



National Audit Office

DEPARTMENTAL OVERVIEW

The performance of the
Department of Energy &
Climate Change 2012-13

NOVEMBER 2013

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Our public audit perspective helps Parliament hold government to account and improve public services.

The National Audit Office scrutinises public spending for Parliament and is independent of government. The Comptroller and Auditor General (C&AG), Amyas Morse, is an Officer of the House of Commons and leads the NAO, which employs some 860 staff. The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively, and with economy. Our studies evaluate the value for money of public spending, nationally and locally. Our recommendations and reports on good practice help government improve public services, and our work led to audited savings of almost £1.2 billion in 2012.

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Introduction

Aim and scope of this briefing

- 1** The primary purpose of this report is to provide the Energy & Climate Change Select Committee with a summary of the Department of Energy & Climate Change's activity and performance since April 2012, based primarily on published sources, including the Department's own accounts and the work of the National Audit Office (NAO).
- 2** Part One of the report focuses on the Department's activity over the past year. Part Two concentrates on NAO analyses of that activity.
- 3** The content of the report has been shared with the Department to ensure that the evidence presented is factually accurate.

Part One

About the Department

The Department's responsibilities

1.1 The Department of Energy & Climate Change (the Department) sets UK energy policy goals and the framework for achieving them. It works to make sure the UK has secure, clean, affordable energy supplies and promotes international action to mitigate climate change. Its stated priorities in 2012-13 were to:

- support investment in the UK's energy infrastructure – including through the Energy Bill 2012-2013, which will set in place the framework to bring forward the £110 billion needed in electricity infrastructure over the next decade;
- support consumers and keep energy bills down; and
- promote action in the EU and internationally to maintain energy security and mitigate dangerous climate change.

How the Department is organised

1.2 The Department is headed by the Secretary of State for Energy and Climate Change, who chairs the Departmental board. The board forms the collective strategic and corporate leadership of the Department, bringing together ministers and senior civil servants with non-executive directors. Its responsibilities include setting corporate strategy, managing risks, resource planning, overseeing performance, and developing capability and management information. Since June 2012, the board has been supported by an executive committee chaired by the Permanent Secretary, which focuses on the Department's operational management.

1.3 The board has experienced considerable turnover in the past year:

- In March 2013, Michael Fallon MP became Minister of State for Energy in addition to continuing his role as a Minister of State at the Department for Business, Innovation & Skills.
- Baroness Verma replaced Lord Marland as Parliamentary Under-Secretary of State for Energy & Climate Change from September 2012.
- Moira Wallace was replaced by Phil Wynn Owen as acting Permanent Secretary and Accounting Officer from October 2012, until Stephen Lovegrove was appointed Permanent Secretary and Accounting Officer in February 2013.
- Martin Stewart replaced Paul Walsh as the lead non-executive director. The Department is also currently recruiting a fourth non-executive director.

1.4 From October 2013, the Department will operate under a new structure (**Figure 1**) with changes to all four of its operational groups. Simon Virley is the only director-general in post at 1 April 2012 who remains in post at October 2013.

1.5 There has been stability in the senior responsible officers for nine of the Department's eleven major projects since April 2012. Jonathan Mills replaced Jonathan Brearley as the director and senior responsible officer of Electricity Market Reform in August 2013 and Jon Booth replaced Tracy Vegro as the senior responsible officer of Green Deal in October 2013.

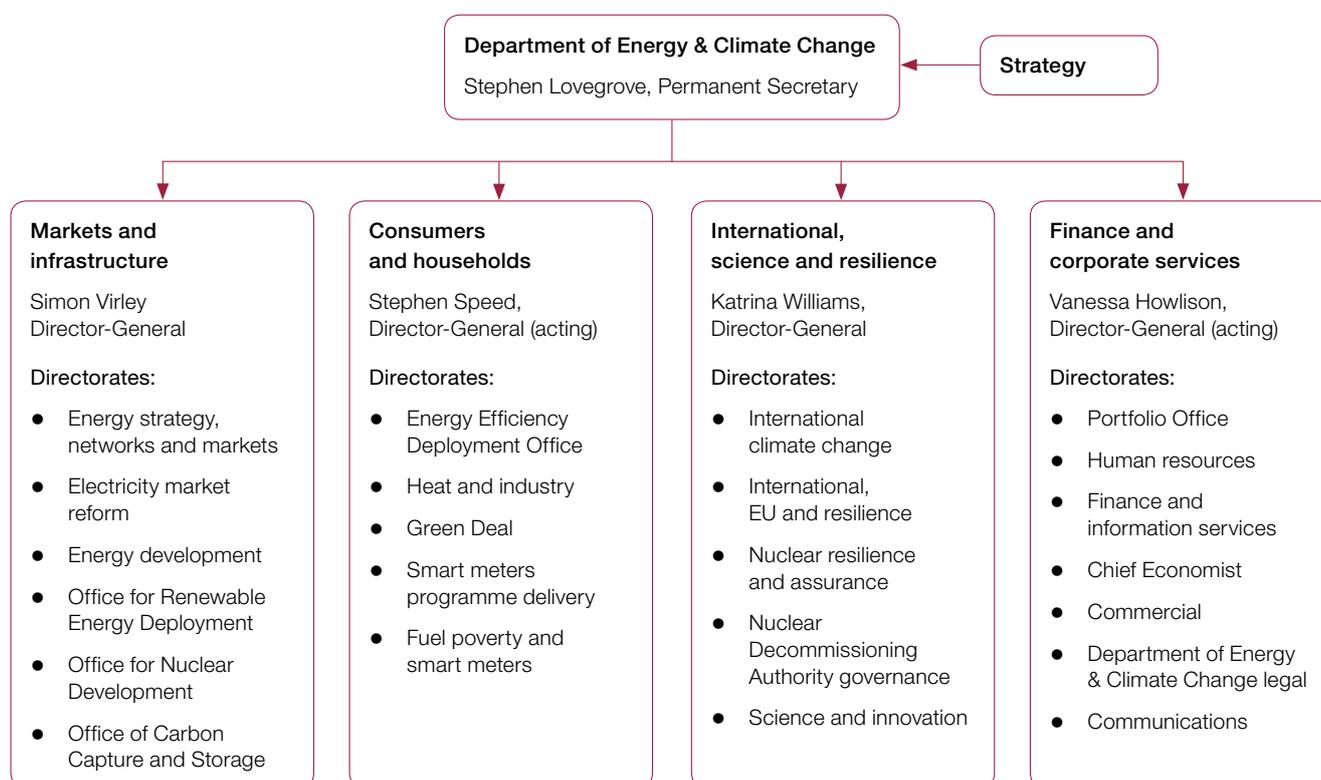
1.6 The Department has responsibility for seven non-departmental public bodies – three advisory and four executive (see Appendix One). The largest of the bodies is the Nuclear Decommissioning Authority (NDA), which has responsibility for decommissioning the UK's civil nuclear legacy, with limits to its delegated spending authority as set out in its framework document. For accounting purposes the Department's advisory non-departmental bodies are classed as part of the core Department, while the four executive non-departmental bodies are part of the Departmental group. The Department also works with a number of sponsored partners such as the Carbon Trust; with a wholly owned public corporation, the National Nuclear Laboratory; and also with the Office of Gas and Electricity Markets, a non-ministerial department.

Where the Department spends its money

1.7 In 2012-13 the core Department spent £4.3 billion compared with £3.6 billion in the previous year. The Department's expenditure and income are predominantly driven by the business of the NDA (**Figure 2** on page 8). In 2012-13 grant-in-aid to the NDA represented 73 per cent (£3.2 billion) of the core Department's expenditure. The net cost to HM Treasury of funding the NDA in 2012-13 was £2.1 billion, as the NDA surrendered £1.1 billion of cash receipts from its commercial activities to the Treasury. The Department's funding for the NDA increased between 2011-12 and 2012-13, from £2.7 billion to £3.2 billion.

Figure 1

How the Department is organised (from October 2013)



Notes

- 1 The Consumers and Households Group is the former International Climate Change and Energy Efficiency Group without the International Climate Change directorate.
- 2 The Markets and Infrastructure Group is the former Energy, Markets and Infrastructure Group without the International, EU and Energy Security directorate.
- 3 The two international directorates, the Nuclear Resilience and Assurance directorate, Nuclear Decommissioning Authority governance directorate, and the Science and Innovation directorate form the new International, Science and Resilience Group.
- 4 Angie Ridgwell will replace Vanessa Howlison as director-general of Finance and Corporate Services from November 2013.

