National Audit Office

BRIEFING FOR THE HOUSE OF COMMONS ENERGY AND CLIMATE CHANGE COMMITTEE

OCTOBER 2009

Performance of the Department of Energy and Climate Change, 2008-09

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This briefing has been prepared for the Energy and Climate Change Committee as an overview of the performance of the Department of Energy and Climate Change in the financial year 2008-09 and subsequent months.

Contents

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Summary

Aim and scope

1 This briefing has been prepared for the Energy and Climate Change Committee as an overview of the performance of the Department of Energy and Climate Change ('the Department' or DECC) in the financial year 2008-09 and subsequent months. The briefing is based on the Department's Annual Report and Resource Accounts 2008-09 and other documents produced by the Department, together with work undertaken by the NAO. The briefing has been shared with the Department to ensure factual accuracy, but the commentary and views expressed are those of the NAO.

2 The briefing is comprised of three parts. Part one covers the financial performance of the Department, part two discusses the Department's capability, and part three comments on the Department's performance against key targets.

The Department

3 The Department was created in October 2008, bringing together energy policy (previously with the Department for Business, Enterprise and Regulatory Reform (BERR)) and climate change mitigation policy (previously with the Department for Environment, Food and Rural Affairs (Defra)). Responsibility for climate change adaptation and sustainable consumption and production remains with Defra. Key events since the establishment of the Department are set out in **Figure 1**.

4 The Department employed 891 full-time equivalent staff in 2008-09, and this is expected to rise to 1,128 in 2009-10.[1] The Department's total Comprehensive Spending Review 2007 budget is £8,583 million over three years, and it expects to achieve value for money savings of £279 million by the end of the period. Appendix 3 provides a breakdown of the Department's operating costs. DECC provides funding to a number of delivery partners, most notably the Nuclear Decommissioning Authority. Appendix 4 sets out the Department's organisation and its delivery partners.

1 DECC internal business plans.

Figure 1
Key events since the establishment of DECC

Date	Key event
3 October 2008	The Prime Minister announces the establishment of DECC.
October 2008	Amendments are made to the Climate Change Bill, including a tightening of the 2050 target from a 60 per cent reduction in CO_2 emissions to an 80 per cent reduction in greenhouse gas emissions, compared with 1990.
28 October 2008	DECC opens a consultation on proposals for carbon accounting in the UK under the Climate Change Bill. The summary of responses was published on 22 April.
November 2008	The Climate Change Act, Energy Act 2008 and Planning Act 2008 become law.
24 November 2008	The Nuclear Decommissioning Authority transfers management of Sellafield to Nuclear Management Partners Limited, following a two-year competitive process.
26 January 2009	DECC opens a consultation on Severn Tidal Power, with five schemes shortlisted. The summary of responses was published on 1 June, and the government response on 15 July.
5 February 2009	DECC grants consent for three new power stations to be constructed at Pembroke, King's Lynn and Hatfield.
26 March 2009	DECC publishes provisional estimates that UK greenhouse gas emissions in 2008 were equivalent to 623.8 million tonnes of carbon dioxide, two per cent lower than in 2007.
22 April 2009	The Chancellor announces the UK's first three 'carbon budgets' alongside his fiscal Budget, covering the periods 2008-2012, 2013-2017 and 2018-2022, and a revised target to reduce emissions to at least 34 per cent below 1990 emissions by 2018-22. Statutory instruments for carbon budgets receive Parliamentary approval.
5 June 2009	DECC publishes the UK's fifth National Communication under the United Nations Framework Convention On Climate Change, which states that UK greenhouse gas emissions were 18.4 per cent below 1990 levels in 2007, and are likely to be about 23 per cent below 1990 levels in 2010, compared to a target of 12.5 per cent.
5 June 2009	Defra and DECC open a consultation on how UK organisations should measure and report their greenhouse gas emissions as required by the Climate Change Act.
17 June 2009	DECC opens a consultation on a framework for the development of Carbon Capture and Storage ("Clean Coal").
26 June 2009	DECC publishes *The Road to Copenhagen*, setting out the Government's ambitions for an international agreement on climate change.
15 July 2009	The Government publishes: • the *UK Low Carbon Transition Plan*, which details government plans for the UK to cut emissions by 34 per cent on 1990 levels by 2020; • the *UK Renewable Energy Strategy*, setting out how the UK can achieve 15 per cent of energy from renewables by 2020; • the *UK Low Carbon Industrial Strategy*, setting out Britain's strengths and opportunities for a low carbon economy; and • *Low Carbon Transport*: *A Greener Future*, giving more detail on its measures to reduce emissions from transport.
5 August 2009	DECC publishes Malcolm Wicks' review of energy security issues, and calls for evidence on how to deliver secure low carbon electricity.

Source: National Audit Office

Summary of overall performance against objectives

5 In 2008-09, the Department's strategic framework was provided by Public Service Agreement (PSA) 27, which was agreed as part of the 2007 Comprehensive Spending Review. DECC took lead responsibility for the PSA from Defra. DECC also inherited three Departmental Strategic Objectives (DSOs) and their underlying indicators from Defra and BERR. Performance against these targets and underlying indicators in 2008-09 is set out in **Figure 2**.

6 For 2009-10 onwards, the Department plans to replace the current DSOs with seven new DSOs which it has designed to better reflect its remit. It is working with HM Treasury and other departments to agree new indicators and delivery arrangements for them. The new objectives are set out in Appendix 2. DECC expects to report progress against these in its 2009 Autumn Performance Report.

Key issues

Strategy and capability

7 DECC published a key strategy, the UK Low Carbon Transition Plan, supported by strategies for Renewable Energy, Low Carbon Industry and Transport, in July 2009. This will be the major influence over the strategic direction of the Department's work, but there is more strategic work in the pipeline. The Department is formulating a formal response to the Wicks Review of Energy Security published in August 2009. The Department's work will also be heavily influenced by the results of international climate change negotiations in Copenhagen in December. The Department intends to build upon the Transition Plan by developing a strategic roadmap for the UK's energy systems to 2050, to be completed in Spring 2010.

8 The Department has work to do to ensure it is capable of delivering its strategies. The Department undertook a major recruitment exercise over the summer of 2009, to fill around 100 identified vacancies. A number of senior positions have yet to be, or have only recently been, filled on a permanent basis. The Department has been heavily reliant on the operating systems and procedures in place within BERR and Defra for the majority of the 2008-09 financial year. Arrangements for risk management at the Department have only recently been finalised, and have yet to be embedded. In 2009-10, the Department will need to continue to work towards more effective operations, including unifying its IT systems; migrating both financial and payroll data onto one accounting system and one payroll provider; and appointing non-executive members to the Board and establishing an Audit Committee. A review of the capability of the Department will be conducted by the Cabinet Office in November 2009.

Figure 2
DECC's performance against PSA and DSO targets in 2008-09

Target	DECC's assessment of progress since 2007-08 (RAG indicator added by NAO)
PSA 27: To lead the global effort to avoid dangerous climate change	**Some progress**
1 Reduce global CO_2 emissions to 2050	No improvement (red)
2 Increase the proportion of the UK with sustainable abstraction of water (a measure of successful adaptation to climate change)	Not Assessed
3 Increase the size of global carbon markets	Improvement shown (green)
4 Reduce UK greenhouse gas and CO_2 emissions	Improvement shown (green)
5 Reduce the greenhouse gas and CO_2 intensity of the UK economy	Improvement shown (green)
6 Maintain the cost-effectiveness of government's policy response to climate change, measured as the proportion of emissions reductions from new policies estimated as costing less than the Shadow Price of Carbon	Success measure met for 2008-09 (green)
DSO 1: Climate change tackled internationally and through domestic action to reduce greenhouse gas emissions	**Some progress**
1a Reduce global CO_2 emissions to 2050	No improvement (red)
1b Achieve milestones towards a post-2012 international agreement	Improvement shown (green)
2 Reduce the number of households in England that need to spend more than 10 per cent of their income to maintain an adequate heating regime	No improvement (red)
3a Reduce UK energy consumption	Position maintained (amber)
3b Reduce carbon intensity of energy consumption	Position maintained (amber)
4 Help the International community to adapt to climate change	Not assessed
DSO 2: To ensure the reliable supply and efficient use of clean, safe and competitively-priced energy	**Some progress**
1a Reduce the CO_2 intensity of the UK economy	Improvement shown (green)
1b Reduce total UK CO_2 emissions	Improvement shown (green)
2a Improve the de-rated peak capacity margin for electricity and gas (a measure of the security of energy supply)	Improvement shown (green)
2b Reduce customer minutes lost on GB distribution networks for gas and electricity (a measure of the reliability of energy supply)	Position maintained (amber)
3a Increase the competitiveness of industrial gas and electricity prices compared to the median of 15 EU nations	Position maintained (amber)
3b Reduce the number of households in England that need to spend more than 10 per cent of income to maintain an adequate heating regime	No improvement (red)
4 Maintain an absence of significant safety related incidents at nuclear sites	Position maintained (amber)

Figure 2
DECC's performance against PSA and DSO targets in 2008-09 *continued*

Target	DECC's assessment of progress since 2007-08 (RAG indicator added by NAO)
DSO 3: To manage energy liabilities effectively and responsibly	**Strong progress**
1 Reduce UK civil nuclear liabilities at least in line with agreed and published Nuclear Decommissioning Authority business plans	● Improvement shown
2 Deliver minimum value for money saving on decommissioning costs equivalent to three per cent per annum averaged over the three years beginning 2008-09	● Improvement shown
3 Reduce the risk associated with high hazards by progressively mitigating them and ensuring radioactive waste continues to be put into a passively safe form	● Improvement shown
4 Achieve completion of the COPD Coal Health Compensation scheme by the Aspirational Scheme End Date	● Improvement shown

Source: National Audit Office, based on DECC Annual Report 2008-09

Greenhouse gas emissions and energy consumption

9 Provisional data suggests that in 2008 UK greenhouse gas emissions fell by two per cent compared to 2007, continuing a gradual downward trend since the 1990s, and increasing the likelihood that the UK will significantly exceed its target reduction for 2012 under the Kyoto Protocol. Importantly, greenhouse gas emissions fell relative to economic activity, indicating that absolute emissions did not fall simply because of adverse economic conditions.

