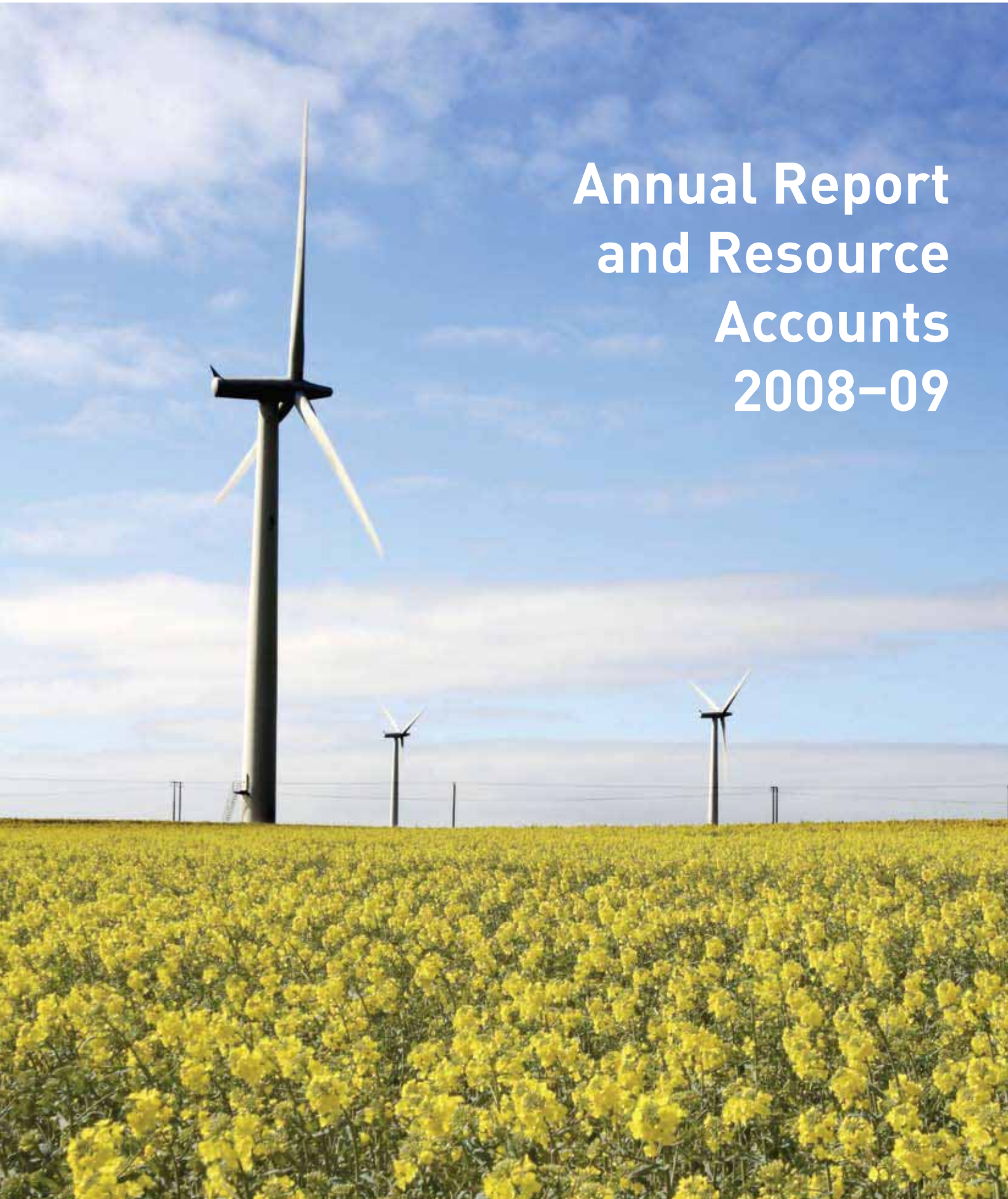


Annual Report and Resource Accounts 2008–09



Department of Energy and Climate Change

Annual Report and Resource Accounts 2008–09

Including the Annual Departmental Report and
Resource Accounts for the year ended 31 March 2009

Annual Departmental Report presented to Parliament
by Command of Her Majesty

Resource Accounts presented to the House of Commons
pursuant to section 6(4) of the Government Resources and Accounts Act 2000

Resource Accounts presented to the House of Lords
by Command of Her Majesty

Ordered by the House of Commons to be printed
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This is part of a series of departmental reports which, along with the Main Estimates 2009-10, the document Public Expenditure: Statistical Analyses 2009, and the Supply Estimates 2009-10: Supplementary Budgetary Information, present the Government's outturn and planned expenditure for 2009-10 and 2010-11.