Source: Department of Energy & Climate Change

Figure 2
Departmental expenditure and income

	Core Department		Departmental group	
	2011-12 (£m)	2012-13 (£m)	2011-12 (£m)	2012-13 (£m)
Administration costs	115	120	236	248
Programme costs				
Grant-in-aid to Nuclear Decommissioning Authority	2,698	3,157	–	–
Grant-in-aid to other non-departmental public bodies	33	28	–	–
Movement in provisions	179	376	4,418	6,453
Scheme programme costs	436	514	436	514
Other programme costs	123	151	2,503	2,315
Gross expenditure	3,584	4,345	7,593	9,530
Income	-1,264	-1,202	-1,048	-943
Net expenditure	2,320	3,143	6,545	8,587

Notes

- 1 Totals do not sum due to rounding.
- 2 The core Department includes the advisory non-departmental public bodies. The Departmental group includes the core Department and the four executive non-departmental public bodies.
- 3 Other programme costs are mainly made up of expenditure on Official Development Assistance and on the Department's schemes. These are detailed further in Figure 3.
- 4 The income figure for the core Department mainly comprises the cash receipts collected by the NDA in the year for surrender to HM Treasury (£1,223 million in 2011-12, £1,085 million in 2012-13). The Departmental group's income includes income earned in the year by the NDA rather than cash receipts. This income has fallen due to reduced electricity generation following closure of publicly owned Magnox reactors at Oldbury and Wylfa.

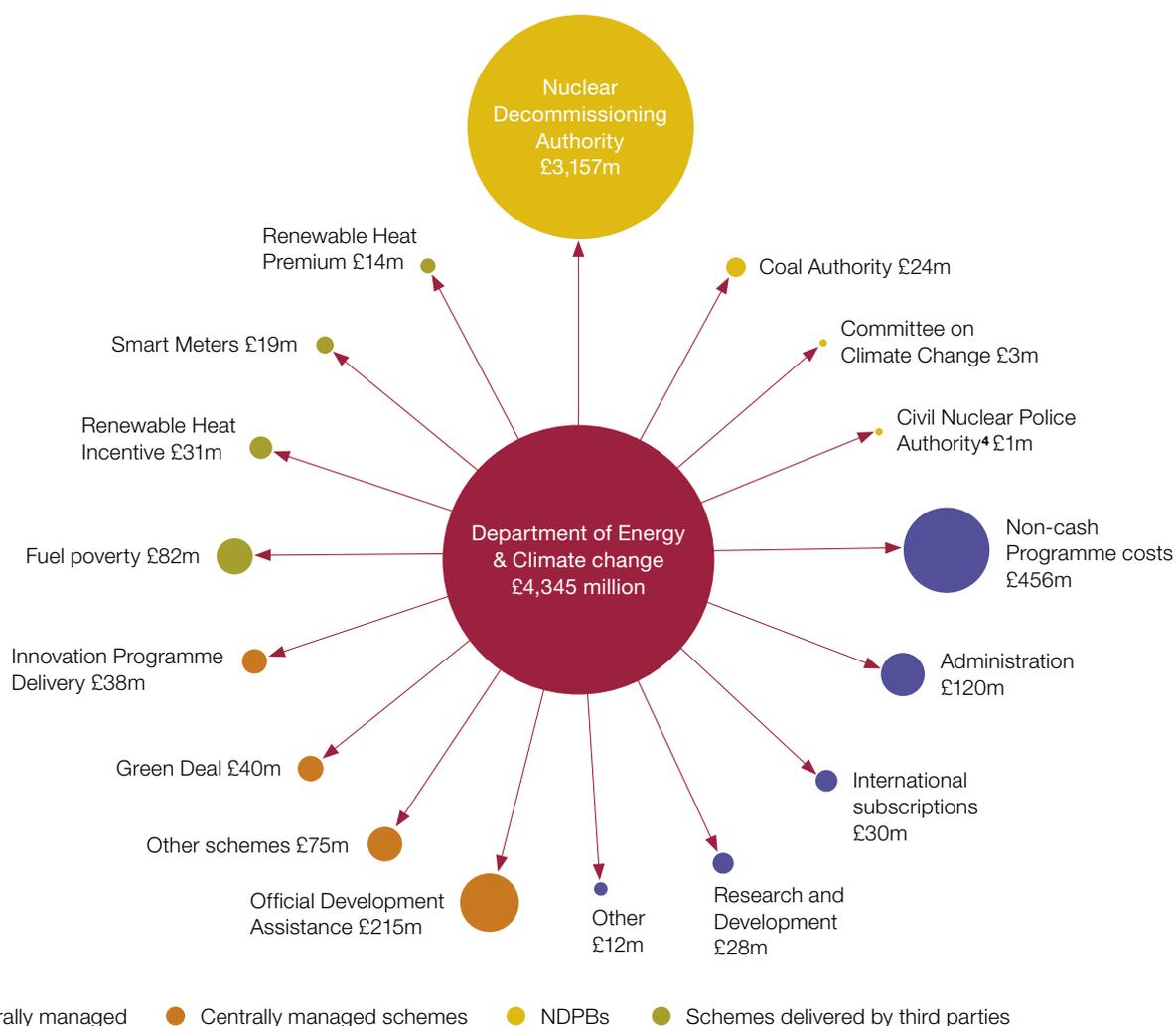
Source: Department of Energy & Climate Change, *Annual Report and Accounts 2012-13*

1.8 The NDA's decommissioning-related provisions for the future costs of nuclear clean-up also increased from £49.1 billion to £52.2 billion in 2011-12 and to £58.8 billion in 2012-13. The movements in provisions are reflected in the expenditure of the Departmental group rather than the core Department.

1.9 The Department's core spending on a range of other schemes increased by 17.8 per cent from £436 million in 2011-12 to £514 million in 2012-13. This included £215 million (up from £140 million) for Official Development Assistance (including the International Climate Fund) and £82 million (down from £98 million) to tackle fuel poverty (**Figure 3**).

Figure 3

Where the core Department spent its money in 2012-13



Notes

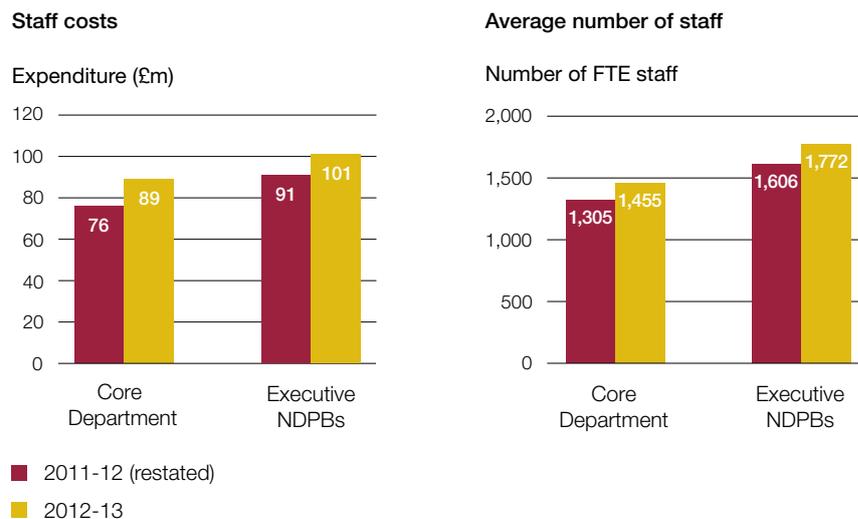
- 1 This is gross expenditure. The net cost of funding the Department after income was £3,143 million.
- 2 The Nuclear Decommissioning Authority surrendered £1,085 million of cash receipts from its commercial activities to HM Treasury, reducing the net cost of funding the Department.
- 3 The Coal Authority surrendered £0.9 million of cash receipts from commercial activities to the consolidated fund via the Department, reducing the net cost of funding the Department.
- 4 Funding for the Civil Nuclear Police Authority is for capital spend only. Running costs are recovered from nuclear Site Licence Companies.
- 5 Non-cash programme costs include a £376 million increase in provisions for future costs, which mostly relates to payments the Government provides to assist British Energy in meeting its contractual historic fuel liabilities. Other non-cash expenditure includes £55 million for the unwinding of discounting, which is used to present future costs at their current monetary value.
- 6 The expenditure on schemes delivered by third parties, together with the expenditure on Official Development Assistance, Innovation Programme Delivery, Green Deal and on other schemes totals £514 million.
- 7 The Department's Estimate and Accounts for 2012-13 include five nuclear Site Licence Companies for the first time following their classification as Central Government by the Office for National Statistics. The Site Licence Companies are private companies that operate sites under contract from the Nuclear Decommissioning Authority. The inclusion of these companies for accounting purposes has had no effect on the net operating cost of the Departmental group, as the NDA reimburses their costs; Site Licence Company costs had historically been included in the NDA's costs.