10 Volumes traded on global carbon markets increased by 61 per cent in 2008, and DECC expects that the EU Emissions Trading Scheme will be the single most important policy to reduce UK emissions[2]. An NAO review of the Scheme found that it had achieved a functioning carbon market but that the current price of allowances is insufficient to stimulate major investments in low carbon technologies.[3]

11 UK energy consumption fell by one per cent in 2008, reflecting a fall in consumption by industry of three per cent and transport of two per cent and an increase in consumption by households, of three per cent.[4] An NAO review of programmes to reduce household energy consumption highlighted a number of risks, including concerns about compliance with buildings standards and the capacity of the energy efficiency industry to meet the requirements of the Carbon Emissions Reduction Target.[5]

2 UK Low Carbon Transition Plan, p.57.
3 National Audit Office, *European Union Emissions Trading Scheme*, April 2009.
4 DECC, *Digest of UK Energy Statistics*, July 2009.
5 National Audit Office, *Programmes to reduce household energy consumption*, HC 787 Session 2007-2008, 2 July 2008.

DECC expects domestic Building Regulations and the Carbon Emissions Reduction Target to contribute significantly to overall emissions savings over the period 2008-12 to meet the carbon budget.

Fuel Poverty

12 Early estimates suggest an extra 1.2 million households fell into fuel poverty in 2008, making 4.7 million households in total. An NAO review of DECC's major programme to combat fuel poverty, the Warm Front Scheme, found that delivery of heating and insulation improvements through the Scheme has been largely effective, but that improvements could be made in how the Scheme is targeted.[6] Some 57 per cent of vulnerable households do not qualify for the Scheme. DECC revised its contractual arrangements for the Scheme, and announced an increase in the level of the grants in April 2009.

Security of supply

13 Measures of the security of energy supply suggest that electricity and gas supplies will be more able to cope with forecast demand over the next five years. In the longer term, around 16 power stations representing roughly 25 per cent (18 gigawatts) of generating capacity are scheduled to close by 2018. DECC reports that 20.5 gigawatts of new generating capacity is under construction or has planning consent.[7]
The Department is due to publish a formal response to Malcolm Wicks' August 2009 Review of Energy Security.

Energy liabilities

14 Seventy per cent of DECC's 2008-09 operating costs were directed towards funding the Nuclear Decommissioning Authority. There have been increases in the estimated costs of future decommissioning[8], and these estimates have risen again in 2008-09. The Authority reported good progress against DSO 3 for 2008-09, and during the year completed the process of putting Sellafield, which accounts for 55 per cent of the UK's civil public sector nuclear liability, under private sector management. Sixteen of the UK's nineteen decommissioning sites are now under private sector management. An NAO review in January 2008 highlighted that the Authority should work to improve its contracting procedures and performance measurement to ensure value for money from private sector site management.[9]

6 National Audit Office, *The Warm Front Scheme*, HC 126 Session 2008-09, 4 February 2009.
7 HM Government, *The UK Low Carbon Transition Plan*, July 2009, p.73.
8 National Audit Office, *The Nuclear Decommissioning Authority: Taking forward decommissioning*, HC 238 Session 2007-08, January 2008.
9 National Audit Office, *The Nuclear Decommissioning Authority: Taking forward decommissioning*, HC 238 Session 2007-08, January 2008.

Part One

Financial Performance

1.1 This Part examines the Department's financial management and performance in 2008-09, and the extent to which this has allowed the Department to deliver its aims.

Overview of financial performance for 2008-09

1.2 Although established on 3 October 2008, the Department was required by merger accounting requirements to prepare its 2008-09 resource accounts as though it had been in existence from 1 April 2008, with prior year comparative figures shown on a corresponding basis.

1.3 DECC's net cash budget for 2008-09 was £3,078 million. Of this, £2,377 million was transferred from BERR to fund strategic objectives on energy supply and energy liabilities. Defra similarly transferred £597 million to DECC to fund the strategic objective of tackling climate change internationally and through domestic action. DECC subsequently sought an extra provision of £104 million to cover anticipated additional costs (such as those arising in relation to the Concessionary Fuel Scheme following renegotiation of the contracts for the supply and distribution of fuel) that were not included in the original BERR and Defra estimates.

1.4 In the event, the actual cash required to fund the Department's activities during 2008-09 amounted to £2,866 million. This underspend of £212 million reflects:

- changes in working capital requirements (see paragraph 5.34 of the Annual Report); and
- less cash having to be provided to the Nuclear Decommissioning Authority, mainly because it earned greater than expected revenue from electricity generation and decommissioning activities (see paragraph 5.17 of the Annual Report).

1.5 The net resource outturn for 2008-09 (as shown in the Statement of Parliamentary Supply) was £2,740 million. This represents an increase of £289 million compared to the restated outturn for 2007-08. Explanations for this year-on-year increase in resource cost are set out in **Figure 3**.

1.6 The Department's Operating Cost Statement for 2008-09 shows a fall in operating costs since 2007-08 of £353 million, comprising an increase in net administration costs in 2008-09 to £88 million (up from £77 million in 2007-08) and a decrease in net programme costs to £2,007 million (down from £2,372 million in 2007-08). Costs on tackling climate change and ensuring clean, safe and competitive energy rose by £148 million from 2007-08, whereas net costs on managing energy liabilities fell by £501 million, primarily due to greater income received by the Nuclear Decommissioning Authority, as described in Figure 3.[10]

Figure 3
Changes in resource requirement from 2007-08 to 2008-09

Description of changes in resource use year-on-year	£m
Increases in non-cash programme expenditure, primarily due to movements in provisions which increased by £200 million to £322 million in 2008-09 from £122 million in 2007-08. These increases were partially offset by a £54 million reduction in cost of capital charges following the significant fall in value of the Coal Pension Investments explained in paragraph 1.10 below. The nature of the provisions held by the Department and key movements during 2008-09 are also explained further in Figure 4.	147
Increases in other programme expenditure (excluding grant in aid payments), relating primarily to schemes such as Warm Front (£38 million), and the launch of the International Window of the Environmental Transformation Fund (£50 million).	154
Increases in staff and other administration costs due to increased average staff numbers and pay inflation (£5 million), contribution to the costs of the G20 conference (£3 million) and smaller increases in training, accommodation and other costs.	12
Decreased income authorised to be appropriated in aid. The commercial income of the Nuclear Decommissioning Authority (NDA) accounts for £1,952 million (98 per cent) of the Department's operating income of £1,989 million (£1,559 million in 2007-08). The £430 million increase in the Department's operating income in 2008-09 is primarily as a result of increased revenue from the NDA's electricity generation and reprocessing activities, in addition to accelerated revenue recognition on certain of the NDA's long term contracts. It is only income allowed to be appropriated in aid that features in the Department's net resource outturn. The Department's Appropriations in Aid Estimate amounted to £1,345 million (£1,556 million in 2007-08). The remaining £644 million of income (£3 million in 2007-08) is required to be surrendered to the Consolidated Fund.	211
A £235 million decrease in the grant in aid payments made to the Department's NDPBs. The NDA required less funding as a result of the increased revenue explained above and exceptionally large cash receipts for income recognised in the previous year.	(235)
Total increase in resource outturn, compared to 2007-08	**289**

Source: National Audit Office

10 DECC Annual Report and Resource Accounts 2008-09, p.126.

1.7 The Department's total net liabilities at 31 March 2009 were £2,113 million, compared to net assets of £159 million in the restated balance sheet position at 31 March 2008. This change was largely due to a fall in the value of the Department's assets. The assets in the Balance Sheet comprise the Coal Pension Investments[11] amounting to £887 million (£3,252 million at 31 March 2008) and cash at bank and in hand and debtors amounting to £856 million (£393 million at 31 March 2008). The decrease in value of Coal Pension Investments of £2,365 million reflected reduced expected future cash flows as a result of the effects of the economic downturn on the pension schemes' funds, together with £279 million released as payments to the Department.

1.8 The revaluation of the investments was made in response to the Government Actuary's Department (GAD) ongoing triennial actuarial valuation of both coal pension schemes. The provisional results for the Mineworkers' Pension Scheme (MPS) indicated that adverse market conditions had reduced the market value of Scheme assets as at 31 March 2009, and that a transfer of funds was likely to be required from the MPS Investment Reserve to the main MPS Pension Fund. The Department incorporated these provisional results into the valuation of the MPS Investment Reserve and Guarantor's Fund, leading to a reduction of £996 million in the value of the MPS investments. An up-to-date actuarial valuation for the British Coal Staff Superannuation Scheme (BCSSS) was not available by 31 March 2009, but since this scheme has a similar portfolio to the MPS, the Department concluded that the values of the Investment Reserve and Guarantor's Fund for the BCSSS should be reduced by a similar proportion. Therefore the BCSSS Investments were reduced in value by £1,090 million.

1.9 The downward revaluations leave the Investment Reserves and Guarantors' Funds totalling £887 million. If, in future, the Investment Reserves and Guarantor's Funds are eroded to nil as a result of further falls in the value of the Schemes' assets, and the assets of the Guaranteed Fund were to be insufficient to pay guaranteed pension benefits, then the Government would need to make payments to top up the funds. A contingent liability in respect of this guarantee is noted on page 164 of the Annual Report and Accounts.

1.10 The Department's liabilities, including creditors, amounted to £982 million, with £807 million of this relating to sums owed to the Consolidated Fund as a result of excess appropriations in aid, other Consolidated Fund Extra Receipts (CFERs) and the under-spend in net cash requirement explained in paragraph 1.5. The Department also held provisions of £2,879 million, as set out in **Figure 4**.

