



National Audit Office

DEPARTMENTAL OVERVIEW

A summary of the NAO's work on the Department of Energy and Climate Change 2011-12

NOVEMBER 2012

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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 more than £1 billion in 2011.



National Audit Office

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Introduction

Aim and scope of this briefing

The primary purpose of this report is to provide the Energy and Climate Change Select Committee with a summary of the Department of Energy and Climate Change's performance since September 2011 based primarily on the Department's Accounts and National Audit Office work. 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 The Department of Energy and Climate Change (the Department) sets UK energy policy goals and the framework for achieving them. It is responsible for driving action to meet national and international commitments to reduce greenhouse gas emissions, and for achieving European Union targets to supply 15 per cent of the UK's energy from renewable sources by 2020. Its current priorities are to:

- save energy through the Green Deal and support vulnerable consumers;
- deliver secure energy on the way to a low carbon energy future;
- drive ambitious action on climate change at home and abroad; and
- manage energy liabilities, inherited from the nuclear and coal industries, responsibly and cost-effectively.

How the Department is organised

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-executives. Its responsibilities include setting corporate strategy, agreeing business plans, monitoring the performance of the Department and oversight of sponsored bodies.

3 The Department reorganised its structure in 2011-12 into four business groups. The main structural change from 2010-11 was the formation of the Strategy and Evidence Group, incorporating the Science and Innovation Group and a number of other directorates (**Figure 1** overleaf).

4 The Department devolves some of its delivery responsibilities to sponsored bodies. The largest of these bodies is the Nuclear Decommissioning Authority which is tasked with decommissioning and cleaning up the UK's civil nuclear legacy. The Department has responsibility for six other non-departmental public bodies. Three are classed as executive bodies and three are advisory. The Department also works with the Office of the Gas and Electricity Markets, a non-ministerial department.¹ In addition, the Department has responsibility for oversight of the Nuclear Liabilities Fund, a Scottish public corporation. The Department's sponsored bodies as at 31 March 2012 are listed in Appendix One.

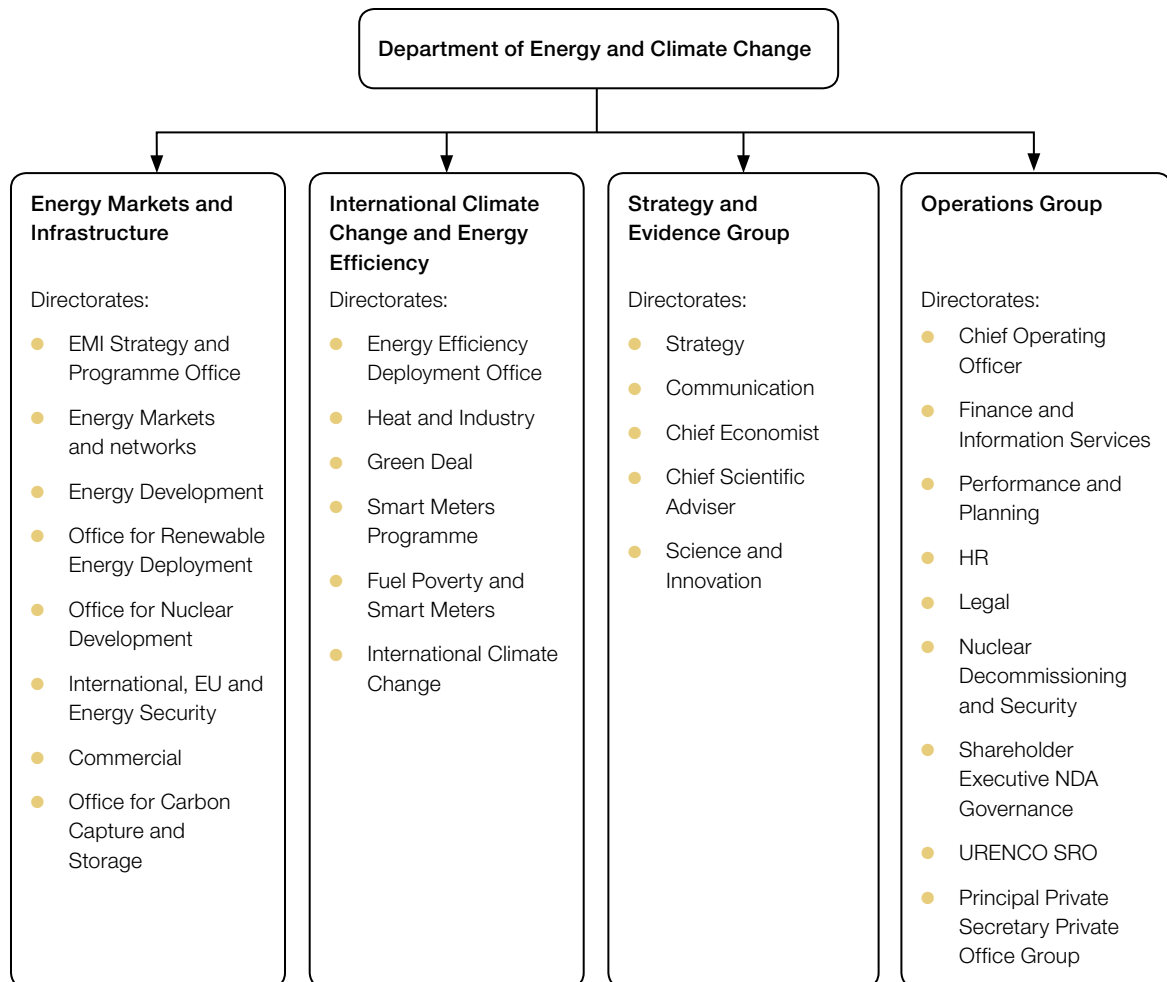
Where the Department spends its money

5 The Department's expenditure in 2011-12 was £3.6 billion, a 13 per cent fall from the previous year – £2.7 billion (76 per cent) of the Department's total expenditure was grant-in-aid to its sponsored non-departmental public bodies and a majority of this amount was accounted for by grant-in-aid to the Nuclear Decommissioning Authority (**Figure 2** on page 7). The remainder of Departmental spend was spread across a number of different areas including Overseas Development Assistance, which includes the International Climate Fund (£140 million; down from £275 million in 2010-11) and fuel poverty (£97 million; down from £319 million in 2010-11).