1.10 Administration expenditure has increased in the core Department and across the Departmental group largely due to a rise in staff costs (see **Figure 4**). There has been increased recruitment at the core Department following under-staffing in previous years, with average staff numbers rising from 1,305 to 1,455. Non-departmental public body (NDPB) staff numbers have also increased, from 1,606 to 1,772, largely due to increased deployment of officers from the Civil Nuclear Police Authority to protect nuclear decommissioning sites at Sellafield and Dounreay. Staff numbers (and costs) for the Site Licence Companies have broadly remained the same.

Recent and planned changes to the Department’s spending

1.11 The 2010 and 2013 spending reviews set out the Department’s budget for the period to 2015-16. The Department’s Capital Departmental Expenditure Limit (DEL) is set to increase between 2011-12 and 2015-16 while its Resource DEL will decrease (**Figure 5**).

Figure 4
Staff costs and average number of employees in 2011-12 and 2012-13



Notes

- 1 The figures for the core Department staff include costs and numbers for the advisory non-departmental public bodies.
- 2 The figures for the executive NDPBs and total group exclude staff costs and numbers for the Site Licence Companies (SLCs) as these are treated as a use of the nuclear provision rather than an operating expense. Staff costs for the SLCs increased from £991 million to £1,053 million and staff numbers decreased from 15,851 to 15,753.
- 3 The comparative numbers for 2011-12 have been restated for the Machinery of Government change relating to the removal of Enrichment Holdings Limited.

Source: Department of Energy & Climate Change *Annual Report and Accounts 2012-13*

Figure 5

The Department's settlements under the 2010 Spending Review and the 2013 Spending Round

£ billion	2010 Spending Review settlement					2013 Spending Round settlement
	2011-12	2012-13	2013-14	2014-15	Total	2015-16
Capital DEL	1.5	2.0	2.2	2.7 ¹	8.4	2.3
Resource DEL	1.5	1.4	1.3	1.0	5.2	1.0
Total	3.0	3.4	3.5	3.7	13.6	3.3

Notes

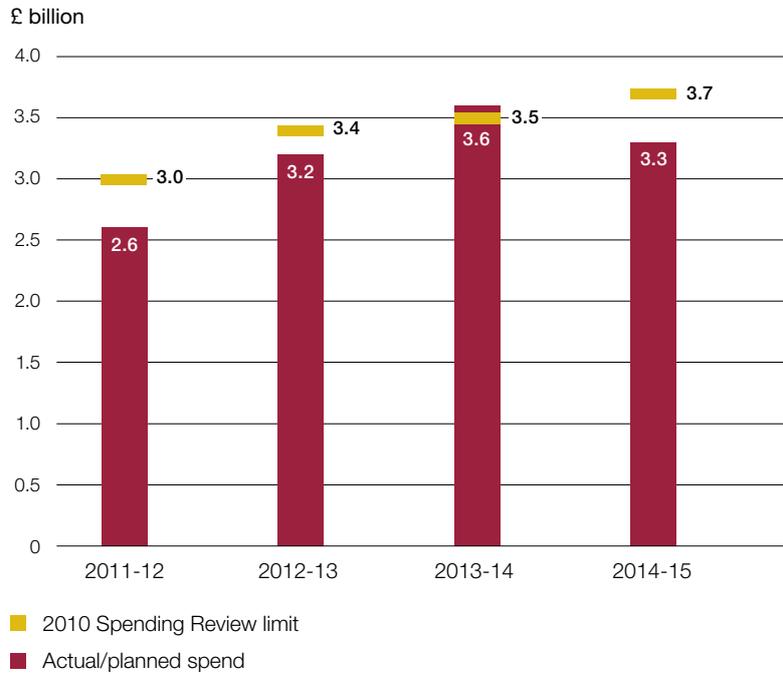
- 1 The Resource DEL figures exclude depreciation.
- 2 The Department's capital expenditure limit for 2014-15 was reduced from £2.7 billion to £2.2 billion after the 2010 Spending Review. The resource expenditure limit is still £1.0 billion. The total limit after rounding is £3.3 billion to the nearest £0.1 billion.
- 3 The resource expenditure total for 2012-13 does not agree to Figure 2 as the expenditure in Figure 2 includes non-cash expenditure.

Sources: 2010 Spending Review, 2013 Spending Round

1.12 Over the four-year period from 2011-12 to 2014-15, the Department plans to spend £1.1 billion less than the original 2010 Spending Review limits, spending £12.6 billion against a limit of £13.7 billion. As at 31 March 2013 the Department had underspent against its Spending Review limits by £650 million. The Department expects to exceed its expenditure limit for 2013-14 but is able to access previous planned underspends to cover these costs under Budget Exchange Arrangements (**Figure 6** overleaf). After the 2010 Spending Review, the Department's capital expenditure limit for 2014-15 reduced from £2.7 billion to £2.2 billion, reflecting an expectation that capital spend on carbon capture and storage would be pushed back until after 2014-15.

1.13 The NDA will continue to account for the majority of the Department's expenditure and its budget is ring-fenced, though the NDA has agreed some reductions for the years ahead, but the majority of the resource savings will need to be made elsewhere. The Department has not yet finalised its plans for making these resource savings and will consider this through its business planning process.

Figure 6
Progress against the 2010 Spending Review



Notes

- 1 The planned excess spend in 2013-14 is covered by underspends carried forward from previous years under budget exchange arrangements with HM Treasury.
- 2 The 2010 Spending Review limit for 2014-15 shown above was revised downward to £3.3 billion in the 2013 Spending Round. This is in line with the planned spend for 2014-15.

Source: 2010 Spending Review and Department of Energy & Climate Change, *Annual Report and Accounts 2012-13*.

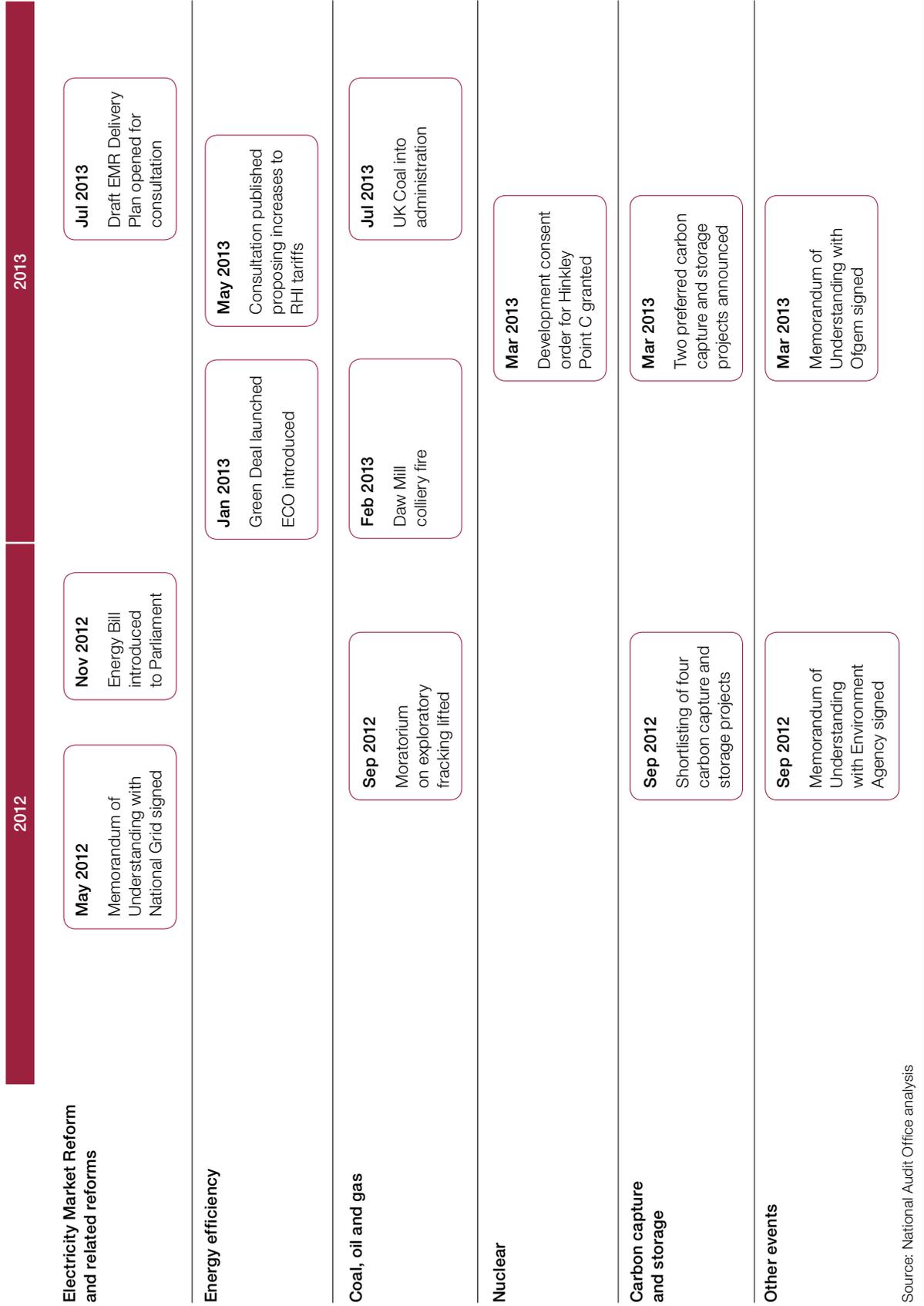
1.14 In 2012-13, there was a large underspend of £2.9 billion against the Department's control total for annually managed expenditure (AME), which is expenditure that is harder to forecast or outside the Department's control. This was largely due to:

- the increases in provisions for nuclear decommissioning, despite being higher in 2012-13 than in 2011-12, being lower than forecast; and
- no provision being required for a deficiency payment into the British Coal Staff Superannuation Scheme.