11 When the coal industry was privatised in 1994, it was agreed that the Government would act as guarantor for the two main pension schemes for coal employees: the British Coal Staff Superannuation Scheme (BCSSS) and the Mineworkers' Pension Scheme (MPS). As part of the agreement pre-privatisation surpluses attributable to British Coal were established in an Investment Reserve, and a 50% share of post-privatisation surpluses are established in a Guarantor's Fund for each scheme, as and when surpluses exist. These reserves are intended to act as a buffer against adverse experience over the 25-year guarantee period, and are released to the Department on behalf of the Government when the Schemes' Trustees determine they are no longer required to meet the Schemes' liabilities.

British Energy and the Nuclear Liabilities Fund

1.11 The Department took over responsibility for British Energy Group plc (British Energy) and the Nuclear Liabilities Fund (NLF), previously deemed a quasi subsidiary and subsidiary of BERR, respectively, following the October 2008 Machinery of Government change.

1.12 The principal object of the NLF is to provide arrangements for funding British Energy's long-term costs of decommissioning and other uncontracted nuclear liabilities. The Government has responsibility to underwrite the NLF in the event that its assets fall short of those British Energy liabilities. In May 2007, 30 per cent of the NLF's entitlement to British Energy's free cashflow was converted into 450 million British Energy shares, which were then sold at a price of 520 pence per share, raising £2.3 billion. In January 2009, the NLF's remaining interest in British Energy was sold, raising a further £4.4 billion. The Department's relationship with the NLF remained unaffected by the sale of British Energy.

Figure 4
Provisions in DECC accounts

Description of provision	Value 31 March 2009 (£m)	Value 31 March 2008 (£m)
Assistance provided to British Energy to meet its contractual historic fuel liabilities. The movement during 2008-09 related primarily to utilisation of the provision in accordance with the forecast payment schedule agreed between British Energy, British Nuclear Fuels Limited and the Department.	2,153	2,320
Liabilities under the concessionary fuel scheme to provide either solid fuel or a cash alternative to beneficiaries of the National Concessionary Fuel Association and British Association of Colliery Miners. The £75 million increase in the provision is due to re-tendering of fuel supply and distribution contracts during the year, where the new contracts now reflect the significant increase in fuel costs of recent years that had not been reflected in the previous contracts (£115 million), offset by utilisation of the provision during 2008-09.	461	386
Liabilities in relation to chronic obstructive pulmonary disease (COPD), vibration white finger (VWF) and other miscellaneous injuries experienced by former British Coal. The £198 million decrease in these liabilities is primarily as a result of the COPD and VWF schemes nearing their estimated 2009-10 completion dates.	196	394
Other miscellaneous liabilities inherited from British Coal.	69	48
Total provisions	**2,879**	**3,148**

Source: National Audit Office

1.13 As at 31 March 2009, the NLF remained in surplus and the Department's accounts disclosed a contingent asset of £4.1 billion (£3.4 billion at 31 March 2008).

Production and audit of Resource Accounts

1.14 The Department produced a combined annual report and accounts for 2008-09, a significant achievement for a Department in its first year of operation. The draft accounts presented for audit were of a good standard as evidenced by the low number of significant adjustments required to produce the final version of the account. The Comptroller and Auditor General was also able to give an unqualified audit opinion.

Production and audit of other accounts within the DECC Departmental Group

1.15 The accounts of the Department's four NDPBs[12] were all prepared in accordance with the accounts preparation and audit timetables and were laid in Parliament before the summer recess deadline. The Comptroller and Auditor General was able to issue unqualified audit opinions on these accounts. However, without qualifying his opinion, on both the NDA and the Coal Authority accounts, the C&AG drew attention to the uncertainties in the likely future costs in respect of the significant long term liabilities recognised as provisions on the balance sheets of each organisation. The NDA's nuclear liabilities provision amounted to £44.5 billion, and the Coal Authority's liabilities for Subsidence, Minewater Treatment and Surface Hazards Claims amounted to £872 million. In both cases, it is not possible to quantify with certainty the settlement of these liabilities, or the impact on the NDA's and Coal Authority's future financial results.

Progress on value for money targets

1.16 As agreed with HM Treasury, DECC aims to deliver savings of £279 million by 2010-11, including £20 million towards the additional £5 billion savings required across government as announced in the Pre-Budget Report 2008. The Department reported £105 million of savings for 2008-09, which met its target, as agreed between DECC, BERR, Defra and the Treasury (targets for BERR and Defra were reduced to compensate).[13] **Figure 5** shows the VfM savings made in key programmes during 2008-09, reported by DECC. DECC is currently identifying areas of its business to be subjected to a new review of value for money, under the Treasury's Public Value Programme. The review will be completed by spring 2010.

12 The Department's NDPBs are: the Nuclear Decommissioning Authority, the Coal Authority, the Civil Nuclear Police Authority and the Committee on Climate Change.

13 DECC 2008-09 Annual Report and Resource Accounts, pp. 84, 87.

Looking ahead

1.17 The Department has been heavily reliant on the operating systems and procedures in place within BERR and Defra for the majority of the 2008-09 financial year. In 2009-10, the Department will need to continue to establish the governance and other key procedures required for the effective operation of the Department, including unifying its IT systems; migrating both financial and payroll data onto one accounting system and one payroll provider; implementing risk management strategies; and appointing non-executive members to the Board and establishing an Audit Committee. In line with the Department's desire to provide effective corporate service support while keeping costs at a minimum, in 2009-10 the finance team will be supported by purchased services from BIS. These services will include both enabling and transactional services covering accounting, commercial, counter fraud, financial governance, internal audit and related systems for which formal Service Level Agreements have yet to be put in place. DECC, along with all other departments, is required to produce its 2009-10 accounts according to International Financial Reporting Standards (IFRS) for the first time. This is a major change to UK Public Sector financial reporting, and the Department's preparations for this are on track so far.

Figure 5
DECC Value for money savings 2008-09

VfM Programmes	VfM savings for 2008-09 (£m)	Summary of VfM Programmes
Nuclear Decommissioning Authority	40	Savings were made by providing incentives to Site Licence Companies, which manage and operate nuclear sites under contract, to achieve savings against an agreed budget baseline.
Cross-departmental initiatives	40	Cross-departmental initiatives have included the IT outsourcing contract and the application of efficient smart working policies.
Sustainable Energy Capital Grants	18	Savings have been sought through re-targeting and re-prioritisation of grant programmes.
Administration	7	Budgets have been cut in order to achieve certain savings each year.

Source: National Audit Office, based on DECC Annual Report and Accounts 2008-09

Part Two

The Department's Capability

2.1 This Part sets out briefly the key building blocks of capability put in place so far. The Department will be subject to its first Capability Review in November 2009, as part of the Cabinet Office's cross-government programme.

The creation of DECC

2.2 The Prime Minister's appointment of the Rt Hon Ed Miliband MP as the first Secretary of State for Energy and Climate Change on 3 October 2008 required the immediate creation of the new Department, bringing together policy areas and staff from the former BERR and Defra. An acting Permanent Secretary, Moira Wallace (subsequently permanently appointed), was identified immediately, and the Prime Minister appointed DECC's other Ministers in the days that followed.

2.3 At DECC's inception, a Transition Team was established, led by a Director with change management experience, who was loaned to DECC by Defra. The Transition Team was tasked with establishing DECC as a functioning department. DECC has commented that there was little guidance available for the establishment of a new government department, either centrally from the Cabinet Office or as lessons learnt from previous exercises. In the first week after its establishment, some assistance was provided by staff from DIUS who had experienced the establishment of that department.

2.4 The immediate focus of the Transition Team was to negotiate the Department's budgets, establish ministerial offices, ensure that basic communications were operating, and manage the merger of the two workforces, including arranging for staff from three locations to move into a single building at Whitehall Place.

2.5 In January this year DECC launched several workstreams within a programme to develop the organisation. These covered structure, strategy, values, ways of working and culture, negotiating and allocating resources, governance, corporate and shared services, "greening DECC", and communications. Corporate structures were agreed early in 2009, and a number of vacant senior positions within that structure were filled in the spring. The programme was completed in July, and has since been superseded by a capability development programme, overseen by the Permanent Secretary, that will develop these workstreams further.

The cost of establishing DECC

2.6 DECC has identified that it has so far spent £12,745,000 on building the department. This figure covers changes needed to the Whitehall Place building and moving staff to it, website development and harmonisation, temporary staff and consultants to assist in the setting up of DECC policies and to assist in the transfer of DECC to Whitehall Place. However, there may be wider costs of the Machinery of Government change that are not captured in this figure, such as temporary operational inefficiencies resulting from the merging of teams and systems. As the Public Administration Select Committee has found in its recent inquiries on machinery of government changes, the costs of these changes are often not clearly identified. Treasury does not provide additional funds for Machinery of Government changes, so the £12,745,000 and any other costs have had to be met from within the Department's existing settlement.

Governance

2.7 The Department is currently recruiting for non-executive members of its Management Board and Audit Committee. A number of senior positions have yet to be, or have only recently been, filled on a permanent basis.

2.8 The Department's corporate governance structure comprises the Management Board; the Resource Accounts Sub-Committee (to be replaced by the Audit Committee); the Strategic Design Board (to become the Operations Sub-Committee); the Pay and Performance Sub-Committee; and the Strategy Board.

2.9 DECC has begun to develop a risk management framework. A Management Board risk register is being prepared to supplement risk registers already held by policy groups. The Department will also maintain a long-term risk register highlighting those risks that need to be maintained in the Department's corporate memory but pose no immediate threat to the organisation. During 2009-10, DECC intends to finalise its risk management framework and embed it throughout the organisation. A risk management policy will be prepared outlining the new arrangements to staff and endorsement sought from the Audit Committee once it is in place.