¹ See the National Audit Office's overview of Ofgem which is published alongside this document.

Figure 1

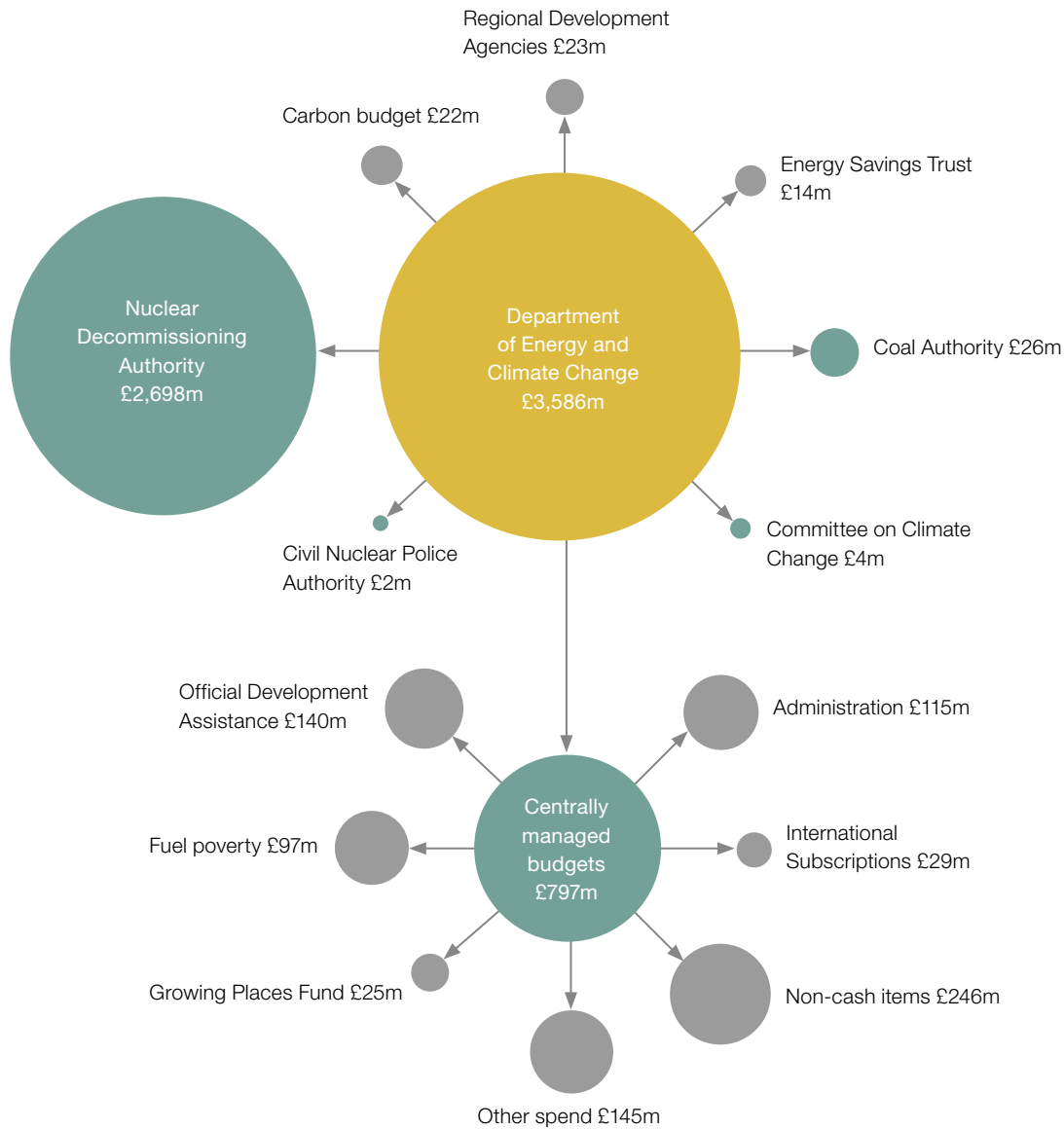
The Department's main business groups as at 31 March 2012



Source: Department of Energy and Climate Change, Annual Report and Accounts 2011-12

Figure 2

Where the Department spent its money in 2011-12

**NOTES**

- 1 The figure for the Nuclear Decommissioning Authority is gross expenditure. Taking account of commercial income the net cost of funding the Authority was £1,475 million.
- 2 The figure for departmental spend on administration is gross. Net spend was £112 million.
- 3 Core grant funding for the Carbon Trust and Energy Savings Trust will cease from 2012-13.
- 4 Regional Development Agencies closed in March 2012 and were abolished on 1 July 2012.
- 5 The Civil Nuclear Police Authority receives some of its capital funding from the Department but recovers operating costs from the sites it guards.
- 6 Non-cash items include movement in provisions of £179 million and discounting on provisions of £57 million.

Source: National Audit Office analysis of the Department of Energy and Climate Change, Annual Report and Accounts 2011-12

6 Group staff costs charged to administration in 2011-12 amounted to £167.3 million which was a 1 per cent increase on the previous year. Staff costs for the core department amounted to £76.7 million which was an 8 per cent increase. The sponsored non-departmental public bodies had staff costs of £90.6 million charged to administration, which was a 5 per cent decrease. Across the departmental group there has been a 7 per cent net increase in staff from 2,724 employees in 2010-11 to 2,914 in 2011-12 (**Figure 3**).

7 Government programmes to save energy, reduce emissions and tackle climate change account for an estimated 10 per cent of electricity bills and 4 per cent of gas bills.² The Department's annual report and accounts do not set out the target or actual costs of delivering schemes that are funded by placing obligations and levies on industry and, therefore, increase the annual cost of energy to consumers. However, under the Levy Control Framework, introduced in 2010, there is a cap of £11.8 billion, set by HM Treasury, on the cost of these policies during the spending review period covering the Renewables Obligation, Feed-in Tariffs (FITs), and the Warm Home Discount Scheme. The Department anticipates that the levy cap will be breached in future years of the spending review period due to overspending on FITs that occurred late in 2011-12 and early in 2012-13 that were not predicted (see paragraph 53 for more detail on the NAO's work on FITs).