Policy and delivery: major developments in 2012-13

1.15 Figure 7 outlines the Department's major recent policy and delivery developments, which we consider in turn.

Figure 7
Recent developments



Source: National Audit Office analysis

Progress on Electricity Market Reform (EMR)

1.16 The Energy Bill was introduced to Parliament in November 2012. The Bill contains the legal framework for EMR, which has two main mechanisms: contracts for difference and the capacity market:

- Contracts for difference are long-term contracts for low-carbon electricity generation, intended to encourage investment by providing clarity over expected revenues early in the project development process. Contracts for difference set a strike price for each technology; if market prices fall below this level, eligible electricity generators will receive a payment to make up the difference. If the market price is higher than the strike price, generators will repay the difference.
- The capacity market aims to secure the UK's energy supply by giving electricity generators financial incentives to provide reliable capacity. The level of incentive will be set through a competitive auction process and in return for payment successful providers must commit to deliver energy when needed or they will face penalties.

1.17 The government published a draft *Electricity Market Reform Delivery Plan*¹ in July 2013 for consultation. In August, the Department published the draft terms of the contracts for difference, alongside the methodology through which contracts will be allocated. The consultation, which closed on 25 September, sought views on the strike prices; and on a methodology for a "reliability standard", to be used to determine the amount of capacity required to be auctioned through the capacity market. A further consultation on the detailed policy frameworks for contracts for difference and the capacity market and associated draft secondary legislation was published in October 2013.

Progress on energy efficiency

1.18 The Green Deal scheme, intended to help consumers spread the costs of making energy-saving home improvements, was launched in January 2013. While some 85,000 Green Deal assessments had been lodged by the end of September 2013, only 954 Green Deal plans (contracts between consumers and providers stating the work to be done and how much it will cost) were in the system.²

1.19 While very few householders that have had an assessment have signed up to Green Deal plans, many householders have been taking energy-saving measures through the Green Deal Cashback scheme. Under this scheme, which will run until March 2014, householders in England and Wales can claim cashback on energy-saving improvements such as insulation, double glazing and energy-efficient boilers. In total the Department has allocated £125 million to the Cashback scheme, with an

¹ Department of Energy and Climate Change, *Consultation on the draft Electricity Market Reform Delivery Plan*, July 2013. Available at: www.gov.uk/government/consultations/consultation-on-the-draft-electricity-market-reform-delivery, accessed 25 September.

² Department of Energy and Climate Change, *Domestic Green Deal and Energy Company Obligation in Great Britain*, Monthly report, 17 October 2013. Available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/250075/statistical_release_green_deal_eco_oct_2013.pdf, accessed 21 October 2013.

initial tranche of £40 million available on a first-come first-served basis. By the end of September 2013, 9,087 cashback vouchers totalling £2.8 million had been issued. Of these, 6,512 vouchers totalling £1.8 million had been redeemed for work undertaken.

1.20 The Department has not set projections for uptake of the Green Deal. The Energy and Climate Change Select Committee recommended that it would be useful for the Department to do so, though it recognises that targets would not be appropriate as the Green Deal is a market-led approach and setting fixed targets could lead to hard-selling or even mis-selling in order to meet goals.³

1.21 The Energy Company Obligation (ECO) was also launched in January 2013. ECO places an obligation on large energy suppliers to provide vulnerable domestic consumers and those in hard to treat homes with support and funding for energy-efficiency improvements. It is intended to work alongside the Green Deal. Around 195,000 measures were installed under ECO by the end of August 2013 mainly for loft insulation, cavity wall insulation and boiler upgrades.

1.22 The non-domestic Renewable Heat Incentive scheme launched in November 2011. Under this scheme, participants are paid to generate and use renewable energy to heat their buildings. In May 2013, the Department found that take-up of some eligible technologies such as small and medium biomass installations had been strong, but take-up of other technologies, including large biomass installations, ground source heat pumps and solar thermal installations, had been lower than expected. In response to its findings, the Department is proposing increases to the tariffs for certain technologies and also considering simplifying metering requirements.⁴

Coal, oil and gas

Shale gas

1.23 The moratorium on fracking imposed following two seismic tremors in 2011 was lifted in December 2012. In September 2013, the Department published a report on the potential greenhouse gas emissions associated with shale gas extraction and use, which concluded that:

- the carbon footprint of shale gas extraction and use is likely to be comparable to gas extracted from conventional sources, if the extraction process is adequately regulated; and
- the effect of UK shale gas production on gas prices is likely to be small.⁵

³ HC Energy and Climate Change Committee, *The Green Deal: watching brief*, First Report of Session 2013-14, Volume I, HC 142, May 2013.

⁴ Department of Energy & Climate Change, *Renewable Heat Incentive: Non-Domestic Scheme Early Tariff Review*, May 2013. Available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/204446/Tariff_Review_Consultation_for_PUBLICATION.pdf

⁵ Department of Energy & Climate Change, *Potential Greenhouse Gas Emissions Associated with Shale Gas Extraction and Use*, September 2013. Available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/237330/MacKay_Stone_shale_study_report_09092013.pdf

UK Coal

1.24 UK Coal Operations Ltd went into administration in July 2013 following a major fire in February 2013 at Daw Mill colliery, which led to the closure of the colliery. Daw Mill had been responsible for around a third of UK Coal Operations' revenue. The viable mining operations of UK Coal Operations were restructured and the assets transferred to a new business, UK Coal Production Ltd. UK Coal Operations' pension liabilities of around £543 million will be taken on by the Pension Protection Fund, an organisation which provides compensation to members of qualifying pension schemes in the event of the insolvency of their employer. Daw Mill itself will be handed to the Coal Authority, one of the non-departmental public bodies in the Departmental group.

Nuclear decommissioning

1.25 We have prepared a separate report for the Energy and Climate Change Select Committee summarising the NDA's activity and performance, which includes details on major developments in the last year. These include the following:

- The NDA has started the competition process for the future ownership of the Magnox and Research Sites Restoration Limited sites with the expectation to complete the process by September 2014.
- The contract for the decommissioning of the Dounreay site was awarded in April 2012 following a two-year competition.⁶

Carbon capture and storage

1.26 Over the period to 2020, the Department intends to provide £1 billion of funding to support the development of carbon capture and storage technology through a competitive process. Following the shortlisting of four projects, two preferred bidders were announced in March 2013: the Peterhead Project in Aberdeenshire and the White Rose Project in Yorkshire.

Other developments

1.27 In May 2012, the Department signed a Memorandum of Understanding with the National Grid. This establishes the arrangements around National Grid's role in developing and implementing policies under Electricity Market Reform in the period before the relevant legislation receives Royal Assent. National Grid's role in delivering Electricity Market Reform is expected to be established formally through legislation or licence conditions at a later stage.

⁶ National Audit Office, *The performance of the Nuclear Decommissioning Authority 2012-13*, September 2013. Available at: www.nao.org.uk/wp-content/uploads/2013/10/10281-001-Nuclear-Decommissioning-Authority.pdf, accessed 21 October 2013.

1.28 The Department also signed a Memorandum of Understanding with the Environment Agency in September 2012 and another with Ofgem in March 2013 regarding the schemes each organisation administers on the Department's behalf. The memorandum with the Environment Agency covers financial matters only, while the Department's memorandum with Ofgem is broader, covering liaison arrangements regarding the feasibility, development, implementation and closure of schemes as well as funding arrangements. It sets out a high-level framework, with more detailed arrangements for individual schemes to be agreed on a case by case basis.