Strategy

2.10 DECC published a key strategy, the UK Low Carbon Transition Plan, supported by strategies for Renewable Energy, Low Carbon Industry and Transport, in July 2009. This will be the major influence over the strategic direction of the Department's work, but there is more strategic work in the pipeline. The Department is formulating a formal response to the findings of the Wicks Review of Energy Security published in August 2009. The Department intends to build upon the Transition Plan by:

- Developing a strategic roadmap for the UK's energy systems to 2050, to be completed in Spring 2010. This will draw on the Committee on Climate Change's analysis of the pathway through 2030 to 2050.
- Considering to what extent UK emission-reduction policy may need to be strengthened further if international climate change negotiations at Copenhagen in December are successful.
- Analysing and reviewing its delivery systems to ensure that it can deliver what is set out in the Transition Plan, with an initial focus on policies directed at households.

Business planning and performance measurement

2.11 DECC has developed a new suite of objectives to tie in with its strategies and indicators to track performance against them (see Appendix 2). These will develop the indicators used for DECC's PSA and the 3 DSOs it inherited from Defra and BERR. In July 2009 DECC finalised its business plan for 2009-11, covering budgets and milestones by objective. The DECC management board reviews progress against objectives by reference to a monthly report covering latest developments and key risks for each objective.

Shared services

2.12 DECC's creation from BERR and Defra resulted in a department that initially operated on two IT systems and significantly different employment terms and conditions. DECC continues to rely on a number of services inherited from BERR (now BIS) and Defra. HR and correspondence services are provided by BIS and Defra, finance by BIS, facilities by Defra and BIS. Most of these are likely to be temporary solutions, and DECC is currently reviewing its shared services arrangements.

2.13 DECC is in the process of establishing a unified IT system. Having run a mini competition between the two existing suppliers (for BERR and Defra) and a pilot of the proposed new system, the Department anticipates that the new system will be up and running by the end of October.

2.14 DECC has continued to rely on BIS and Defra central correspondence units to handle DECC-related correspondence and public enquiries, except for enquiries on Warm Front, which are now handled within DECC. To March 2009, DECC responded to 43 per cent of letters from MPs and 77 per cent of correspondence from the public within a target 15 days. According to DECC's latest information (June to August), 40 per cent of ministerial correspondence and 56 per cent of officials' correspondence was replied to within 15 days.

Human resources

2.15 A key ambition of DECC's leadership has been to ensure that energy and climate change policy are better joined up than before the establishment of the Department. This is reflected in the corporate structure, which has mixed up elements of the inherited structures from BERR and Defra. It is also reflected in internal communications and staff training. In particular, a 'DECC School' has been established to provide the opportunity for staff to improve skills and share the knowledge gained in their policy areas across DECC, and to better understand the work of other parts of the Department. Over 900 staff members have attended at least one session. DECC records the staff attending, so with staff turnover the numbers attending can exceed the total number of staff in the Department.

2.16 DECC's business planning against the new strategies for 2009-10 identified around 100 vacancies across the Department. The Department therefore undertook a major recruitment exercise over the summer of 2009 to recruit a proportion of these staff. DECC committed to taking part in the first cross Whitehall staff survey in the autumn, and conducted a shorter survey of staff in July to establish an early baseline for the Department. Over two-thirds of staff responded to the July 2009 survey. The majority of staff said they were proud to work for DECC (76 per cent agreed; four per cent disagreed). Most staff felt they had a clear understanding of DECC's objectives (75 per cent agreed; nine per cent disagreed) and felt motivated in their role (74 per cent agreed; ten per cent disagreed). Seventy three per cent of staff had confidence in their line management (nine per cent did not). Only 29 per cent thought DECC operated as a single joined up organisation, against 40 per cent who did not. Many of the issues raised in the survey are covered in the Department's People Strategy, which will be launched in October. It will cover Getting the basics right; Planning and prioritisation; Building a learning culture; Recruiting and developing talent; Effective management; Feedback and reward; Ensuring employee well being; Valuing diversity; Leadership and staff engagement. An action plan is also being developed for issues which fall outside the strategy.

Sustainable Development

2.17 The Department is in the process of recruiting a Sustainable Development Manager, and has yet to produce a formal Sustainable Development Action Plan as required by the Government's Sustainable Development Strategy. However, soon after its establishment DECC put in place a number of 'green' internal initiatives, and since March has worked with the Carbon Trust to establish a carbon management strategy for the organisation, including making its Whitehall headquarters more energy efficient. DECC's performance under the framework for Sustainable Operations on the Government Estate will be published by the Office of Government Commerce in December 2009, alongside the performance of other departments.

Part Three

Performance against targets and objectives

The Department's targets

3.1 This Part considers the Department's performance against its Public Sector Agreements (PSAs) and Departmental Strategic Objectives (DSOs).

- **PSA 27: To lead the global effort to avoid dangerous climate change**. DECC is the lead department for PSA 27. This includes the UK's commitments under the Kyoto protocol to reduce greenhouse gas emissions by 12.5 per cent below 1990 levels in 2012. DECC is also a contributor to PSA 6 ("To deliver the conditions for business success in the UK"), led by BIS, in terms of its work to ensure secure, clean and affordable energy, and this work is covered by DECC's DSO 2.
- **DSO 1: Climate Change tackled internationally and through domestic action to reduce greenhouse gas emissions**.
- **DSO 2: To ensure the reliable supply and efficient use of clean, safe and competitively-priced energy**.
- **DSO 3: To manage energy liabilities effectively and responsibly**.

3.2 The Department assesses progress against each target or objective by reference to whether improvement has been made against a number of indicators. The targets and indicators were inherited from Defra and BERR. With a number of indicators, it is unclear what level of improvement the Department was aiming for. And due to the nature and availability of the underlying data, the progress that has been reported on several indicators does not reflect the period 2008-09, but instead the calendar year 2008 or earlier years.

3.3 For 2009-10 onwards, the Department plans to replace the current DSOs with seven new objectives, and is working with HM Treasury and other departments to agree indicators and delivery arrangements for them. The new objectives are set out in Appendix 2. DECC intends to report progress against these in its 2009 Autumn Performance Report. The NAO will review the reliability of all the Department's data systems for measuring and reporting performance against its new DSOs in 2010.

3.4 The Department is also responsible for targets set by the European Union, covering renewable energy and energy efficiency, which are not referred to within the current PSA or DSO indicators.

- Under the 2009 EU Renewable Energy Directive, the UK is committed to sourcing 15 per cent of its energy from renewable sources by 2020. The UK is required to report against a series of interim targets, the first of which is to source four per cent of energy from renewables by 2011-12. Renewable sources met 2.3 per cent of energy demand in 2008, up from 1.8 per cent in 2007 and 1.5 per cent in 2006. DECC published a Renewable Energy Strategy in July 2009, setting out actions to achieve these targets. These targets replace earlier targets to source ten per cent of electricity from renewables by 2010. DECC estimates that around 30 per cent of electricity sources will have to come from renewables to meet the 2020 target, alongside 12 per cent of heat energy sources and ten per cent of transport energy sources.[14] The UK sourced 5.5 per cent of electricity from renewable sources in 2008, up from 4.9 per cent in 2007, mainly as a result of a 29 per cent increase in onshore wind generation and 67 percent increase in offshore wind generation.[15] The UK sourced 1 per cent of heat from renewable sources in 2008.[16] Targets on renewables will form part of the indicators for DECC's new DSOs (see Appendix 2).
- Under the 2006 EU Energy End Use and Efficiency Directive, the UK is required to make energy savings of nine per cent over the period 2008-16, compared to average consumption between 2001 and 2005. The Government's Energy Efficiency Action Plan 2007 sought to achieve this by 2010.

PSA 27: To lead the global effort to avoid dangerous climate change

Performance against the target

3.5 The Department assesses its performance against the PSA via six individual indictors as set out in **Figure 6** overleaf. Under the HM Treasury performance rating system, the Department could have assessed its performance as 'strong progress' because more than half of the indicators were demonstrating improvement or meeting the success requirement. However, given that forecasts of global CO_2 emissions in 2050 have continued to rise, the Department considers that it has made only 'some progress' in 2008-09[17]. Though not expressly set out in the PSA, DECC's ambition is that global CO_2 emissions in 2050 should be no more than 50 per cent of 1990 levels. This goal has been endorsed by the G8 group of nations and is considered to be the minimum emissions must fall if increases in global average temperatures are to be limited to 2°C above pre-industrial levels[18].

14 HM Government, *The UK Renewable Energy Strategy*, July 2009.
15 DECC press release on energy statistics, 25 June 2009.
16 HM Government, *The UK Renewable Energy Strategy*, July 2009, p.37.
17 DECC, Annual Report and Resource Accounts 2008-09, p51.
18 Intergovernmental Panel on Climate Change, Fourth Assessment Report, 2007.