Recent developments and current challenges

8 The Department's Energy Bill is due to be introduced to Parliament in autumn 2012. It aims to deliver secure, low carbon and affordable energy by putting in place measures to attract £110 billion investment by 2020 to replace current generating capacity which is due to close and to create additional capacity to cope with rising demand for electricity and to upgrade the grid. The Bill will provide for Contracts for Difference, which are long-term contracts to fix the price that low carbon generators receive from suppliers for the term of the contract. If wholesale prices for electricity fall below that 'strike price', suppliers will pay generators the difference. If they are above the strike price, generators will pay suppliers the difference. Investment instruments will be established to enable early investment in advance of the Contracts for Difference regime coming into effect. In addition, the Bill will provide for capacity payments that will be used, if required, to pay for capacity availability to ensure security of electricity supply.

Figure 3
Staff costs and average number of employees

	2011-12		2010-11	
	£m	Full-time equivalent	£m	Full-time equivalent
Core department	76.7	1,308	70.7	1,199
NDPBs	90.6	1,606	95.2	1,525
Total	167.3	2,914	165.9	2,724

Source: Department of Energy and Climate Change, Annual Report and Accounts 2011-12

9 To date, the Department has not set out an estimate of the levy costs of the proposed new measures in the Energy Bill. The Committee on Climate Change suggests that the annual levy will reach £8 billion in real terms by 2020.³ Delivering the Bill is a significant challenge for the Department and failure to do so could lead to an investment hiatus and a failure to meet the UK's international commitments to reduce greenhouse gas emissions.

10 Since January 2008, the Department has proposed that new nuclear power stations would form part of the energy supply mix provided by the market and it has had a programme of action to facilitate the market to invest in new nuclear plant. The Department's current timeline suggests the first Development Consent Orders should be given by the end of 2012 and the first new nuclear power station will start operations in 2019. A new nuclear project is likely to be one of the first recipients of an investment instrument as provided for by the Energy Bill. There are currently two companies that plan to build new power stations in Great Britain, EDF and NuGeneration. For a final investment decision to be taken by EDF or NuGeneration, the Department will need to be satisfied with the companies' funded decommissioning plans, and the companies will need to have sufficient comfort, through the investment instrument, around the future Feed-in Tariff with Contracts for Difference for the plants.

11 The Green Deal and Energy Company Obligation were launched in October 2012. The Green Deal is a government initiative designed to enable private firms to offer consumers energy efficiency improvements to their homes, community spaces and businesses with no upfront costs. Alongside the Green Deal, the Energy Company Obligation sets targets for energy companies to provide support for energy efficiency

measures for low income households and harder to treat homes. The majority of the Green Deal costs will be borne by the beneficiaries of the energy efficiency measures; however, the Energy Company Obligation will be funded by a levy and therefore borne by all consumers. The registration process for providers, assessors and installers to apply for the Green Deal quality mark opened in August 2012, but delays in putting in place the Statutory Instruments and practical challenges means that full operation of the schemes will not start before March 2013.⁴

12 The Nuclear Decommissioning Authority will continue to account for the majority of the Department's expenditure. The Authority's priorities include:

- decommissioning work across its estate, increasingly focusing on areas of highest hazard;
- preparing for its next competition to identify a Parent Body Organisation for the Magnox and Research Sites by April 2014;
- responding to the government's preferred option for dealing with the UK's stock of civil plutonium; and
- implementing the government's preferred long-term approach to dealing with radioactive nuclear waste, through geological disposal, to allow operations to start by 2040.⁵

³ Committee on Climate Change, *Meeting Carbon Budgets – 2012 Progress Report to Parliament*, June 2012.

Available at: hmccc.s3.amazonaws.com/2012%20Progress/CCC_Progress%20Rep%202012_bookmarked_singles_1.pdf

⁴ More information about the Green Deal and Energy Company Obligation is available at: www.decc.gov.uk/en/content/cms/tackling/green_deal/gd_customer/gd_customer.aspx

⁵ More information is available at: www.nda.gov.uk/aboutus/geological-disposal/

Capability and leadership

13 Following the departure of the Department's Permanent Secretary at the end of October 2012, the Department's new Permanent Secretary faces the challenges of addressing the findings of the recent Capability Review and seeking a replacement for the Department's key role of the Chief Operating Officer.

14 In 2006, the Cabinet Office launched a programme of Capability Reviews to assess departments' leadership, strategy and delivery – to improve departmental readiness for future challenges and to enable departments to act on long-term key development areas. Departments are required to conduct and publish self-assessments and resultant action plans against standard criteria set out in the Cabinet Office model of capability, which was updated in July 2009.⁶ Departments must rate their capability against ten criteria under three themes:

- **Leadership criteria** – 'set direction'; 'ignite passion, pace and drive'; and 'develop people'.
- **Strategy criteria** – 'set strategy and focus on outcomes'; 'base choices on evidence and customer insight'; and 'collaborate and build common purpose'.
- **Delivery criteria** – 'innovate and improve delivery'; 'plan, resource and prioritise'; 'develop clear roles, responsibilities and delivery models'; and 'manage performance and value for money'.

15 The Department conducted its capability self-assessment and published its latest Capability Review Action Plan in June 2012.⁷ The main findings and conclusions from this are:

- The Department has the second largest delivery portfolio in government, when it is the second smallest department in Whitehall. It does not have the capacity to deliver its current portfolio.
- The Department has a clear vision and strategy, which it has communicated effectively both internally and externally.

- It has highly committed staff at all levels and senior staff have been effective in building on this commitment to create a real sense of passion in the department.
- It has made good progress in transforming itself from a policy to a delivery department.
- The departmental board is not yet effective and lacks a clear understanding of its role. This coupled with a changing Executive Committee structure has resulted in shortcomings in governance which have hindered performance and development. However, the new non-executive members are a strong asset in guiding development and strategy.