The Department's digital strategy

1.29 By December 2012, each government department was required to produce a digital strategy, an indication of the central part that digital technology now plays in government business. In this section, we consider briefly the main elements of the Department's digital strategy.

1.30 Together with its arm's-length bodies, the Department provides 53 transactional services to its customers. Five of these services have more than 100,000 transactions per year while 46 services have fewer than 10,000 transactions per year. The highest volume transactional services relate to:

- the administration of the Energy Company Obligation, which places legal obligations on large energy suppliers to deliver energy efficiency measures to domestic energy users;
- the Warm Home Discount Scheme, which places an obligation on energy suppliers to help vulnerable customers with their energy bills; and
- mining reports and searches, mainly for those buying property in coal-mining areas.

1.31 Most of the Department's transactional services are already offered through digital channels. The Department's digital strategy details the actions the Department aims to take to make all transactional services digital by default as well as digitalise the way it makes policy and communicates with people.⁷ Progress to date includes:

- the recruitment of a Chief Information Officer with overall responsibility for the Department's digital agenda in April 2013;
- instigation of a digital skills and capabilities audit to be completed by the end of 2013;
- transfer of the Department's corporate website to GOV.UK; and
- the establishment in July 2013 of a small Digital Service Delivery unit to embed the digital by default principle into the activities of the Department.

⁷ Department of Energy & Climate Change, *DECC Digital Strategy*, December 2012. Available at: www.gov.uk/government/publications/decc-departmental-digital-strategy, accessed 18 September 2013.

Independent assessments of the Department's performance

1.32 In Part Two of this report, we look at the NAO's assessment of the Department's performance in 2012-13. Alongside our work and that of the Energy and Climate Change Select Committee, however, a number of other bodies regularly produce independent analyses of how the Department is doing and of the challenges it faces. In this section, we look at the most notable of these reports published in the last year.

1.33 The Department disclosed the Major Projects Authority's latest rating for one of its 11 major projects, a nuclear decommissioning project at Dounreay, which the Major Projects Authority rated green. The Department withheld the ratings of the progress of the other ten major projects⁸ because these projects were in contract negotiations or the decision-making phase and it considered that publication of this commercially sensitive information could adversely affect progress.⁹

1.34 The Committee on Climate Change¹⁰ concluded in its June 2013 *Progress Report to Parliament* that there needs to be a significant increase in the pace of greenhouse gas emissions reductions, starting very soon, if the UK is to meet its statutory commitment under the Climate Change Act 2008 to reduce emissions by 80 per cent by 2050 from a 2010 baseline. The Act requires government to set interim five-year emissions limits, known as carbon budgets. The UK has met the first carbon budget (covering the period 2008-12) and is on track to meet the second carbon budget (over 2013-17), but new policies will be needed to meet the third and fourth carbon budgets covering the period 2018-2027.¹¹

Staff attitudes

1.35 One indicator of the Department's capability and leadership is provided by the Civil Service People Survey. This aims to provide consistent and robust metrics to help government understand the key drivers of staff engagement, so that it can build upon strengths and tackle weaknesses across the civil service. We present here the results of the fourth annual people survey for the Department – undertaken between September and October 2012.¹² The survey covers overall employee engagement as well as nine areas of work experience which influence engagement and allows benchmarking of the Department's results against those of the civil service as a whole (see **Figure 8**). The results for the 17 major departments are in Appendix Two. The Department's results from the 2013 survey will be published in January 2014.

8 The Department is undertaking 11 projects classified by the Major Projects Authority as major projects, which include the Green Deal, the Renewable Heat Incentive, the carbon capture and storage (CCS) competition, the Smart Meters programme, two projects related to Electricity Market Reform and five projects related to nuclear power and decommissioning.

9 For further information, see *Government major projects portfolio data for DECC 2013*. Available at: www.gov.uk/government/publications/government-major-projects-portfolio-data-for-decc-2013, accessed 18 September 2013.

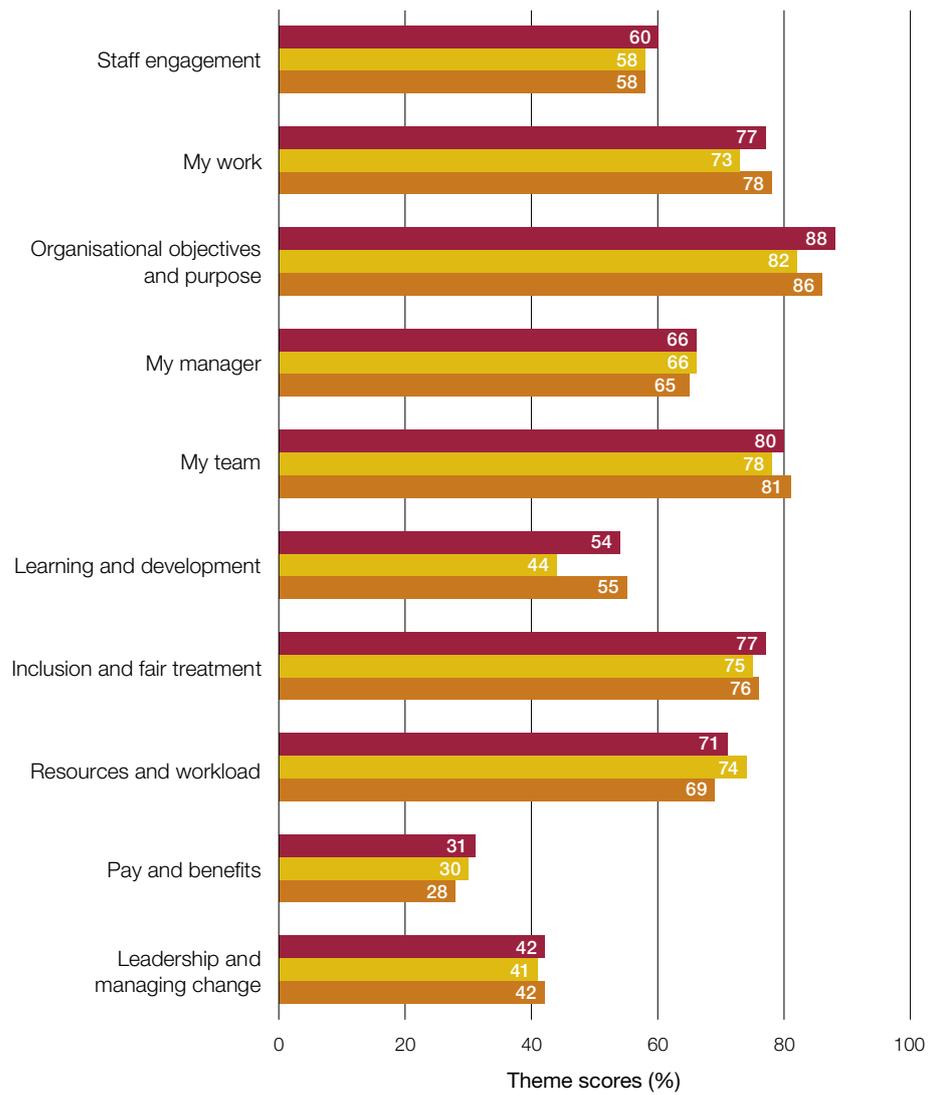
10 The Committee on Climate Change is an independent statutory body that advises government and reports to Parliament on progress in reducing greenhouse gas emissions and preparing for climate change.

11 Committee on Climate Change, *Meeting Carbon Budgets – 2013 Progress Report to Parliament*, June 2013. Available at: www.theccc.org.uk/publication/2013-progress-report/, accessed 18 September 2013.

12 Cabinet Office, *Civil Service People Survey 2012*, February 2013.

Figure 8

Civil Service People Survey results 2012: Department of Energy & Climate Change



- 2011 survey
- Civil service 2012
- 2012 survey

Notes

- 1 Percentage measures the proportion of respondents who selected either 'agree' or 'strongly agree' in response to statements conveying a positive work experience.
- 2 The 2012 benchmark is the median per cent of 'agree' or 'strongly' agree responses across all organisations that participated in the 2012 survey.

Source: Civil Service People Survey

1.36 Overall, there is a slight downwards trend compared with the Department's scores in 2011, as shown in Figure 8. Less than one in three staff (27 per cent) believes that the board has a clear vision for the future of the Department. This is a decrease of three percentage points on the previous year and 13 percentage points below the civil service average.

1.37 The Department's staff are more positive about learning and development, with this area scoring 11 percentage points higher than the civil service benchmark. The Department also scores favourably against the civil service benchmarks on organisational objectives and purpose, and on the work undertaken by staff.

Major developments for the future

1.38 **Figure 9** outlines the timing of major future developments of relevance to the Department.