3.6 Volumes traded on global carbon markets increased significantly between 2007 and 2008, with the EU Emissions Trading Scheme accounting for 57 per cent of that growth. The Scheme represented approximately 60 per cent of traded volumes in 2008. In November 2008 the UK was the first Member State to hold an auction in Phase II of the Scheme, raising over £54 million for the Exchequer.[19]

3.7 DECC considers that the Scheme will be the single most important policy to reduce UK emissions.[20] In March 2009, the National Audit Office reviewed the progress of the Scheme.[21]

Figure 6
Progress against PSA 27 indicators

Indicator	Performance	DECC's assessment of progress since 2007-08
PSA 27: To lead the Global effort to avoid dangerous climate change		**Some progress**
1 Reduce global CO_2 emissions to 2050	Forecasts for emissions to 2050 (published in July 2008 by the International Energy Agency) were seven per cent higher than previous estimates; these forecast that emissions in 2050 will have tripled since 1990.	● No improvement
2 Increase the proportion of the UK capable of sustainable abstraction of water (a measure of successful adaptation to climate change, which may put greater stress on water availability)	As of March 2008, abstraction of water was sustainable in 32 per cent of water catchment areas.	Not Assessed
3 Increase the size of global carbon markets (a proxy measure for a well functioning market helping to reduce global emissions)	Volumes traded in 2008 were 61 per cent higher than in 2007, against DECC's ambition of 7-10 per cent.	● Improvement shown
4 Reduce UK greenhouse gas and CO_2 emissions	Greenhouse gas emissions fell two per cent between 2007 and 2008 (provisional figures). See paragraph 3.4 for progress against renewable energy targets.	● Improvement shown
5 Reduce the greenhouse gas and CO_2 intensity of the UK economy	Both greenhouse gas and CO_2 intensity declined between 2007 and 2008.	● Improvement shown
6 Maintain the cost-effectiveness of government's policy response to climate change, measured as the proportion of emissions reductions from new policies estimated as costing less than the Shadow Price of Carbon	Early results from Full Impact Assessments indicated that 99.5 per cent of emission reductions will cost less than the Shadow Price of Carbon. If Partial Impact Assessments (for policies still in draft stage) are included then 40 per cent of new policies will cost less than the Shadow Price of Carbon.	● Success measure met for 2008-09

Source: National Audit Office, based on DECC Annual Report 2008-09

19 National Audit Office, *European Union Emissions Trading Scheme*, March 2009, p6.
20 UK Low Carbon Transition Plan, p.57.
21 http://www.nao.org.uk/publications/0809/eu_emissions_trading_scheme.aspx

Our survey of industries covered by the Scheme found that it had achieved a functioning carbon market and may have influenced behaviour.[22] Key findings from the survey included:

- Eighty-two per cent of respondents had traded carbon allowances.
- Nine per cent considered the Scheme had had a significant impact on their company's emissions, 55 per cent considered it had had some impact, but 34 per cent believed it had not had any impact.
- Thirty-two per cent indicated that a key benefit of the scheme was that it had raised the importance of CO_2 emissions and energy efficiency at board level.

3.8 The review found that the current price of allowances is insufficient to stimulate major investments in low carbon technologies. The price of allowances fell from a high of approximately €30 per tonne CO_2 in July 2008 to approximately €11 per tonne CO_2 in March 2009.[23] Factors contributing to this may include a decline in industrial production through adverse economic circumstances, and the use of additional credits for investment in carbon reduction projects in the developing world. Prices have increased since to around €15 per tonne CO_2 in September 2009.[24]

3.9 In March DECC published provisional estimates that UK greenhouse gas emissions in 2008 were 623.8 million tonnes carbon dioxide equivalent, two per cent lower than in 2007, and a fall of 20 per cent since 1990.[25] The UK is well placed to exceed its Kyoto target of 12.5 per cent below 1990 levels in 2012. CO_2 emissions, which form part of the greenhouse gas estimate, were provisionally estimated to be 531.8 million tonnes carbon dioxide equivalent in 2008, a two per cent decline since 2007. In April 2009 the Chancellor announced the UK's first three 'carbon budgets' alongside his fiscal Budget, covering the periods 2008-2012, 2013-2017 and 2018-2022, and a revised target to reduce emissions to at least 34 per cent below 1990 emissions by 2018-22. The introduction of the Climate Change, Energy, and Planning Acts in November 2008 has provided the legislative framework for the transition to a low carbon economy. In May, statutory instruments for carbon budgets received Parliamentary approval. The Government's plans for delivering the transition were published in July 2009.[26] The systems for measurement and reporting of UK greenhouse gas emissions were explained in an NAO review in March 2008[27] and the detailed rules for calculating progress towards the carbon budgets came into force in May 2009.[28]

22 National Audit Office, *European Union Emissions Trading Scheme*, April 2009, p8.
23 National Audit Office, *European Union Emissions Trading Scheme*, April 2009, p45.
24 European Energy Exchange.
25 DECC Press Release: Release of 2008 Greenhouse Gas Emissions statistics, 26 March 2009.
26 HM Government, *The UK Low Carbon Transition Plan: National strategy for climate and energy*, July 2009.
27 National Audit Office, *UK greenhouse gas emissions: measurement and reporting*, March 2008.
28 http://www.opsi.gov.uk/si/si2009/uksi_20091257_en_1

3.10 Provisional figures suggest the greenhouse gas intensity of the UK economy declined three per cent from 2007 to 2008.[29] In other words, greenhouse gas emissions fell relative to economic activity. The Department has not set a target for greenhouse gas intensity.

3.11 A key agent to the transition to a low carbon UK is the Carbon Trust. The Trust states that in 2008-09 it directly supported 30,000 customers, helping them achieve up to £277 million in direct saving costs, and leveraged in the region of £300 million of private investment into carbon reduction and low carbon technology projects. In 2007 76 per cent of respondents to an NAO census confirmed that they would not have implemented the same level of carbon savings without the Trust.[30] Brand image and awareness in both the public sector and business community was strong with 53 per cent of people aware of the Trust and its role.[31] Eighty per cent of organisations were satisfied with the service they received from the Trust. The report concluded that the Trust has been largely effective in reducing CO_2 emissions. However, because of funding limitations, the Trust had only been able to work with a relatively small proportion of businesses. By 2007 the Trust had worked with at least 12 per cent of companies with energy bills of over £50,000 a year. Budget 2009 announced an additional £100 million of loans for small and medium-sized businesses to be administered by the Trust.

3.12 DECC reports that 99.5 per cent of policies to reduce emissions are cost-effective, based on a comparison between the economic estimates of costs in full Impact Assessments with the Shadow Price of Carbon for all carbon abatement policies between April 2008 and March 2009. The Shadow Price of Carbon is calculated by DECC and estimates the damage costs of climate change caused by each additional tonne of greenhouse gas emitted. In theory, if emissions reductions cost less than the Shadow Price of Carbon, then the benefits of those reductions will outweigh the costs. However, DECC has recently changed its approach to move away from a valuation based on the damages caused by climate change, and will instead value carbon at a level that is consistent with the Government's targets.[32] This change will be reflected in the DSO indicators for 2009-10.

3.13 The measure of successful adaptation to climate change is assessed by Defra. In an NAO review of July 2009, DECC's self-assessment put it near the forefront of departments in terms of assessing and managing climate change risks to its business. The Department has been working with the energy industry to mitigate risks to energy supply that floods and higher temperatures might bring.[33]

29 Provisional data supplied by DECC.
30 National Audit Office, *The Carbon Trust: Accelerating the move to a low carbon economy*, HC7 Session 2007-08, 22 November 2007.
31 Based on market research commissioned by the Trust in 2006. To the question 'which organisations are you aware of whose role it is to help business reduce carbon dioxide emissions and mitigate climate change?', 53 per cent named the Trust without being prompted.
32 http://www.decc.gov.uk/en/content/cms/publications/lc_trans_plan/lc_trans_plan.aspx
33 National Audit Office, *Adapting to Climate Change*, July 2009.

Reliability of data systems

3.14 The NAO has recently validated the data systems for measuring and reporting performance against PSA 27, as used by Defra / DECC in 2008. The NAO assessed all six indicators within PSA 27 and concluded that they were *broadly appropriate, but required strengthening to ensure that remaining risks are adequately controlled.*[34] The report highlighted a number of data issues including:

- some indicators were dependent on data from third parties that had not been quality assured by those parties, nor verified by Defra/DECC; and
- Indicator 3: *Size of global carbon markets* is difficult to use as a measure of effectiveness due to the Department's limited control over such markets.

3.15 The NAO has not reviewed the reliability of data systems for measuring and reporting performance against the DSOs for 2008-09. In 2007 the NAO reported that the Government's data systems for measuring security of energy supplies were not fit for purpose, as the measure used was too narrow.[35] Since that assessment, a new information service, the Energy Markets Outlook, has been put in place, which is based on a wider set of measures. DECC published the latest Energy Markets Outlook in December 2008.

DSO 1: Climate Change tackled internationally and through domestic action to reduce greenhouse gas emissions

Introduction to DSO 1

3.16 DECC inherited DSO 1 from Defra. Like PSA 27, DSO 1 involves securing international commitments for mitigating climate change by reducing CO_2 emissions, and facilitating adaptation to climate change worldwide. Domestically, it involves reducing greenhouse gas emissions in the UK, in particular by reducing energy consumption and the carbon intensity of production. It also includes the goal of addressing fuel poverty in England. The Department assesses its performance against DSO 1 via six indicators as set out in **Figure 7** overleaf.

34 All six indicators were rated 'Amber (systems)'.
35 National Audit Office, Fourth Validation Compendium Report: Volume 2, HC 22-II Session 2007-08, 19 December 2007.

Performance against the target

3.17 The Department reported that is has made 'some progress' on DSO 1, with one out of the six indicators showing improvement; two holding their position; two showing no improvement; and the final indicator not assessed because it is still in development (see Figure 7).