16 The Department's Action Plan contains proposals for a Capability Development Programme to accelerate the development of its structure, capabilities, processes and culture which is now being implemented. The Department has appointed an experienced private sector portfolio manager to manage the Capability Development Programme. The Department aims to maintain high levels of staff engagement through maintaining a clear vision, strong communications networks, making sure staff have the skills and resources to deliver the Department's complex programme, and offering attractive recognition and career development packages. The Department has defined and communicated the role of the departmental board more clearly, and has recreated an executive committee for operational management of the Department which has met six times since being re-established in June 2012.

⁶ More information about Capability Reviews is available at: www.civilservice.gov.uk/about/improving/capability

⁷ *Department of Energy and Climate Change Capability Action Plan*, Civil Service Capability Reviews, June 2012. Available at: www.decc.gov.uk/assets/decc/11/about-us/goals-commitments/5470-2012-capability-review.pdf

17 One of the indicators 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 engagement, so that it can build upon strengths and tackle weaknesses across the civil service. The survey of civil servants across all participating organisations includes a range of questions across nine themes which seek to measure their experiences at work. We present here the results of the third annual people survey for the Department – undertaken between mid-September 2011 and mid-October 2011 – covering the themes of leadership and managing change, and understanding of organisational objectives and purpose (**Figure 4** overleaf). The results for the 17 major departments are in Appendix Two.

18 As part of the annual survey, each department receives an engagement index, assessing the level of staff engagement determined by: the extent to which staff speak positively of the organisation, are emotionally attached and committed to it, and are motivated to do the best for the organisation. In 2011, the Department achieved an engagement index of 62 points, two points higher than the previous year, and four points higher than the 2011 civil service average.

19 However, fewer than one in three staff (30 per cent) believed that the board had a clear vision for the future of the Department. This is a sharp decline of nine percentage points on the previous year. There was acknowledgement that the Department had made good progress in improving perceptions of the visibility of its senior staff, with an improvement of 16 percentage points compared with the previous year, although this remains six percentage points below the civil service average. Staff were also increasingly positive about the actions of senior staff being consistent with the Department's values and how well informed they felt about matters that affect them. Both of these measures improved by nine percentage points (Figure 4).

20 Staff views on leadership were less positive than the civil service as a whole. Only 41 per cent of staff believed that the Department was well managed and 43 per cent had confidence in decisions made by senior civil servants, both six percentage points lower than the civil service average. Staff were negative about the management of change in the Department, though no more so than the average for the civil service. For example, only 26 per cent thought that changes made were usually for the better.

Figure 4
Civil Service People Survey Results: Department of Energy and Climate Change

	Theme score (% positive) ¹	Difference from 2010 survey	Difference from civil service average 2011 ²
Leadership and managing change			
I feel that the Department as a whole is managed well	41	1	-6
Senior civil servants in the Department are sufficiently visible	62	16	-6
I believe the actions of senior civil servants are consistent with the Department's values	48	9	-4
I believe that the departmental board has a clear vision for the future of the Department	30	-9	-5
Overall, I have confidence in the decisions made by the Department's senior civil servants	43	7	-6
I feel that change is managed well in the Department	31	4	0
When changes are made in the Department they are usually for the better	26	3	1
The Department keeps me informed about matters that affect me	64	9	-5
I have the opportunity to contribute my views before decisions are made that affect me	36	0	2
I think it is safe to challenge the way things are done in the Department	41	3	-4
Organisational objectives and purpose			
I have a clear understanding of the Department's purpose	90	6	1
I have a clear understanding of the Department's objectives	85	6	2
I understand how my work contributes to the Department's objectives	88	7	4

NOTES

- 1 Percentage positive measures the proportion of respondents who selected either 'agree' or 'strongly agree' for a question.
- 2 The 2011 benchmark is the median per cent positive across all organisations that participated in the 2011 Civil Service People Survey.

Source: Department of Energy and Climate Change People Survey Results, Autumn 2011. Available at: www.decc.gov.uk/assets/decc/11/access-information/4039-decc-staff-survey-results-2011.pdf

Part Two

Financial management

21 The ability of departments to control costs and drive out waste requires professional financial management and reporting. In particular, departments need to be better at linking costs to services and benchmarking performance to determine whether costs are justified and value for money can be improved. Organisations also need to move their risk management arrangements from a process-led approach to one which supports the efficient and effective delivery of services. Improvements in these areas of management will help public bodies to deliver cost-effective services as they make difficult financial decisions over the coming years.

22 Departments are required to publish Governance Statements with their Annual Report and Accounts which describe their arrangements for corporate governance, risk management, and oversight of locally delivered responsibilities. Governance Statements replace Statements on Internal Control which were published in previous years. They are designed to include additional discussion of how governance in the Department works, in line with the Corporate Governance Code.⁸

Financial out-turn for 2011-12 and comparison with budget

23 From 2011-12, under HM Treasury's Clear Line of Sight programme, the Department's estimates and accounts are presented on a group basis including the core department and its sponsored bodies (the Nuclear Decommissioning Authority, the Coal Authority, the Civil Nuclear Police Authority and the Committee on Climate Change). These accounts present fully consolidated income, expenditure, assets and liabilities of the departmental group. In 2011-12, total group expenditure was £7.6 billion, £3.6 billion of which related to the core department. Total group net liabilities were £57.5 billion,⁹ of which £2.2 billion related to the core department. The most significant group liabilities are

managed by the Nuclear Decommissioning Authority (£52.3 billion) for decommissioning plant and equipment on nuclear licensed sites, and returning those sites to usable states. This programme of work will continue until 2137.

24 Although the Nuclear Decommissioning Authority was consolidated into the Department's accounts, the Authority's commercial subsidiaries were not – this follows their classification by the Office for National Statistics. This classification for National Accounts purposes¹⁰ is used by HM Treasury to determine which entities are consolidated within the departmental group. This will result in some unorthodox outcomes, because National Accounts classifications do not align with the Financial Reporting framework that HM Treasury requires departments to use. From 2012-13, the Site Licensing Companies managing the Authority's estate under contract, which are private companies limited by shares, will also be consolidated into the Department's Group accounts.