Electricity Market Reform

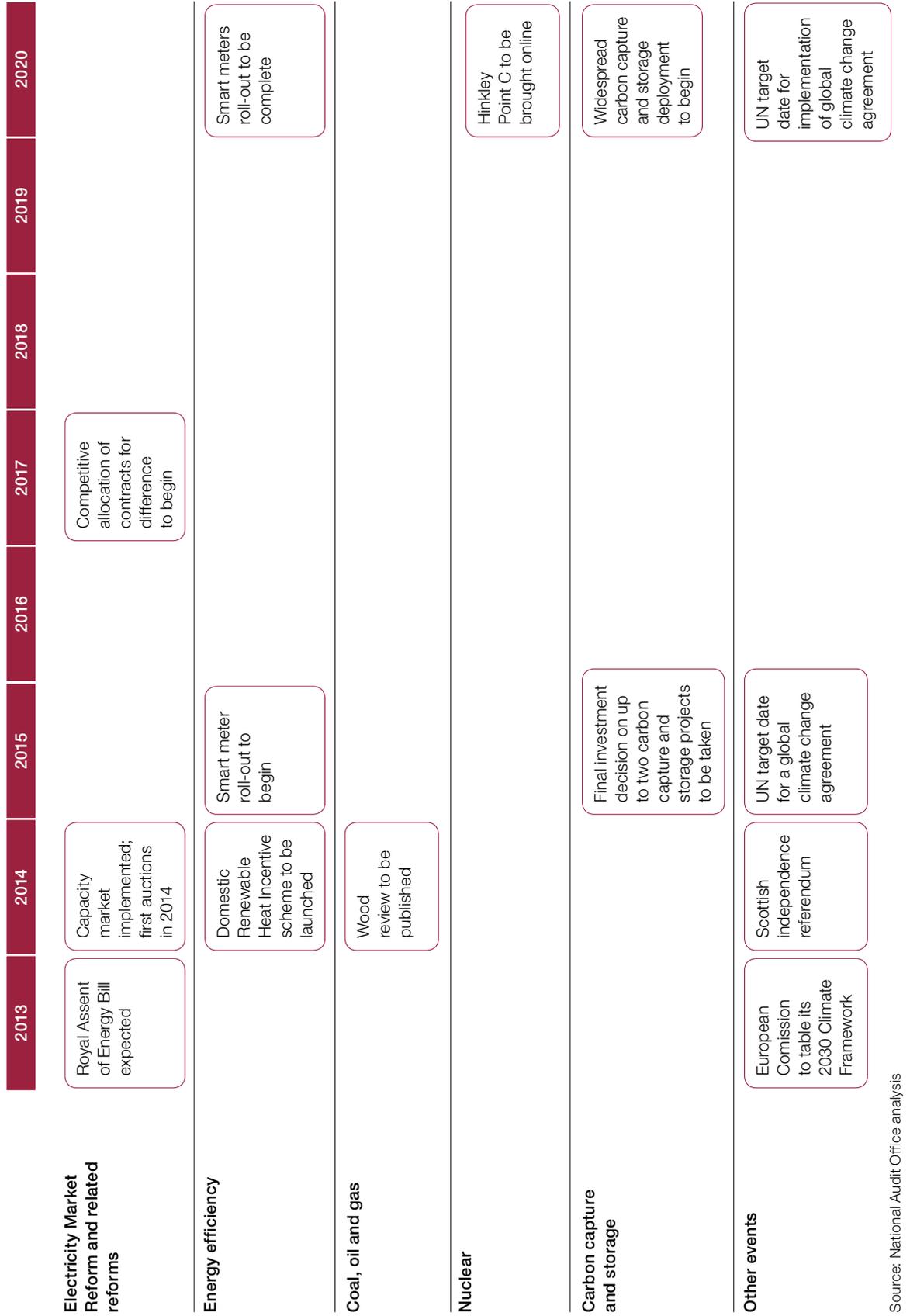
1.39 The Government intends to run the first Capacity Market auction in 2014, for delivery of capacity in the year beginning in the winter of 2018-19, with auctions for subsequent years to be held similarly, four years in advance. The amount of capacity to be auctioned each year will be based on a forecast of future peak demand, four years ahead of the delivery year in which it is needed.

1.40 The Department intends to allocate contracts for difference initially through an administrative process for nuclear power, renewables, and carbon capture and storage, with the levels of support (i.e. the strike prices) set by government. Until competitive allocation becomes possible, the proposed strike prices will be based on the forecast cost per energy unit of each low-carbon technology.

1.41 The Department has stated that it intends to move to competitive allocation for all low-carbon technologies as soon as practicable. The Department expects competition in the allocation process to reduce costs to consumers. It has previously indicated that the conditions for moving to competitions for some renewable technologies could be present as early as 2017 and it is possible that it could move to technology-neutral auctions in the 2020s.

1.42 For renewable technologies, there may be a phase during which the Department allocates contracts at set strike prices on a first-come first-served basis. The Department expects to move immediately to allocation rounds when a trigger point is reached, for example, when a certain proportion of the contracts for difference budget has been allocated. An auction will apply if demand for contracts exceeds the Department's available budget. For nuclear and carbon capture and storage, the Department intends that allocation of contracts for difference will take place through a competitive process wherever practical and effective, but bilateral negotiation remains an alternative.

Figure 9
Timeline of major developments for the future



Source: National Audit Office analysis

1.43 The Department is consulting on offering standard renewables generators 15-year contracts for difference but retaining the flexibility to allocate these directly where there is a strong case to do so, such as with projects that are particularly large or atypical. These directly negotiated contracts might include a number of variations, including to the duration of the contract payments. On the proposed nuclear plant at Hinkley Point, the government has agreed key commercial terms for a deal with EDF Group which includes a contract payment duration of 35 years. The proposed contract will be subject to State Aid approval, Royal Assent for the Energy Bill and agreement on financing. Additionally, in June 2013, the Government announced that Hinkley Point C would be eligible for a UK Guarantee, to underwrite the project's borrowing, though discussions on the terms of such a Guarantee, including how much debt it could underpin, are ongoing.

1.44 Once signed, it is likely that contracts for difference will be treated as derivative financial instruments. Under accounting standards, this will require the fair value of the liabilities associated with the contracts, representing the total future payments to generators where agreed strike prices are greater than market prices, to be included in the Department's accounts. The value of the liabilities arising from contracts for difference is expected to be in the billions of pounds, which if agreed would be funded through a levy on licenced electricity suppliers.

North Sea oil and gas

1.45 The Department has responsibility for licencing oil and gas exploration in the UK continental shelf and for regulating the decommissioning of oil and gas infrastructure. The government has stated that "20 billion or more" barrels of oil and gas could still be produced from the UK continental shelf.¹³ A 2012 report by Oil and Gas UK forecasts the total cost of decommissioning for existing and sanctioned infrastructure in the North Sea to be £28.7 billion (in 2011 prices) from 2012 onwards, with around £10.3 billion forecast over the first decade. If all potential developments reported to Oil and Gas UK were also to be developed, the total decommissioning costs are forecast to rise to £35.9 billion and there would be decommissioning activity taking place as late as 2060.¹⁴ The Scottish Government has quoted estimated decommissioning costs at £36.7 billion (in 2012 prices) over the period to 2050.¹⁵

1.46 A referendum on Scottish independence will be held in September 2014. The Scottish Government has stated that it is examining the implications of a transfer of legal and regulatory oversight of the North Sea from the Department to Scotland. These could include the formation of a Scottish oil and gas office in Aberdeen.¹⁶

¹³ For further information, see Department of Energy & Climate Change, *Oil and gas: Review of UK offshore oil and gas recovery*. Available at: www.gov.uk/oil-and-gas-review-of-uk-offshore-oil-and-gas-recovery, accessed 18 September 2013.

¹⁴ Oil and Gas UK, *Economic Report*, July 2012.

¹⁵ Scottish Government, *Maximising the Return from Oil and Gas in an Independent Scotland*, July 2013.

¹⁶ See footnote 15.

Other future developments

1.47 Details and timescales of other key future developments are as follows:

- Following several delays, the Department intends to launch the domestic Renewable Heat Incentive scheme in spring 2014.
- Smart Meters, which will provide consumers with near real-time information on their gas and electricity use, are scheduled to roll out from 2015 to 2020, having originally been planned to roll out from 2014 to 2019.
- A final investment decision on up to two carbon capture and storage projects is due in 2015.
- The European Commission is developing a 2030 framework for EU climate change and energy policies. A public consultation on what the 2030 framework should contain was open from March to July 2013. In light of the views expressed, the Commission intends to table the 2030 framework by the end of 2013. EU leaders plan to discuss it at their regular spring summit in March 2014.
- At the last Conference of the Parties to the UN Framework Convention on Climate Change in Doha in 2012, governments set out a timetable to adopt a universal climate agreement by 2015 to come into effect in 2020.