3.18 The indicator showing improvement related to DECC's progress towards an international agreement to succeed the Kyoto Protocol. DECC reports it has completed four milestones:

- ensuring the UK's position on climate change was reflected in EU negotiating positions for Poznan in December 2008;
- supporting its partners in EU efforts to achieve progress at Poznan;

Figure 7
Progress against DSO 1 indicators

Indicator	Performance	DECC's assessment of progress since 2007-08
DSO 1: Climate Change tackled internationally and through domestic action to reduce greenhouse gas emissions		**Some progress**
1a Reduce global CO_2 emissions to 2050	See indicator 1 under PSA 27.	● No improvement
1b Achieve milestones towards a post-2012 international agreement to succeed the Kyoto Protocol	4 milestones have been completed, and 7 are ongoing.	● Improvement shown
2 Reduce the number of households in England that need to spend more than 10 per cent of income to maintain an adequate heating regime	Total number of households in fuel poverty in the UK increased by 1.5 to 3.5 million (2.4 million in England) from 2004 to 2006. Projections indicate a further 1.2 million households may be in fuel poverty in England in 2008.	● No improvement
3a Reduce UK energy consumption	Latest statistics[1] confirm that UK energy consumption fell in 2008, by 1.1 per cent; overall energy consumption was 5.8 per cent higher than in 1990.	● Position maintained
3b Reduce carbon intensity of UK energy consumption	Carbon intensity of energy production declined 1.5 per cent from 2007 to 2008.[2] See paragraph 3.4 for progress against renewable energy targets.	● Position maintained
4 Help the International community to adapt to climate change	The indicator is still under development and progress has not yet been assessed.	Not assessed

Source: National Audit Office, based on DECC Annual Report 2008-09

NOTES

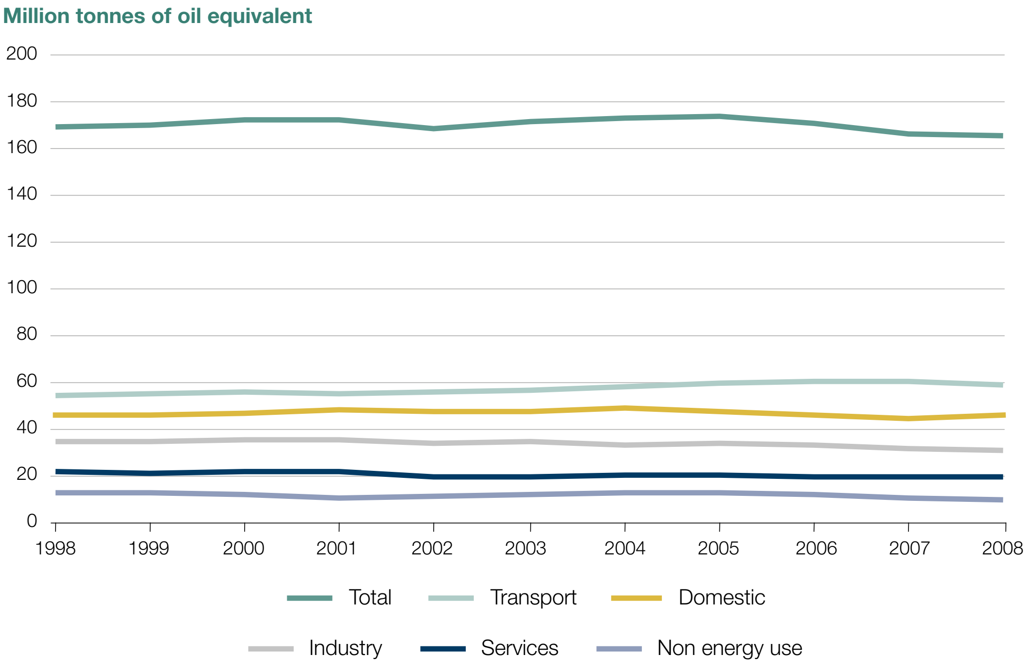
1 DECC, *Digest of UK Energy Statistics*, July 2009.

2 Provisional data supplied by DECC.

- securing EU agreement to the 2020 Climate and Energy package in the December 2008 European Council; and
- developing a UK route map to securing a comprehensive global agreement at Copenhagen in December 2009, which DECC published in June 2009.[36]

3.19 DECC reports that the position on indicators relating to the UK's energy consumption and the UK's Carbon intensity of energy consumption has been maintained. DECC does not have targets for these indicators. Statistics published since DECC's Annual Report indicate that UK energy consumption[37] fell by 1.1 per cent between 2007 and 2008, but that consumption was 5.8 per cent higher than in 1990. **Figure 8** updates Figure 7 in the Annual Report with this latest data.[38] Provisional data indicate that carbon intensity of energy production declined 1.5 per cent from 2007 to 2008.[39]

Figure 8
UK energy consumption, 1998-2008



Source: Digest of UK Energy Statistics, July 2009

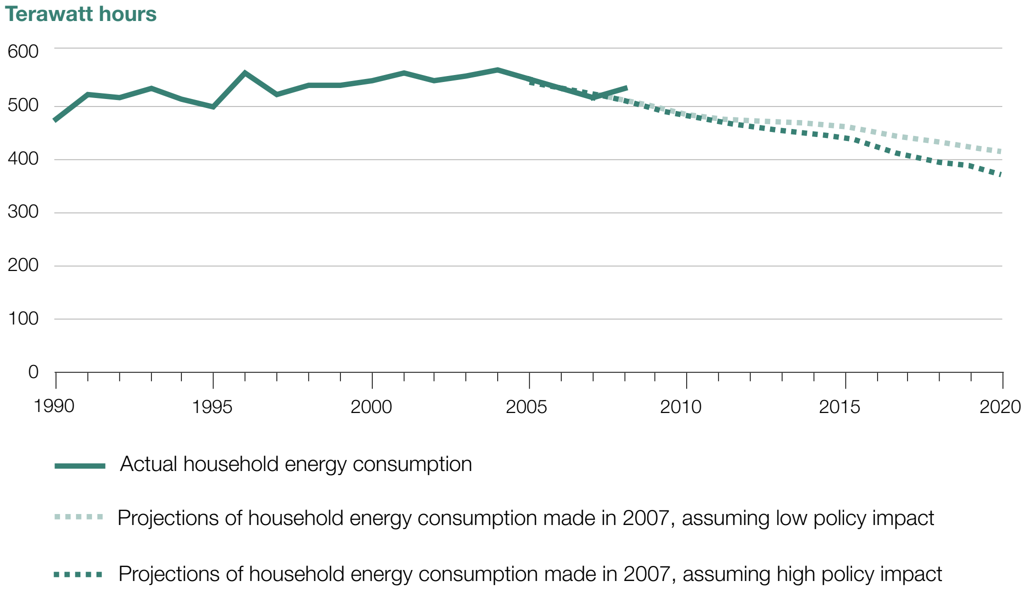
36 DECC, *The Road to Copenhagen*, June 2009. The Departments' milestones and measures are documented in more detail in the Departments Annual report, pp.63-64.
37 Final energy consumption (energy consumption used by final users; i.e. not used for transformation into other forms of energy), fell by 0.5 per cent in 2008.
38 DECC, Digest of UK Energy Statistics, July 2009.
39 Provisional data supplied by DECC.

3.20 In July 2008 the National Audit Office report on the Government's Programmes to reduce household energy consumption found that programmes such as obligations on energy suppliers to promote energy efficiency measures (previously known as the Energy Efficiency Commitment and since 2008 known as the Carbon Emissions Reduction Target) and tighter Building Regulations had contributed to improvements in household energy efficiency but that such improvements had struggled to offset rising demand.[40] Until 2004, overall household energy consumption had risen. Household energy consumption then fell during 2005-2007, and the report concluded that if such a downward trend continued, households' share of government's targets for energy consumption could be met. However, latest statistics show that energy consumption in households rose by three per cent between 2007 and 2008, against government projections of continued decline (**Figure 9**).[41] Though not referred to in the DSO, the Government has set a target to improve household energy efficiency in England by at least 20 per cent between 2000 and 2010.[42] The report highlighted a number of risks, including:

- a lack of information on the extent of compliance with energy efficiency standards within Building Regulations;
- concerns about the capacity of the energy efficiency industry to meet the installation rates required under the Carbon Emissions Reduction Target; and
- a significant gap between householder awareness and action on energy issues.

Figure 9

Household energy consumption over time, and government projections



Source: Digest of UK Energy Statistics July 2009, Energy White Paper 2007 projections

40 National Audit Office, *Programmes to reduce household energy consumption*, HC 787 Session 2007-2008, 2 July 2008.
41 http://www.decc.gov.uk/en/content/cms/news/pn085/pn085.aspx
42 Housing Act 2004.

3.21 DECC's indicator on fuel poverty showed no improvement, with early projections suggesting an increase in the number of households in fuel poverty in 2008. The measure used by DECC depends upon levels of household income, fuel prices, and the amount of fuel needed to keep homes warm. The latter is targeted by DECC's primary fuel poverty policy, the Warm Front scheme. In February 2009 a National Audit Office report on Warm Front found that it had helped to improve the energy efficiency of over 635,000 households between June 2005 and March 2008.[43] Customer satisfaction is high, with 86 per cent of assisted households either highly satisfied or satisfied with the work done. The prices charged for most jobs are very competitive. The report concluded that delivery of the scheme had been largely effective, but that there were inefficiencies in how the scheme was targeted:

- Fifty seven per cent of vulnerable households in fuel poverty did not qualify for the scheme as they do not claim the relevant benefits.
- Seventy five per cent of households who qualified were not necessarily in fuel poverty.
- Between June 2005 and March 2008 the scheme gave out £34 million in grants to households whose properties were already comparatively energy efficient.

The report also found that an increasing number of customers were being required to contribute to the cost of the work carried out (nearly 25 per cent of customers in 2007-08). This was because the work to be carried out exceeded the maximum grant available. Applicants for grants were not assessed on their ability to pay. DECC has since increased the maximum grant and reports that since April 2009 only 10 per cent of applications required a contribution.

3.22 Since the NAO report was published, the Department has renegotiated terms with its contractor, eaga, with the intention of improving systems for consumer complaints and control of payments, and limiting eaga's share of scheme profits. It has also increased the level of grants payable.

DSO 2: To ensure the reliable supply and efficient use of clean, safe and competitively-priced energy

Introduction to DSO 2

3.23 DECC inherited DSO 2 from BERR. The Department has measured performance against this objective by reference to seven indicators, as set out in **Figure 10** overleaf.

Performance against the target

3.24 The Department considers that it has made 'some progress' on DSO 2 with three out of the seven indicators showing improvement (see Figure 10). Two of the three indicators showing improvement related to carbon emissions and carbon intensity, already covered by PSA 27 and DSO 1.