25 The levies for which the Department is accountable were originally included in its 2011-12 main Estimate and therefore needed to be reported in the Department's accounts, in spite of the fact that the Department collects in no levy income and makes no payments under these schemes, which are operated by energy companies. We advised the Department that this did not accord with the International Financial Reporting Standards adopted by government. Following a request to HM Treasury by the Department, the Chief Secretary granted a one-year derogation removing levy expenditure from the Supplementary Estimate procedure. These schemes were not, therefore reported in the annual accounts. Future treatment of levies is currently being reviewed by the Treasury, and a proposal has been developed to treat them as non-budget, which would remove them from estimates and accounts. The Department has continued to work with HM Treasury to agree a levy reporting mechanism, which will provide Parliament with the opportunity to scrutinise levy cost estimates and assurance over out-turn figures for the very considerable monies covered by these schemes.

⁸ HM Treasury, *Corporate governance in central government departments: code of good practice 2011*, June 2011. Available at: www.hm-treasury.gov.uk/psr_governance_corporate.htm

⁹ The liability amounts are discounted, i.e. discount rates are applied to calculate the present value of future money.

¹⁰ The UK National Accounts are produced under internationally agreed guidance and rules set out principally in the European System of Accounts 1995 (ESA 95), and the accompanying Manual on Government Deficit and Debt (MGDD). These rules apply to all countries in the European Union, and the UK is legally required to produce the National Accounts on an ESA 95 basis. In the UK the Office for National Statistics (ONS) is responsible for the application and interpretation of these rules, available at: www.ons.gov.uk/ons/guide-method/classifications/na-classifications/index.html

26 Group expenditure was £1.5 billion less than the funding approved by Parliament, largely due to the Nuclear Decommissioning Authority's provisions being £1.3 billion less than the estimate. This is because the Office of Budgetary Responsibility advised the Authority to assume an inflation rate of 5.6 per cent for the indexation of the nuclear provision whereas the actual rate was 3.6 per cent. The Department also underspent by £39 million against its objective to save energy in the Green Deal and support vulnerable customers.

Progress on cost reduction

27 Departments remain under pressure to reduce costs. The scale of cost reduction required means that departments need to look beyond immediate short-term savings, and think more radically about how to take cost out of the business and how to sustain this in the longer term.

28 In February 2012, we examined the cost reductions achieved by 12 departments in our report *Cost reduction in Central Government: A Summary of Progress*.¹¹ We found that departments successfully cut spending by £7.9 billion (2.3 per cent) in 2010-11 compared to 2009-10, but further cuts are needed in most departments over the next four years. We concluded that fundamental changes are needed in government to achieve sustainable reductions on the scale required – departments will achieve long-term value for money only if they identify and implement new ways of delivering their objectives, with a permanently lower cost base.

29 The Department is required to reduce its combined programme and administration spending by 18 per cent over the spending review period from 2011-12 to 2014-15. However, capital spending is expected to increase by 41 per cent¹² over the period. This reflects the prioritisation of funding for nuclear decommissioning and hazard reduction work, with agreed gross funding for the Nuclear Decommissioning Authority of £12 billion, £3 billion of which will be funded from its commercial operations and land sales. The Treasury has also agreed the Authority's corporate plan, which sets out at a high level the Authority's funding requirements to 2031 to clean up the nuclear sites.

NAO financial audit findings

30 The Comptroller and Auditor General qualified the regularity part of his audit opinion on the Department's 2011-12 accounts because the Department breached one of its Parliamentary spending limits for annually managed capital expenditure by £6.2 million. This breach occurred due to the Supplementary Estimate not reflecting a change in accounting treatment for coal pensions investments, part of any surplus on which is paid over to the Department. The audit opinion also included an emphasis of matter which highlighted the uncertainties inherent over the value of the liabilities relating to nuclear decommissioning and coal liabilities (for mine water and subsidence), emphasising that significant changes to the liabilities could occur as a result of changes in the current assumptions.

31 The Comptroller and Auditor General provided an unqualified opinion on the Nuclear Decommissioning Authority's 2011-12 accounts. The audit opinion also included an emphasis of matter paragraph to recognise the inherent uncertainties in the estimate over the value of nuclear liabilities due to the sensitivities of the nuclear liability to changes in the current assumptions.

32 The Department's 2011-12 Trust Statement reports proceeds of £306.2 million from the UK auctions of European Allowances under Phase II of the EU Emissions Trading Scheme and receipts of Petroleum Licenses. These are collected by the Department for payment into the Consolidated Fund. The Comptroller and Auditor General gave an unqualified opinion on the Trust Statement.

¹¹ Comptroller and Auditor General, *Cost reduction in central government: summary of progress*, Session 2011-12, HC 1788, National Audit Office, February 2012.

¹² HM Treasury Press Release, available at: www.decc.gov.uk/en/content/cms/news/csr_hmt_releas/csr_hmt_releas.aspx

Issues raised in the Governance Statements

33 We work with the Department and its sponsored bodies to improve the quality and transparency of published Governance Statements. We aim to ensure that the processes by which Statements are produced are robust and that the Statements comply with Treasury guidance.

34 In its Governance Statement the Department recognised the governance deficit identified in the Capability Review Action Plan (see paragraph 15) and acknowledged the need to improve governance at group level. The Department recognised that it needed to continue to change its existing skills mix to deliver its complex programmes and to focus effort to prioritise projects and apply resources to high priority areas. It also needed more rigour and better quality discussion on risk at Group level.

35 In its Governance Statement the Nuclear Decommissioning Authority identified areas that needed to be strengthened including how performance is reviewed with particular attention to programmes and projects and training and development for its non-executive directors. It also highlighted that it intended to review the form, function and operation of its board's committees to reflect the progress made by the Authority since start-up in 2004 and the different challenges it now faces.

Developments for 2012-13 Accounts

36 The Department's Trust Statement is likely to show significantly increased levels of income payable to the Consolidated Fund in 2012-13. An estimated £700 million relating to CRC Energy Efficiency Scheme allowance sales will feature for the first time. In addition, the amount of EU Emissions Trading Scheme allowance sale income is likely to increase considerably from the £239 million recognised in 2011-12, as a result of increased auction volumes and the inclusion of aviation allowances. Under Phase III of the Trading Scheme, the Department intends to move to a UK auction platform, which will operate alongside the Pan European provider appointed by the European Commission.