Part Two

Recent NAO work on the Department

Our audit of the Department's accounts

Financial audit findings

2.1 The National Audit Office's (NAO's) financial audits of government departments and associated bodies are primarily conducted to allow the Comptroller and Auditor General (C&AG) to form an opinion on the truth and fairness of the public accounts. In the course of these audits, the NAO learns a great deal about government bodies' financial management and sometimes this leads to further targeted pieces of work that examine particular issues. In this section, we look at the outcome of our most recent financial audit on the Department of Energy & Climate Change (the Department) and its bodies.

2.2 The C&AG issued a clear audit opinion on the Department's 2012-13 group financial statements, including over regularity. There were no qualifications on any of the accounts within the Departmental boundary.

2.3 As in previous years, the audit opinion for the group financial statements as well as for the Nuclear Decommissioning Authority (NDA) and the Coal Authority included an emphasis of matter paragraph highlighting the inherent uncertainties over the value of legacy provisions. This paragraph emphasises the complexity and very long timescales involved in the nuclear decommissioning¹⁷ and coal liabilities (for mine water and subsidence) and that significant fluctuation could occur in the values of these provisions if current assumptions change.

2.4 The Department's 2012-13 Trust Statement reports net revenue of £1.0 billion for payment into the Consolidated Fund. These proceeds were from the UK auctions of European Allowances under Phase II and III of the EU Emissions Trading Scheme (EU ETS), from issuing and administering Petroleum Licences and from sales of Carbon Reduction Commitment (CRC) allowances. The CRC scheme is administered by the Environment Agency, which passes on the proceeds collected to the Department. The total reported net revenue for the Consolidated Fund was considerably higher than the £307 million received in 2011-12. This is due to CRC Energy Efficiency Scheme allowance sales (£674 million) featuring for the first time and a £39 million rise in EU ETS receipts from increased auction volumes and the inclusion of aviation allowances. The C&AG gave an unqualified opinion on the Trust Statement.

¹⁷ Comptroller and Auditor General, *Nuclear Decommissioning Authority 2012-13*, The Explanatory Report of the Comptroller and Auditor General to the Houses of Parliament, June 2013.

Issues raised in the governance statement

2.5 In its governance statement, the Department recognised the high level of turnover in senior management and the resulting impact on the effectiveness of governance at the top level. The new accounting officer acknowledged the need for the Department's board to refocus and agree its priorities in the upcoming year. The Department also recognised the need to iron out inconsistencies in the level of internal control being applied across various areas by adopting a more unified corporate approach and sharing good practice. The statement also highlighted the importance of ensuring that the Department has the right skills mix and improves its prioritisation of resources in order to further strengthen Group-level governance and capability.

Our audits of the Department's effectiveness and value for money

2.6 The NAO's work to test the effectiveness and value for money of government spending in 2012-13 included a number of projects that focused on the Department of Energy & Climate Change. The principal findings of these are summarised below.

Carbon budget management

2.7 In July 2013 we published a review of carbon budget management for the Environmental Audit Committee.¹⁸ We reviewed the governance and reporting arrangements for managing carbon budgets required under the 2008 Climate Change Act. This included an analysis of quarterly reports of progress against the milestones in the government's Carbon Plan. We also reviewed the minutes and related materials of the cross-government National Emissions Target (NET) board, which was established to provide senior-level oversight of carbon budgets and national climate policy.

2.8 We found that quarterly reporting against the Carbon Plan was incomplete. At the time of our report, the Department had not produced quarterly reports for the last quarter of 2012 or the first quarter of 2013. As of 21 October 2013, the Department still had not produced these, nor a report for the second quarter of 2013.¹⁹ The Department told us it is in the process of reviewing its approach to the quarterly monitoring process and how best to ensure transparency. We also found that the NET board had not met as frequently as intended, having met only once in 2012. The Department expects the NET board to meet twice a year in future with more frequent meetings in the run-up to significant events such as the review of the fourth carbon budget in early 2014.

¹⁸ National Audit Office, *Carbon Budget Management*, July 2013.

¹⁹ For further information, see *Carbon Plan: quarterly implementation updates*. Available at: www.gov.uk/government/organisations/department-of-energy-climate-change/series/carbon-plan-quarterly-implementation-updates, accessed 27 September 2013.

Managing risk reduction at Sellafield

2.9 We examined whether the NDA is cost-effectively reducing risks on the Sellafield site through management of its major projects and driving improvements in the lifetime plan for decommissioning the site.²⁰ We reported in November 2012 that it was too early to judge whether the NDA's appointment of Nuclear Management Partners as the parent body of Sellafield Limited, the Site Licence Company which manages the Sellafield site, was value for money. The principal findings were:

- The NDA had made progress in agreeing an improved and more robust lifetime plan with Sellafield Limited, but the plan still contained uncertainties about delivery schedules and costs in the long and short term. The contract baseline plan significantly increased the timescales and costs for addressing the highest risks on the site, putting the completion dates back by ten to twenty-eight years, compared to the 2007 plan. Sellafield Limited was, however, working to deliver them to a less extended schedule, with completion three to eighteen years later than the 2007 plan. The cost of the contract baseline plan had increased from £18.1 billion to £28.1 billion, although Sellafield Limited was working to a plan with estimated cost of £24.3 billion (undiscounted).
- There had been significant delay and cost escalation on the fourteen major projects on the Sellafield site. The schedules of the seven projects in the planning phase had been put back 57 months and costs increased by £601 million since the projects were initiated. The seven projects in their construction phase were working to completion dates 264 months later than initially scheduled and to budgeted costs £294 million higher than initially approved. During 2011-12 twelve of the fourteen projects delivered less than their planned scope of work and five exceeded their budgeted cost. However, across all its work Sellafield Limited had achieved £425 million of savings against the costs set out in the contract baseline and expected to meet the savings Minimum Performance Standard for the initial period of its contract.

2.10 We are continuing to monitor the NDA's progress and we will publish a further report on Sellafield's savings, as detailed in the work in progress section of this report.

Public funding for innovation in low carbon technologies

2.11 In our briefing on *Public funding for innovation in low carbon technologies in the UK*²¹ for the Energy and Climate Change Select Committee, we examined the overall public funding landscape, and how the Department manages, delivers and monitors the projects it funds. We found that:

- Innovation is key to achieving the Government's plans for meeting its renewable energy and carbon reduction targets.

²⁰ Comptroller and Auditor General, *Managing risk reduction at Sellafield*, Session 2012-13, HC 630, National Audit Office, November 2012.

²¹ National Audit Office, *Public funding for innovation in low carbon technologies in the UK*, October 2013.

- The Department's initial and subsequent decisions on funding priorities have been supported by robust business cases.
- It is not yet clear whether the efforts of the Low Carbon Innovation Coordination Group, which includes the Department as a core member, are providing better support for industry.
- The Department manages its own innovation portfolio effectively and has reduced its reliance on external specialists to support the management of the programme, but there is a risk that it will underspend its capital allocation for the period 2011 to 2015.

The Department in a cross-government context

2.12 In addition to our work on individual departments, the NAO increasingly looks at performance across government, in order to understand how different departments measure up on important issues.

2.13 In *Planning for economic infrastructure*, we reported that of the £310 billion of planned infrastructure investment identified by HM Treasury, £176 billion relates to energy, and of this, £123 billion is to generate electricity. One of the key issues we identified was demand forecasting. Risks to accurate forecasting of demand include technological change – such as the unpredictable introduction of energy-efficient appliances; volatile fossil fuel prices; and the fact that demand can be influenced by active management, for example through off-peak energy tariffs. We recommended that:

- Departments should subject their demand forecasts underpinning infrastructure plans to rigorous testing of sensitivity to alternative realistic assumptions. Future project appraisal needs to consider changes in departments' assumptions about economic growth and its impacts on demand.
- The Treasury, departments and regulators should work with private sector project sponsors to develop and use 'should cost' models, to test or challenge planned infrastructure costs.²²

NAO work in progress

2.14 Our report on *Sellafield savings* will follow on from our November 2012 report on *Managing risk reduction at Sellafield*. This noted that the NDA had verified £425 million of savings in the first two years of Nuclear Management Partners' contract for the site, and was reviewing a further £270 million reported for the third year of the contract (2011-12). We will review the basis on which savings have been assessed.

²² Comptroller and Auditor General, *Planning for economic infrastructure*, Session 2012-13, HC 595, National Audit Office, January 2013.