43 National Audit Office, *The Warm Front Scheme*, HC 126 Session 2008-09, 4 February 2009.

Figure 10
Progress against DSO 2 indicators

Indicator	Performance	DECC's assessment of progress since 2007-08
DSO 2: To ensure the reliable supply and efficient use of clean, safe and competitively-priced energy		Some progress
1a Reduce the CO_2 intensity of UK economy	Please see PSA 27 indicator 5	Improvement shown
1b Reduce total UK CO_2 emissions	Please see PSA 27 indicator 4	Improvement shown
2a Improve the de-rated peak capacity margin for electricity and gas (a measure of the security of energy supply)	Electricity: over 2008-09 the projected de-rated capacity margins have risen for the three winter periods disclosed (2009-10; 2013-14; and 2014-15). Gas: the 2008 estimated de-rated capacity margin for winter 2009-10 fell from 7 to 6 per cent. Estimates for winter 2010-11 onwards have risen.	Improvement shown
2b Reduce customer minutes lost on GB distribution networks for gas and electricity (a measure of the reliability of energy supply)	Electricity: 2007-08 figures, which are the latest available, improved with a nine per cent reduction in the number of customer minutes lost compared to 2006-07. Gas: total non-contractual gas supply interruptions per 100 customers increased to 2.4 in 2007-08 from 2.1 in 2006-07.	Position maintained
3a Increase the competitiveness of industrial gas and electricity prices compared to the median of 15 EU nations	Estimated data for the final six months of 2008 indicate that UK industrial electricity prices were generally above the EU-15 median level, while UK industrial gas prices were below the median.	Position maintained
3b Reduce the number of households in England that need to spend more than 10 per cent of income to maintain an adequate heating regime	See indicator 2 for DSO 1	No improvement
4 Maintain an absence of significant safety related incidents at nuclear sites	During 2008-09 72 incidents at UK nuclear facilities were reported. Using an internationally accepted rating system from 0 to 7, where 7 is a major accident, 58 were deemed to have no safety significance (level 0), 14 were rated as anomalies (level 1), and one was rated as an incident (level 2).	Position maintained

Source: National Audit Office, based on DECC Annual Report 2008-09

3.25 The other indicator showing improvement relates to security of supply, and results from the Department's estimates of future demand and capacity of supply. The de-rated peak capacity margin compares the expected peak winter demand for electricity and gas against an estimate of the maximum available supply of electricity and gas. Forecasts of demand to 2014-15 have fallen due to the impact of the recession, and forecasts of supply have risen, thanks to new gas power stations due to come online and new gas import and storage facilities being built.[44] DECC does not have targets for these indicators; a higher capacity margin is not necessarily better if the cost of achieving it outweighs the benefit. Around 16 power stations representing roughly 25 per cent (18 gigawatts) of generating capacity are scheduled to close by 2018, with further closures to come after that date. DECC reports that 20.5 gigawatts of new generating capacity is under construction or with planning consent.[45] The Department is due to publish a formal response to Malcolm Wicks' Review of Energy Security, which was published in August.

3.26 The Department considers that it has maintained its position on the indicators relating to the reliability of energy supply. Ofgem statistics reproduced in DECC's Annual Report show the average number of minutes of electricity supply lost per customer per year, and number of non-contractual reported interruptions to gas supply per 100 customers per year.[46] DECC does not have targets for these indicators. The figures are for 2007-08, as Ofgem has not yet collated figures for 2008-09. The position on indicators for competitiveness of gas and electricity prices was maintained; DECC's ambition is that UK prices should not move substantially above the EU median.

3.27 The Department considers that it has maintained its position on nuclear safety. The 14 level 1 and one level 2 incidents that occurred in 2008-09 compare with eight level 1 incidents in 2007-08 and ten level 1 incidents in 2006-07 (and no level 2 incidents in either 2007-08 or 2006-07).[47]

3.28 The measure of fuel poverty shows a declining position, and has been discussed under DSO 1.

DSO 3: To manage energy liabilities effectively and responsibly

Introduction to DSO 3

3.29 DECC inherited DSO 3 from BERR. The objective covers by far the largest area of the Department's costs (78 per cent of gross costs). The Department assesses its performance against DSO 3 via four indicators (**Figure 11** overleaf).

3.30 DECC's work on energy liabilities also includes management of the National Concessionary Fuel Scheme, Coal Authority, and international work to assist former Soviet Union and Eastern European countries in addressing nuclear legacy issues and to reduce the global threat posed by the potential spread of weapons and materials of mass destruction. These areas are not covered by indicators under DSO 3.

44 DECC Annual Report and Resource Accounts 2008-09, p.69 and p.39.
45 HM Government, *The UK Low Carbon Transition Plan*, July 2009.
46 DECC Annual Report and Resource Accounts 2008-09, pp. 70-71.
47 Nuclear Decommissioning Authority, Annual Report and Resource Accounts 2008-09, 2007-08, 2006-07.

Figure 11
Progress against DSO 3 indicators

Indicator	Performance	DECC's assessment of progress since 2007-08
DSO 3: To manage energy liabilities effectively and responsibly		Strong progress
1a Reduce UK civil nuclear liabilities at least in line with agreed and published Nuclear Decommissioning Authority business plans	The Nuclear Decommissioning Authority has reported that it will achieve at least 75 per cent of its lower level metrics in this area, which relate to specific milestones at decommissioning sites.	● Improvement shown
2 Deliver minimum value for money saving on decommissioning costs equivalent to three per cent per annum averaged over the three years beginning 2008-09	The Nuclear Decommissioning Authority has targeted the achievement of two per cent value for money savings for 2008-09, and estimates that it achieved 4.2 per cent savings.	● Improvement shown
3 Reduce the risk associated with high hazards by progressively mitigating them and ensuring radioactive waste continues to be put into a passively safe form	The Nuclear Decommissioning Authority has reported that it will achieve at least 75 per cent of its lower level metrics in this area, which relate to hazard reduction and waste processing.	● Improvement shown
4 Achieve completion of the Chronic Obstructive Pulmonary Disease Coal Health Compensation scheme by the Aspirational Scheme End Date	DECC has shown a continuous reduction in the number of outstanding claims from the start of compensation scheme.	● Improvement shown

Source: National Audit Office, based on DECC Annual Report 2008-09

Performance against the target

3.31 The Department considers that it made 'strong progress' against DSO 3 in 2008-09, with all four indicators showing improvement (Figure 11). Progress against Indicator 4 was delivered by DECC, with Indicators 1, 2 and 3 delivered by the Nuclear Decommissioning Authority.

3.32 DECC did not achieve the Aspirational Scheme End Date of February 2009 for completion of the Chronic Obstructive Pulmonary Disease Coal Health Compensation scheme. DECC has agreed a new target with the Court overseeing the scheme, and aims to resolve the remaining claims by the end of 2010.

3.33 The Nuclear Decommissioning Authority has reported that it is on track to deliver against its DSO indicators. The key feature of the Authority's decommissioning plans is the contracting out of the management of nuclear sites to the private sector. Sixteen of nineteen sites are now under private sector management, and competition for the remaining sites is scheduled for 2011-12.[48] Contracting for the management of the Low Level Waste Repository at Drigg was completed in March 2008. Contracting for the management of Sellafield (including Calder Hall, Capenhurst and Windscale sites), which accounts for 55 per cent of the UK's total civil public sector nuclear liability, was completed in November 2008.

48 Nuclear Decommissioning Authority, Annual Report and Resource Accounts 2008-09, p.15.

3.34 The Authority reports that its target of two per cent value for money savings for 2008-09 will be achieved. In 2008-09 the Nuclear Decommissioning Authority started the process for auctioning surplus land to help fund decommissioning. Auctions have generated £387 million so far, with more auctions under way.[49]

3.35 In January 2008 the NAO reported on the work of the Authority.[50] Some updated information in the areas of the report's key findings is set out below:

- The Authority's estimate for the cost of decommissioning and cleaning up all sites has continued to increase and now stands at £44.5 billion (discounted prices).[51] This represents an increase of £404 million on estimates from 2007-08. The estimated cost of decommissioning and cleaning-up all sites had risen from £30.6 billion in 2005-06 to £44.1 billion in 2007-08. Of the latest increase, £154m resulted from revised estimates made at the Low Level Waste Repository at Drigg, including a re-appraisal of the site's lifetime plans by the private sector management who took over on 31 March 2008. The new management at Sellafield are currently conducting a re-appraisal of lifetime plans there, and aim to produce new cost estimates in 2010.

- The Authority has competed two new contracts, for the management of the Low Level Waste Repository (signed 31 March 2008) and of Sellafield (signed 24 November 2008). The NAO report had recommended that the Authority incorporate more output based measures in its contracts. The Low Level Waste Repository contract, which was already largely finalised by the time of the NAO report, is based on cost reimbursement with the contractor being paid an additional fee based on performance. The Authority has made provision for the contractor to propose, or the Authority to request, that certain packages of work to be undertaken in future be remunerated on a different basis where this demonstrates value for money, for example, fixed-price which would allow more risk to be transferred to the contractor gradually over time. The Sellafield contract is again based on cost reimbursement plus performance measures, but has the scope for more output based measures to be included over time.

- There remains uncertainty over income, and in the past such uncertainty has caused decommissioning work to be cancelled. In 2008-09 the Authority received more income overall than it had forecast, due to higher sales from sites still capable of generating electricity and increased income from waste and reprocessing contracts. The increased income from waste and reprocessing was due to a change in the timing of the recognition of the income.

49 Nuclear Decommissioning Authority, Annual Report and Resource Accounts 2008-09, p.16.
50 National Audit Office, *The Nuclear Decommissioning Authority: Taking forward decommissioning*, HC 238 Session 2007-08, January 2008.
51 Nuclear Decommissioning Authority, Annual Report and Resource Accounts 2008-09, p.26.