37 The Renewable Heat Incentive was launched late in 2011-12 for non-domestic renewable heat generators and in summer 2013 will be launched for domestic households. The scheme provides an income for 20 years to organisations or households that install an eligible renewable heating system, ensuring that renewable heat is commercially attractive when compared to fossil fuels. In 2011-12, expenditure in the Department's accounts totalled £6.5 million and in 2012-13 the Department has a budget of £133 million.¹³ Delays in rolling out the scheme will mean that the Department spends considerably less than this.

Part Three

Reported performance

38 The government needs robust, timely information on its activities, costs, progress against its objectives, and the cost-effectiveness of its activities. It also needs to be able to interpret that information, by reference to trends, benchmarks and other comparisons, to identify problems and opportunities. Departments need reliable information on which to design and deliver services and monitor quality, be confident about their productivity, and drive continuous improvement.

39 The government aims to make more information available to the public to help improve accountability and deliver economic benefits. Our study reviewing early progress of this transparency agenda¹⁴ concluded that while the government has significantly increased the amount and type of public sector information released, it would not maximise the net benefits of transparency without an evaluative framework for measuring the success and value for money of its transparency initiatives.

Reporting performance: annual reports and business plans

40 Each government department reports its performance against the priorities and objectives set out in its business plan. A transparency section of the plan includes indicators selected by the Department to reflect its key priorities and demonstrate the cost and effectiveness of the public services it is responsible for. These indicators fall broadly into three categories:

- **input indicators:** a subset of the data gathered by the Department on the resources used in delivering services;
- **impact indicators:** designed to help the public judge whether departmental policies are having the desired effect; and

- **efficiency indicators:** setting out the cost of common operational areas to allow the public to compare the Department's operations to other organisations.

41 A structural reform section of the business plan provides a detailed list of actions and milestones designed to show the steps the Department is taking to implement the government's reform agenda.

42 Departmental progress against indicators is published regularly in a Quarterly Data Summary, a standardised tool for reporting selected performance metrics for each government department in a way that facilitates comparison across departments. As well as the indicators described above, the Quarterly Data Summary includes information on overall departmental budgets and workforce statistics, and a wider selection of indicators on common areas of spend such as estates, procurement and ICT. An annual version of this information has been formally laid in Parliament in departments' 2011-12 Annual Reports and Accounts.

43 The Cabinet Office has reported that the accuracy of the data for all departments needs to dramatically improve and that there may not be common definitions and data collection processes between departments.¹⁵ These caveats mean that data on common areas of spend cannot currently be used to compare performance between departments and may be of limited use to judge individual departmental performance in its own right. Recognising the need to improve use of information across government, the Cabinet Office set out in the Civil Service Reform Plan its intention for departments to provide "good, comparable, accurate and reliable" management information. In addition, improving the quality of data is one of the key priorities within departmental Open Data Strategies, published in June 2012. The Cabinet Office expects that, with improvements in data quality and timeliness, the public will be able to judge the performance of each department in a meaningful and understandable manner.

¹⁴ Comptroller and Auditor General, *Cross-government review: Implementing Transparency*, Session 2010-2012, HC 1833, National Audit Office, April 2012.

¹⁵ Available at: www.cabinetoffice.gov.uk/resource-library/business-plan-quarterly-data-summary

44 The Department published a summary of its Quarterly Data Summary data for its 12 input and impact indicators over the past year and comparisons with 2010-11 data in its 2011-12 accounts.¹⁶ There have been some significant increases from 2010-11 to 2011-12 in the cost of corporate services. The cost of the Department's human resources function has risen by 84 per cent to £13.2 million as a result of increased training and a strategic focus for the Department to focus on learning and development. The cost of the legal service has risen by 73 per cent to £9.3 million due to the FITs judicial review that took place in the year.

45 The Annual Report also includes a summary of annual data from four additional data sets: average domestic gas price, net UK energy import dependency, final energy consumption and temperature adjusted primary energy use. The majority of these data show improvements in line with the Department's policies and electricity objectives (**Figure 5**).

Performance reported by the Department

46 In its 2011-12 Annual Report and Accounts, the Department reported that it had completed 53 of the 90 Structural Reform plan actions in year with 34 actions ongoing. The Department also reports on progress on these actions in monthly implementation updates.¹⁷ There were three overdue actions at the end of March 2012: agreeing European Commission proposals on offshore drilling; working with the Department for Communities and Local Government to allow communities that host renewable energy projects to keep the additional business rates they generate; and awarding the contract for the first carbon capture and storage demonstration project. The Carbon Capture Storage project was cancelled in October 2011. The Department published its first UK Carbon Capture and Storage Roadmap in April 2012 outlining the steps the government will take to develop this industry in the 2020s.¹⁸ As a part of this it launched a competition for a new outcome-based Carbon Capture and Storage programme.¹⁹

Figure 5
Department's additional data set results

Indicator	2010-11	2011-12 ¹
UK greenhouse gas emissions	590.4 MtCO ₂	549.3 MtCO ₂
Proportion of UK energy supply from low-carbon sources	10.2%	12.5%
Number of households in fuel poverty in England	4.0m	3.5m
Renewable financial incentive cost per unit of renewable energy generated (excluding transport levies)	£54.46 per megawatt hour	£55.66 per megawatt hour

NOTE

- 1 This table provides a summary of the performance over the past year on metrics set out in the Departmental Business Plan 2011-15 and the Department's Business Plan Quarterly Data Summaries (July 2011, October 2011 and January 2012) routinely published on the Department's website.