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Foreword from the Secretary of State



The challenges of climate change and energy security require ambitious action – and in our first year we have shown progress can be made.

Our goal is to get a global deal on climate change. To help bring the debate into the open and break the deadlock in negotiations, we were the first country to publish a manifesto for the kind of deal the UK will argue for – a deal that is ambitious, effective and fair. As well as helping our case internationally, 20,000 copies have been sent to schools and other public institutions.

Our goal is to help bring about the creation of a low-carbon Britain – and, for the first time, we have published a comprehensive, UK Low Carbon Transition Plan to show how it can be done. Under the legally-binding carbon budgets, the path has been set for Britain's greenhouse gas emissions to fall by 22 per cent by 2012, a third by 2020, and at least 80 per cent by 2050, compared to the levels in 1990. The Transition Plan shows sector by sector how this can be achieved and how government action is being scaled up to match the challenge.

And our goal is to succeed in this transition while at the same time delivering security in our energy supplies, fairness for energy customers, and new economic opportunities for Britain. In each of these areas, the last year has seen new ideas from the department and progress on delivery, from proposals for the sites of new nuclear power plants, to Britain's new position as the number one producer of offshore wind power in the world, to a new low carbon industrial strategy to help seed the industries of the future.

The transformation dictated by the science is huge. Because of this, our goals cannot be achieved without government, markets and communities all rising to the challenge.

Government must play its part. When it comes to energy, for example, we need to set a strong framework to both put a price on carbon and drive new technology. That is why I have proposed new rules that will mean no new coal-fired power stations can be built without substantial carbon capture and storage from day one, and why we are introducing a new incentive payment to make demonstration projects possible. Together, they are the most environmentally-ambitious coal conditions in the world.

Similarly, in saving energy, government needs to protect vulnerable households – and last year, we succeeded in insulating a house every six minutes.

Success also needs dynamic markets – and companies who are prepared to do more than the minimum to protect the planet for future generations. And we have a responsibility to have the right regulatory framework.

And communities, too, can drive change. Around the country, new groups are springing up. Research a few years ago suggested there were between 2,000 and 4,000 active community groups on climate change alone, and I know more are forming. Part of our approach must be to support these groups, not by dictating their role or displacing their activities, but giving them the tools they need to change their area, persuade others, and speed up the transition to a low-carbon Britain.

Many of the changes started since the creation of DECC will bear fruit in the coming year. Many more will take longer. The transition we face will need radical action not just for this coming year but for decades – but with progress already, a clear path ahead, and committed individuals and communities calling for urgency, I am optimistic that success can be maintained. I'd like to thank the supportive, committed and talented staff of the Department for delivering on this agenda and look forward to continuing to work with them.

A handwritten signature in black ink, reading "Ed Miliband". The signature is written in a cursive, slightly slanted style.

Rt Hon Ed Miliband MP

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Executive Summary

1. Climate change is not only a massive threat to the global environment, it is also perhaps the greatest economic challenge facing us in the twenty-first century. It demands an urgent and radical response across the developed and developing world. Creating a low carbon and resource efficient world means making major structural changes to the way we work and live, including how we source, manage and use our energy. The Department of Energy and Climate Change (DECC) was created in October 2008 to take the lead in tackling these challenges. DECC took over functions and responsibilities from the former Department for Business, Enterprise and Regulatory Reform (BERR)¹ and the Department for Environment, Food and Rural Affairs (Defra).
2. DECC is an outward-looking and open department – because success requires not only Government action but also action by businesses, families and individuals. We are working to empower people to act on CO₂ and play their part in combating climate change, saving energy and money. An economy based on energy efficiency and low carbon technologies also offers significant opportunities for investment, jobs and financial savings. Internationally, we are working to secure climate deals in Europe and, crucially, to reach a global deal at the UN climate change talks in Copenhagen at the end of 2009. As we bring about the transition to a low-carbon Britain, DECC wants to ensure that the UK and European energy markets work both competitively and fairly, so that the supply of our energy is secure and the most vulnerable in our society are protected from fuel poverty.
3. In 2008-09 DECC's strategic framework was provided by one Public Service Agreement, agreed as part of the 2007 Comprehensive Spending Review, underpinned by three Departmental Strategic Objectives (DSOs). DECC is developing new objectives for the future, building on the PSA and the three DSOs inherited from BERR and Defra. The Department is working with HM Treasury and other departments to agree indicators and delivery arrangements for seven draft objectives and to formalise these as new DSOs.

¹ On 5 June 2009 the Prime Minister announced the creation of a new Government Department, the Department for Business, Innovation and Skills, that merged BERR and the Department for Innovation, Universities and Skills (DIUS).

