data systems used to prepare key indicators. A common issue was that roles and responsibilities for the data systems we examined were not clearly defined and allocated, and this had resulted in inconsistencies in reporting. The most significant was a £6.4 billion discrepancy that we identified between the results reported and the definition of the indicator for reducing the level of the liabilities for the costs of nuclear decommissioning and clean-up. We also found a discrepancy between the definition and reporting on the proportion of the Nuclear Decommissioning Authority's budget spent on decommissioning and clean-up. In response to our review, the Department has committed to amending the published definitions of both these indicators so that they are consistent with reported data.

10 We found that the Department had been inconsistent in the measures it used to report on total UK emissions of greenhouse gases, and that it had used the wrong figure in its reporting on the financial incentive cost per unit of renewable energy generated. For the operational indicators, little in the way of assurance has been sought or received by the Department over data supplied by sponsored bodies. These organisations supply data streams according to their understanding of what the Department requires, and in the absence of specific controls applied by the Department, there is a risk to the quality of the data. In response to our review of data systems, the Department is taking action to improve the control of data supplied by its arm's-length bodies.

11 **Figure 1** on page 4 summarises our assessment of the Department's indicator data systems.

Recommendations

12 Although the indicators in the Department's Business Plan are broadly reflective of its main policy responsibilities and Structural Reform Priorities, there are some omissions. To increase transparency, the Department should disclose to stakeholders the overall rationale for what it has chosen to include in the Business Plan input and impact indicators, and significant exclusions.

13 For some indicators, assessing the Department's performance will be challenging for stakeholders without further explanation of the results. The Department should, where necessary, provide additional commentary in its public reporting to help stakeholders interpret the data.

14 Responsibilities for preparing and validating individual indicators are not clearly defined. The Department should assign clear responsibilities for data quality assurance, data system operation and for data reporting with duties clearly outlined in desk instructions.

15 The controls that the Department applies to data supplied by its non-departmental public bodies have been inadequate. In response to our review, the Department has told us that it will obtain formal sign-off of data returns. The Department should work with its arm's-length bodies to identify what risks there may be to the accuracy of data, and ensure that data returns include a statement confirming that adequate controls are in place to manage the risk of significant inaccuracies in the data.

16 We found significant errors in reporting on the Department's indicators for the estimated future cost of civil nuclear decommissioning due to differences between the definition of the indicator and the data that is reported. The Department has told us that in response to our review it will revise the definition of this indicator, and the indicator for the proportion of the Nuclear Decommissioning Authority's budget spent on decommissioning and clean-up where we also found a discrepancy, to align it with what is reported. The Department should complete this as a matter of urgency. Additionally, as this indicator may not provide a robust measure of performance, the Department should consider introducing additional or alternative measures of progress in its Business Plan.

Figure 1
A summary of the results of our validation exercise

Score	Meaning	Indicators we reviewed that received this score
4	The data system is fit for purpose and cost-effectively run	**No indicators**
3	The data system is adequate but some improvements could be made	**Two Business Plan indicators and one operational indicator** Renewable financial incentive cost per unit of renewable energy generated (measures in £/TWh; excluding transport levies). Compliance with the carbon management plan (CMP) so as to reduce DECC carbon emissions by 25 per cent from a 2009-10 baseline by 2014-15. Total emissions of greenhouse gases from the UK (showing progress against legal limits on emissions (carbon budgets)).
2	The data system has some weaknesses which the Department is addressing	**Two Business Plan indicators and seven workforce and estates indicators** Full time equivalent staff numbers. Average staff costs. Contingent labour – full time equivalent. Total cost of the office estate. Total size of the office estate. Estate cost per full-time equivalent. Estate cost per square metre. Proportion of the Nuclear Decommissioning Authority's budget that is spent on decommissioning and cleaning up nuclear plants. Reduction in the Nuclear Provision through decommissioning and clean-up (in line with published Nuclear Decommissioning Authority business plans).
1	The data system has some weaknesses which the Department must address	**No indicators**
0	No system has been established to measure performance against the indicator	**No indicators**

Source: National Audit Office analysis

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