Source: Department of Energy and Climate Change, *Annual Report and Accounts 2011-12*

16 Department of Energy and Climate Change, *Annual Report and Accounts 2011-12*. Available at: www.decc.gov.uk/assets/decc/11/about-us/goals-commitments/5718-decc-annual-report-and-accounts-201112-.pdf

17 Available at: transparency.number10.gov.uk/business-plan/6

18 Department of Energy and Climate Change, *The CCS Roadmap*, April 2012. Available at: www.decc.gov.uk/en/content/cms/emissions/ccs/ccs.aspx#

19 Department of Energy and Climate Change, *Structural Reform Plan Monthly Implementation Update*, May 2012. Available at: www.number10.gov.uk/wp-content/uploads/2012/06/DECC-SRP-update-may-2012.pdf

Testing the reliability of performance data across government

47 We have begun a three-year programme to examine the data systems underpinning the departmental business plan indicators and other key management information. In July 2012, we published the results of our examination of a sample of the Department's indicators and operational data systems used to report performance for the Department.²⁰ This involved a detailed review of the processes and controls governing: the selection, collection, processing and analysis of data; the match between the Department's stated objectives and the indicators it has chosen; and the reporting of results.

48 We concluded that the Business Plan indicator set is broadly reflective of the Department's Structural Reform Priorities (**Figure 6**), but there are some areas that are not covered. For example, the Department's first Structural Reform Priority – to save energy with the Green Deal and support vulnerable consumers – does not have an associated input indicator because data are not yet available. There are also areas where the Department is using proxy measures of the impact of its policies, most notably in using the impact of other countries' pledges to decrease their greenhouse gas emissions on predicted global emissions as a measure of the Department's performance.

The future of information management

49 Departments released updated versions of their business plans in May 2012 which included changes to their priorities and indicators. The Department's latest business plan contains the same four priority areas as previously set out in paragraph 1. However, the Department confirmed it would no longer:

- fund technologies unless critical to meeting their long-term objectives;
- contribute to funding the establishment of the National Nuclear Centre of Excellence;
- contribute the same level of voluntary contributions to international energy and climate organisations;

- fund the economic development activities; or
- provide the same scale of funding to deal with the overseas nuclear legacy.

50 Departments have aligned their input and impact indicators with the government's priorities, so that the public can better understand how they are meant to be used for accountability. The changes are a step towards the alignment of costs and results which would allow for assessment of value for money, but they will not improve the data systems underlying published indicators, or the reliability of subsequent data.

Issues identified in NAO Reports

51 In our report *The government's long-term plans to deliver secure, low carbon and affordable electricity*,²¹ published in June 2012, we highlighted the key long-term challenges and uncertainties that the Department faces in its mission to supply secure, low carbon and affordable electricity. We highlighted the inherent uncertainties in the Department's analysis of pathways to meet its long-term mission; the cost of meeting the 2050 greenhouse gas emissions reduction target; and the uncertainty of the cost implications for consumers. We set out what we saw as the key risks that should be considered by Parliament, including:

- the uncertainties associated with the Department's plans;
- the technical and commercial risks and hence the need to monitor expected costs against key milestones; and
- issues associated with the Department's skills to deliver.

²⁰ Department for Energy and Climate Change, Information assurance summary report, July 2012. Available at: www.nao.org.uk/publications/1213/review_data_systems_for_decc.aspx

²¹ Comptroller and Auditor General, *Department of Energy and Climate Change, The government's long-term plans to deliver secure, low carbon and affordable electricity*, Session 2012-13, HC 189, National Audit Office, June 2012. Available at: www.nao.org.uk/publications/1213/electricity_landscape.aspx

Figure 6

A summary of the results of our validation exercise

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

Source: National Audit Office analysis

52 In March 2012, we published our report *Carbon Capture and Storage: lessons from the competition for the first UK demonstration* on the project that was cancelled in October 2011.²² We reported that the competition was launched in 2007 with insufficient planning and understanding of the commercial risks. The cost of running the competition was relatively small (£64 million) compared to the overall scale of the investment required to develop and deliver carbon capture and storage technology, and the potential benefits of the technology. But the Department and its predecessor (the Department for Business, Enterprise and Regulatory Reform) took too long to get to grips with the significant technical, commercial and regulatory risks involved. For the Department's replacement programme, we recommended that there should be:

- Clear accountability – an explicit plan stating how the project will contribute to meeting the government's policy objectives.
- Appropriate commercial skills – to understand fully the costs, technical, price and regulatory risks and compare the value of projects proposed by industry.
- Clarity over affordability constraints – to ensure capital investment funding is available from both the government and from the new electricity market mechanisms.

53 In November 2011, we published our report *The modelling used to set Feed-in Tariffs for solar photovoltaics*.²³ We found that take-up of tariffs for solar photovoltaics were considerably higher than predicted in the Department's original analysis. This led to a budget overrun and an increased gross cost to consumers. The Department have since set a cumulative budget for the FITs scheme of £867 million up to 2014-15 and, in line with a commitment made in the spending review, launched a FITs licensee consultation in September 2012²⁴ to consider proposed changes to the scheme which would reduce the estimated annual cost of the scheme in 2014-15 by £40 million to £357 million.

54 In 2012, the Department carried out its own review of FITs to highlight lessons learned for the future.²⁵ The report identified areas for improvement in governance structures and processes, resourcing and skills and project and programme management. The Department says it has begun to take action in these key areas, notably putting in place stronger governance arrangements, including an internal approvals committee, implementing a more robust risk management process and making better use of commercial intelligence in its policy proposals. However, it acknowledges that there is more work to be done and has put in place a Development Programme to help drive improvement.²⁶

22 Comptroller and Auditor General, *Department of Energy and Climate Change, Carbon capture and storage: lessons from the competition for the first UK demonstration*, Session 2012-13, HC 1829, National Audit Office, March 2012. Available at: www.nao.org.uk/publications/1012/carbon_capture_and_storage.aspx

23 National Audit Office briefing: *The modelling used to set Feed-in Tariffs for solar photovoltaics*, National Audit Office, November 2011. Available at: www.nao.org.uk/publications/1012/fits_briefing.aspx

24 More information about the FITs Review is available at: www.decc.gov.uk/en/content/cms/meeting_energy/renewable_ener/feedin_tariff/fits_review/fits_review.aspx

25 Department of Energy and Climate Change, *Feed-In-Tariffs: "Lessons for the future report"*, August 2012. Available at: www.decc.gov.uk/assets/decc/11/meeting-energy-demand/renewable-energy/6124-feedin-tariffs-lessons-for-the-future-report.pdf