Appendix One

Recent NAO work on energy and climate change

Value for Money reports

Title	Date	Link
Addressing the environmental impacts of Government procurement HC 420, Parliamentary Session 2008-09	April 2009	http://www.nao.org.uk/publications/0809/addressing_sustainable_procure.aspx
The Warm Front Scheme HC 126 2008-2009	February 2009	http://www.nao.org.uk/publications/0809/the_warm_front_scheme.aspx
Programmes to reduce household energy consumption HC 1164, Parliamentary Session 2007-08	July 2008	http://www.nao.org.uk/publications/0708/household_energy_consumption.aspx
Protecting consumers? Removing retail price controls HC 342, Parliamentary Session 2007-2008	March 2008	http://www.nao.org.uk/publications/0708/protecting_consumers_removing.aspx
The Nuclear Decommissioning Authority: Taking forward decommissioning HC 238, Parliamentary Session 2007-08	January 2008	http://www.nao.org.uk/publications/0708/the_nuclear_decommissioning_au.aspx
The Carbon Trust: accelerating the move to a low carbon economy HC 7, Parliamentary Session 2007-08	November 2007	http://www.nao.org.uk/publications/0708/the_carbon_trust_accelerating.aspx
Coal Health Compensation Schemes HC 608, Parliamentary Session 2006-07	July 2007	http://www.nao.org.uk/publications/0607/coal_health_compensation.aspx
Building and maintaining river and coastal flood defences in England HC 528, Parliamentary Session 2006-07	June 2007	http://www.nao.org.uk/publications/0607/building_and_maintaining_river.aspx
Reducing the reliance on landfill in England HC 1177, Parliamentary Session 2005-06	July 2006	http://www.nao.org.uk/publications/0506/defra_reducing_the_reliance_o.aspx
The restructuring of British Energy HC 943, Parliamentary Session 2005-06	March 2006	http://www.nao.org.uk/publications/0506/restructuring_of_british_energ.aspx
The Office of Gas and Electricity Markets: Sale of gas networks by National Grid HC 804 2005-06	February 2006	http://www.nao.org.uk/publications/0506/sale_of_gas_networks_by_nation.aspx

Reviews for the Environmental Audit Select Committee

Title	Date	Link
Adapting to climate change	July 2009	http://www.nao.org.uk/publications/0809/adapting_to_climate_change.aspx
European Union Emissions Trading Scheme	April 2009	http://www.nao.org.uk/publications/0809/eu_emissions_trading_scheme.aspx
Renewable energy: options for scrutiny	July 2008	http://www.nao.org.uk//idoc.ashx?docId=eacd6384-ef37-452b-bf9d-82e37a6952de&version=-1
Transport and the environment: options for scrutiny	May 2008	http://www.nao.org.uk//idoc.ashx?docId=122ca14a-69dd-48f8-b5cf-b3e1c64bd258&version=-1
UK greenhouse gas emissions: measurement and reporting	March 2008	http://www.nao.org.uk//idoc.ashx?docId=34f796e2-fe97-4e8b-9caa-e71b56b2a30c&version=-1
Energy consumption and carbon emissions in government	December 2007	http://www.nao.org.uk//idoc.ashx?docId=659668eb-07c6-4ad4-bd0b-af325c1eb18b&version=-1
The Climate Change Levy and Climate Change Agreements	August 2007	http://www.nao.org.uk//idoc.ashx?docId=49076620-f5c2-48a5-bd39-08e399d2e6da&version=-1
Central Government support for Local Authorities on Climate Change	May 2007	http://www.nao.org.uk//idoc.ashx?docId=b2d6147c-feb5-4849-8add-32c3d295aa11&version=-1
Cost effectiveness analysis in the 2006 climate change programme review	January 2007	http://www.nao.org.uk//idoc.ashx?docId=8ae9200f-3212-4022-b9eb-ef8006d5b0a5&version=-1
Emissions projections in the 2006 climate change programme review	December 2006	http://www.nao.org.uk//idoc.ashx?docId=65a1cc33-67dc-49ec-aa2f-81ec4db0dcc5&version=-1
Climate change policy: options for scrutiny	April 2006	http://www.nao.org.uk//idoc.ashx?docId=b08f5914-93a7-4fb1-971b-ede119771dbe&version=-1

Appendix Two

Departmental Strategic Objectives and indicators for 2009-10 onwards

DECC has worked up a new set of seven DSOs and related indicators with the Treasury, these are subject to formal agreement.

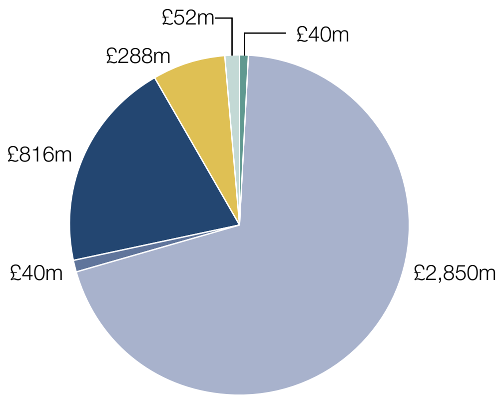
DSO/PSA	Indicators
DSO 1: Secure global commitments which prevent dangerous climate change	1a Global CO_2 emissions to 2050 1b Size of global carbon market 1c Milestones towards a post-2012 international agreement
DSO 2: Reduce greenhouse gas emissions in the UK	2a Total UK greenhouse gas emissions 2b. Carbon intensity of electricity generation 2c. UK energy consumption 2d. Proportion of emissions reductions from new policies below the Shadow Price of Carbon 2e. Proportion of energy produced from renewable sources
DSO 3: Ensure secure energy supplies	3a Number of serious disruptions to energy supply 3b Confidence in future security of supply – based on suite of six indicators reflecting different elements of projected security of supply including spare capacity, diversity, and reliability 3c Industrial gas and electricity prices compared to EU-15 median 3d. Absence of significant nuclear safety related incidents
DSO 4: Promote fairness through our climate and energy policies at home and abroad	4a. Number of households needing to spend more than 10% of income on fuel to keep warm 4b. “Fairness of deal” for residential energy consumers 4c. Proportion of emissions reductions from new policies below the Shadow Price of Carbon

DSO/PSA	Indicators
DSO 5: Ensure that the UK benefits from the business and employment opportunities of a low carbon future	5a Greenhouse gas intensity of the UK economy, illustrated by divergence of GDP and UK greenhouse gas emissions 5b Level of investment in innovation (early stage Research and Development and later stage Demonstration and Deployment) within the low carbon energy sector
DSO 6: Manage energy liabilities effectively and safely	6a Reduction in UK civil nuclear liabilities at least in line with agreed and published Nuclear Decommissioning Authority business plans 6b Delivering minimum value for money savings on costs equivalent to three per cent per annum averaged over the three-year CSR07 period from 2008-09 6c Reduction of the risk associated with high hazards by progressively mitigating hazards and ensuring radioactive waste continues to be put into a passively safe form. 6d Progress on completion of the Chronic Obstructive Pulmonary Disease Coal Health Compensation scheme 6e Significant nuclear safety related incidents
DSO 7: Develop the Department's capability, delivery systems and relationships so that we serve the public effectively	7a Stakeholder opinion of DECC 7b Consumer experience of DECC's public-facing householder policies 7c Consumer Mechanisms reported accurately for national accounts and departmental reporting, with a clear methodology in place by the winter supplementary estimates

Appendix Three

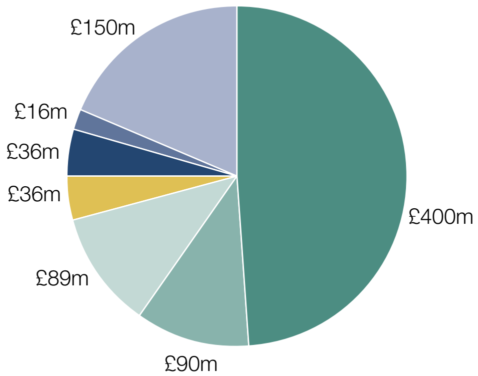
DECC operating costs in 2008-09

Total Operating Costs (£4,085m)



- Grant in Aid to the Nuclear Decommissioning Authority[1]
- Grant in Aid to the Coal Authority (£37m), Committee on Climate Change (£2m), Civil Nuclear Policy Authority (£1m)
- Funding for programmes and partners (see adjoining chart)
- Non-cash items (primarily changes in the provision for nuclear and coal liabilities)
- Staff costs
- Non-staff administration costs

Funding for programmes and partners (£816m)



- Fuel Poverty
- Carbon Trust
- Environmental Transformation Fund
- Global Threat Reduction Programme
- Energy Saving Trust
- Climate Change Research
- Other

Source: National Audit Office, based on DECC Annual Report 2008-09

NOTE

1 In 2008-09 the Department paid £2,850 million in Grant in Aid to the Nuclear Decommissioning Authority, but received £1,952 million from the Authority resulting from commercial income for electricity generation, nuclear fuel manufacturing and spent fuel processing. The net cost to the Exchequer was £898 million.

Appendix Four

DECC and its delivery partners

Department of Energy and Climate Change

National Climate Change and Consumer Support

Directorates:

- National Climate Change
- Energy Efficiency and Fuel Poverty
- Fuel Poverty Review
- Communications

Energy Markets and Infrastructure

Directorates:

- Energy Strategy and Futures
- Energy Resilience and Risk
- Energy Development
- Office for Renewable Energy Deployment
- Office for Nuclear Development
- Cleaner Fossil Fuels

Energy and Climate Change International

Directorates:

- International climate change negotiations
- International energy, technology & carbon markets

DECC Chief Scientific Adviser

Directorates:

- Science and innovation

Corporate Support and Shared Services

Directorates:

- Strategy & Office of Climate Change
- Finance
- HR
- Governance
- Chief Economist
- Legal

Executive NDPBs

- Civil Nuclear Police Authority
- Coal Authority
- Committee on Climate Change
- Nuclear Decommissioning Authority

Advisory NDPBs

- Advisory Committee on Carbon Abatement Technologies
- Committee on Radioactive Waste Management
- Fuel Poverty Advisory Group
- Nuclear Liabilities Financing Assurance Board
- Renewables Advisory Board
- UK Chemical Weapons Convention National Advisory Committee

Sponsored partners

- Carbon Trust
- Energy saving Trust

Other delivery partners

- British Energy Group Plc
- Environment Agency
- Nuclear Liabilities Fund
- Ofgem
- Pilot Task Force for Oil and Gas
- UK Coal Forum

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