2.15 The Levy Control Framework is used by the Department and HM Treasury to oversee and control costs of schemes, such as the Renewables Obligation and Feed-In Tariffs, which are funded by levies on consumers' energy bills. The government announced in November 2012 that the cost of schemes to promote low-carbon generation within the Levy Control Framework will be subject to a cap of £7.6 billion in 2020. In *The Levy Control Framework* we are examining:

- the design and scope of the Levy Control Framework;
- how the Department has estimated the future costs to consumers of schemes covered by the framework; and
- the Department's processes for monitoring, controlling and reporting actual costs to consumers.

2.16 In *Infrastructure investment: the impact on consumer bills*, we will consider whether the government is taking appropriate steps to manage the costs to consumers of new infrastructure investment in water, energy and communications, examining whether these costs are transparent; whether this work is sufficiently coordinated across different sectors; and whether there is an understanding of the total impact on consumers.

2.17 Our report on *Hinkley Point C* will cover the Department's commercial approach to securing its deal with EDF Group, the proposed terms of the contract and the resulting risks which the Department must manage. We will also wish to identify lessons learned to inform decisions on future contracts for difference.

Appendix One

The Department's sponsored bodies at 1 April 2013

Executive non-departmental public bodies

Civil Nuclear Police Authority/
Civil Nuclear Constabulary

Coal Authority

Committee on Climate Change

Nuclear Decommissioning Authority

Advisory non-departmental public bodies

Committee on Radioactive Waste Management

Fuel Poverty Advisory Group

Nuclear Liabilities Financing Assurance Board

Sponsored partners

Carbon Trust

Energy Saving Trust

National Non-Food Crops Centre

Nuclear Liabilities Fund

Public Corporation

National Nuclear Laboratory

Source: Department of Energy & Climate Change *Annual Report and Accounts 2012-13*

Appendix Two

Results of the Civil Service People Survey 2012

Question scores (% strongly agree or agree)	Civil service overall	Department for Business, Innovation & Skills (excluding agencies)
Leadership and managing change		
I feel that the Department as a whole is managed well	43	39
Senior civil servants in the Department are sufficiently visible	48	51
I believe the actions of senior civil servants are consistent with the Department's values	42	40
I believe that the departmental board has a clear vision for the future of the Department	40	41
Overall, I have confidence in the decisions made by the Department's senior civil servants	39	37
I feel that change is managed well in the Department	29	26
When changes are made in the Department they are usually for the better	25	19
The Department keeps me informed about matters that affect me	56	59
I have the opportunity to contribute my views before decisions are made that affect me	36	31
I think it is safe to challenge the way things are done in the Department	40	37
Organisational objectives and purpose		
I have a clear understanding of the Department's purpose	84	81
I have a clear understanding of the Department's objectives	79	74
I understand how my work contributes to the Department's objectives	82	79

Note

1 The score for a question is the percentage of respondents who strongly agree or agree to that question.

Source: *Civil Service People Survey 2012*, available at: www.civilservice.gov.uk/about/improving/employee-engagement-in-the-civil-service/people-survey-2012, accessed 28 August 2013

Cabinet Office (excluding agencies)	Department for Communities and Local Government (excluding agencies)	Department for Culture, Media & Sport (excluding agencies)	Ministry of Defence (excluding agencies)	Department for Education	Department of Energy & Climate Change	Department for Environment, Food & Rural Affairs (excluding agencies)	Foreign & Commonwealth Office (excluding agencies)	Department of Health (excluding agencies)	HM Revenue & Customs (excluding agencies)	HM Treasury	Home Office (excluding agencies)	Department for International Development	Ministry of Justice (excluding agencies)	Department for Transport (excluding agencies)	Department for Work & Pensions (excluding agencies)
38	31	23	19	39	39	29	56	31	21	62	39	63	48	43	29
47	45	37	26	46	64	42	59	47	33	71	48	71	56	59	30
40	33	23	24	39	47	34	55	39	27	59	40	62	47	47	29
29	31	29	22	31	27	22	54	24	24	47	28	64	37	35	30
40	30	18	16	35	42	29	50	33	19	57	35	58	43	39	23
28	22	19	11	27	27	19	42	18	17	49	23	44	34	27	24
22	14	12	9	17	25	14	36	14	14	35	18	32	29	19	20
57	54	56	41	55	67	56	62	49	40	72	60	69	61	63	46
34	32	32	20	37	39	31	42	30	20	48	33	50	37	35	23
41	29	32	30	36	43	37	45	31	29	54	38	44	41	43	33
73	67	64	80	83	87	74	83	68	75	86	84	94	79	80	79
63	63	62	72	77	84	70	80	62	72	80	80	92	73	74	77
73	72	70	76	80	86	75	84	69	75	82	81	91	77	79	78

Appendix Three

Publications by the NAO on the Department since April 2011

Publication date	Report title	HC number	Parliamentary session
July 2013	Department of Energy & Climate Change, Carbon Budget Management: A Briefing for the House of Commons Environmental Audit Select Committee	www.nao.org.uk/report/briefing-for-the-environmental-audit-committee-carbon-budget-management/	
June 2013	Nuclear Decommissioning Authority 2012-13: an explanatory report by the C&AG	www.nao.org.uk/report/nuclear-decommissioning-authority-2012-13-the-explanatory-report-of-the-comptroller-and-auditor-general-to-the-houses-of-parliament/	
7 November 2012	Nuclear Decommissioning Authority – Managing risk reduction at Sellafield	HC 630	2012-13
November 2012	Departmental overview: A summary of the NAO's work on the Department of Energy & Climate Change 2011-12	www.nao.org.uk/report/departmental-overview-a-summary-of-the-naos-work-on-the-department-of-energy-and-climate-change-2011-12/	
November 2012	Departmental overview: Overview of Ofgem 2011-12	www.nao.org.uk/report/overview-of-ofgem-2011-12/	
3 August 2012	Department of Energy & Climate Change, The CRC Efficiency Scheme: A Briefing for the House of Commons Energy and Climate Change Select Committee	www.nao.org.uk/publications/1213/crc_energy_efficiency_scheme.aspx	
26 July 2012	Department of Energy & Climate Change, Information assurance summary report	www.nao.org.uk/publications/1213/review_data_systems_for_decc.aspx	
July 2012	Review of the data systems for the Department of Energy & Climate Change	www.nao.org.uk/report/review-of-the-data-systems-for-the-department-of-energy-and-climate-change/	
27 June 2012	Department of Energy & Climate Change: The government's long-term plans to deliver secure, low-carbon and affordable electricity	HC 189	2012-13

Publication date	Report title	HC number	Parliamentary session
22 June 2012	Offshore electricity transmission: a new model for delivering infrastructure	HC 22	2012-13
16 March 2012	Carbon Capture and Storage: lessons from the competition for the first UK demonstration	HC 1829	2010–2012
21 February 2012	Performance of Ofgem 2010-11: Briefing for the House of Commons Energy and Climate Change Select Committee	www.nao.org.uk/publications/1012/performance_of_ofgem_2010-11.aspx	
28 November 2011	The modelling used to set Feed-in-Tariffs for solar photovoltaics	www.nao.org.uk/publications/1012/fits_briefing.aspx	
3 October 2011	A summary of the NAO's work on the Department of Energy & Climate Change	www.nao.org.uk/publications/1012/departmental_overview_decc.aspx	
29 June 2011	Preparations for the roll-out of smart meters	HC 1091	2010–2012

Appendix Four

Cross-government reports of relevance to the Department since April 2011

Publication date	Report title	HC number	Parliamentary session
October 2013	Public funding for innovation in low carbon technologies in the UK	www.nao.org.uk/report/public-funding-innovation-low-carbon-technologies-uk/	
February 2013	Sustainable procurement in government: Briefing for the House of Commons Environmental Audit Select Committee	www.nao.org.uk/report/nao-briefing-sustainable-procurement-in-government/	
16 January 2013	Planning for economic infrastructure	HC 595	2012-13
December 2012	Sustainability reporting in government: A Briefing for the House of Commons Environmental Audit Select Committee	www.nao.org.uk/report/nao-briefing-sustainability-reporting-in-government/	
18 October 2012	Managing budgeting in government	HC 597	2012-13
July 2012	Appraisal and sustainable development: Briefing for the House of Commons Environmental Audit Select Committee	www.nao.org.uk/report/nao-briefing-appraisal-and-sustainable-development/	
2 May 2012	Assurance for major projects	HC 1698	2010-2012
20 March 2012	The Government Procurement Card	HC 1828	2010-2012
15 March 2012	Managing early departures in central government	HC 1795	2012-2012
2 February 2012	Cost reduction in central government: summary of progress	HC 1788	2010-2012
20 January 2012	Reorganising central government bodies	HC 1703	2010-2012

Where to find out more

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

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Design and Production by
NAO Communications
DP Ref: 10263-001
Printed by Precision Printing
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