26 Available at: www.decc.gov.uk/en/content/cms/about/our_goals/our_goals.aspx

Appendix One

The Department's sponsored bodies at 1 April 2012

Executive non-departmental public bodies

Civil Nuclear Police Authority

Coal Authority

Committee on Climate Change

Nuclear Decommissioning Authority

Sponsored Partners

Carbon Trust

Energy Saving Trust

National Non-Food Crops Centre

Civil Nuclear Constabulary

Advisory non-departmental public bodies

Committee on Radioactive Waste Management

Fuel Poverty Advisory Group

Nuclear Liabilities Financing Assurance Board

Sources: www.decc.gov.uk/en/content/cms/about/partners/public_bodies/public_bodies.aspx,
www.decc.gov.uk/en/content/cms/about/partners/partners.aspx

Appendix Two

Results of the Civil Service People Survey 2011

Question scores (% strongly agree or agree, or % yes)

Leadership and managing change

I feel that the Department as a whole is managed well	40
Senior civil servants in the Department are sufficiently visible	46
I believe the actions of senior civil servants are consistent with the Department's values	39
I believe that the departmental board has a clear vision for the future of the Department	39
Overall, I have confidence in the decisions made by the Department's senior civil servants	36
I feel that change is managed well in the Department	27
When changes are made in the Department they are usually for the better	23
The Department keeps me informed about matters that affect me	55
I have the opportunity to contribute my views before decisions are made that affect me	36
I think it is safe to challenge the way things are done in the Department	38

Organisational objectives and purpose

I have a clear understanding of the Department's purpose	84
I have a clear understanding of the Department's objectives	79
I understand how my work contributes to the Department's objectives	81

Civil service overall

Department for Business, Innovation and Skills (excluding agencies)	Cabinet Office (excluding agencies)	Department for Communities and Local Government (excluding agencies)	Department for Culture, Media and Sport (excluding agencies)	Ministry of Defence (excluding agencies)	Department for Education	Department of Energy and Climate Change	Department for Environment, Food and Rural Affairs (excluding agencies)	Foreign and Commonwealth Office (excluding agencies)	Department of Health (excluding agencies)	HM Revenue & Customs	HM Treasury (excluding agencies)	Home Office (excluding agencies)	Department for International Development	Ministry of Justice (excluding agencies)	Department for Transport (excluding agencies)	Department for Work and Pensions
31	38	23	37	20	49	41	31	54	33	18	55	44	60	43	45	23
46	49	35	47	27	53	62	44	56	53	31	67	50	68	47	59	21
34	40	24	39	27	46	48	34	52	41	25	52	44	57	42	46	21
29	33	22	31	20	43	30	21	51	28	22	39	33	60	39	36	20
28	38	21	32	17	43	43	27	47	33	17	53	41	53	38	42	16
24	27	20	33	12	32	31	21	40	19	15	42	24	40	31	31	19
17	22	10	20	9	21	26	16	34	12	13	33	22	29	26	21	14
59	55	50	60	41	58	64	56	60	53	39	65	62	68	56	64	39
32	37	28	47	19	37	36	38	39	37	18	47	38	47	36	39	18
33	41	25	42	31	39	41	40	43	33	27	55	39	43	36	45	27
77	73	57	73	80	85	90	75	82	69	73	88	85	94	78	79	73
70	66	53	67	72	81	85	70	79	63	70	78	80	93	72	74	71
75	71	61	73	76	82	88	76	83	72	73	81	82	90	76	76	73

Appendix Three

Publications by the NAO on the Department or its delivery bodies since 2009

Publication date	Report title	HC number	Parliamentary session
3 August 2012	Department of Energy and 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 and Climate Change, Information assurance summary report	www.nao.org.uk/publications/1213/review_data_systems_for_decc.aspx	
27 June 2012	Department of Energy and Climate Change, The government's long-term plans to deliver secure, low carbon and affordable electricity	HC 189	2012-13
16 March 2012	Department of Energy and Climate Change, 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: A 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: A briefing for the House of Commons Energy and Climate Change Select Committee and Environmental Audit Committee	www.nao.org.uk/publications/1012/fits_briefing.aspx	
3 October 2011	Departmental overview: A summary of the NAO's work on the Department of Energy and Climate Change 2010-11	www.nao.org.uk/publications/1012/departamental_overview_decc.aspx	
29 June 2011	Department of Energy and Climate Change, Preparations for the roll-out of smart meters	HC 1091	2010-2012
October 2010	Energy and Climate Change Committee inquiry into UK deepwater drilling: Memorandum for the House of Commons Energy and Climate Change Select Committee	www.nao.org.uk/publications/1011/uk_deep_water_drilling_memo.aspx	
October 2010	Performance of Ofgem: A briefing for the House of Commons Energy and Climate Change Select Committee	www.nao.org.uk/publications/1011/performance_of_ofgem.aspx	
July 2010	The Electricity Generating Landscape in Great Britain: A briefing for the House of Commons Energy and Climate Change Select Committee	www.nao.org.uk/publications/1011/electricity_generating.aspx	

Publication date	Report title	HC number	Parliamentary session
June 2010	Short guide to the NAO's work on the Department of Energy and Climate Change	www.nao.org.uk/publications/1011/short_guide_decc.aspx	
10 June 2010	Government funding for developing renewable energy technologies	HC 35	2010-11
February 2010	Energy and Climate Change Committee inquiry into Fuel Poverty: Memorandum for the House of Commons Energy and Climate Change Select Committee	www.nao.org.uk/publications/0910/ecc_memorandum.aspx	
22 January 2010	The sale of the Government's interest in British Energy	HC 215	2009-10

Appendix Four

Cross-government NAO reports of relevance to the Department since 2009-10

Publication date	Report title	HC number	Parliamentary session
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	2010-2012
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
14 October 2010	Central government's use of consultants and interims	HC 488	2010-11
19 July 2010	Progress with VFM savings and lessons for cost reduction programmes	HC 291	2010-11
14 July 2010	Taking the Measure of Government Performance	HC 284	2010-11
18 March 2010	Reorganising central government	HC 452	2009-10

Where to find out more

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

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