Formal objectives for 2008-09	Draft objectives from 2009-10
PSA 27 To lead the global effort to avoid dangerous climate change DSO 1 Climate change tackled internationally and through domestic action to reduce greenhouse gas emissions DSO 2 To ensure the reliable supply and efficient use of clean, safe and competitively-priced energy DSO 3 To manage energy liabilities effectively and responsibly	1 To secure global commitments that prevent dangerous climate change 2 To reduce greenhouse gas emissions in the UK 3 To ensure secure energy supplies 4 To promote fairness through our climate and energy policies at home and abroad 5 To ensure the UK benefits from the business and employment opportunities of a low carbon future 6 To manage energy liabilities effectively and safely 7 To develop the Department's capability, delivery systems and relationships so that we serve the public effectively

4. This report explains what DECC delivered throughout 2008-09. There have been many successes, with benefits to UK businesses, households and individual citizens. We have made progress in international climate change negotiations and adopted groundbreaking national legislation to underpin our efforts, demonstrating that the UK does not merely argue for a global deal but takes real action at home to make a difference. In a constantly-shifting global energy market, we have been able to ensure there is security of supply and pursue open and competitive UK markets, with steps taken to modernise our grid and lower the carbon intensity of our energy production. UK CO₂ emissions and the carbon intensity of the UK economy have been declining. At the same time, projections of the balance between energy supply and energy demand indicate that the likelihood of interruptions to supply is low. This is due in part to continuing new investment in power generation capacity and commissioning of new gas import and storage infrastructure over the course of the year.
5. DECC's first performance report against our new DSOs, to be produced later in 2009, will allow the Department to reflect on other recent achievements, including the series of announcements made on climate change and energy around the time of Budget 2009 in April. In July 2009 the Government published the UK Low Carbon Transition Plan. This set out our vision of a future that is fair, low-carbon, prosperous and energy-secure. It also detailed the policies to get there.

6. As soon as DECC was created, a transition team was set up to co-ordinate the shaping of the new Department. The Building DECC programme has included the establishment of corporate services (such as HR, IT, finance and communications), the physical relocation of the Department's London-based staff to its new headquarters, the establishment of DECC's corporate governance structure, the definition of the Department's strategy, work to improve value for money through co-operating with other Government departments on services and efforts to improve the environmental sustainability of the Department. The report also sets out the work we have undertaken to improve our efficiency and effectiveness to increase value for money.
7. In 2008-09 the outturn of the Department for gross total expenditure was £4,085m (compared to the estimate of £4,154m and the 2007-08 outturn of £4,007m). The outturn for Appropriation in Aid was £1,345m (compared to the estimate of £1,345m and the 2007-08 outturn of £1,556m) with an excess Appropriation in Aid and other operating income of £644m (compared to £2m in 2007-08).

About this report

8. The Department of Energy and Climate Change (DECC) was created on 3 October 2008. DECC took on functions from the former Department for Business, Enterprise and Regulatory Reform (BERR) – now the Department for Business, Innovation and Skills (BIS) – and the Department for Environment, Food and Rural Affairs (Defra). This report summarises the performance of DECC, BERR and Defra in the areas now covered by DECC over the period 1 April 2008 to 31 March 2009, showing achievements against objectives as well as financial results.

Links to external websites

9. This report gives details of links to DECC and non-DECC websites where further relevant information or key source material can be found. We have reviewed all of these links prior to publication, but these websites could change in future. DECC is not responsible for the content of external websites.

How to obtain copies of this report

10. This report is available in electronic format on the Departmental website.² Hardcopies can be obtained from TSO (see outside back cover). Alternative formats can be made available on request (again, see outside back cover).

² <http://www.decc.gov.uk/en/content/cms/about/governance/governance.aspx>

Chapter 1:

Introducing the Department

Section 1.1

The Department of Energy and Climate Change

- 1.1** The Department of Energy and Climate Change (DECC) was created to bring energy policy (previously with the former BERR) together with the overall lead for climate change policy (previously with Defra). The Secretary of State for Energy and Climate Change is the Rt Hon Ed Miliband MP. Moira Wallace is the Permanent Secretary. The Department currently has nearly 1,000 staff based in London and Aberdeen.
- 1.2** DECC's remit is a compelling one. We face unprecedented challenges to our environment, our economy and the future security of our energy supplies – and the decisions we make now will affect the planet and our way of life for generations to come. The Government is working to shape the UK into a prosperous, fair and low carbon economy to lead the global revolution to a new energy society and is playing a leading role in working towards a successful global agreement on climate change.

Section 1.2

Structure and ministerial responsibilities

Ministers			
			
Ed Miliband Secretary of State for Energy and Climate Change	Phil Hunt Minister of State	Joan Ruddock Minister of State	David Kidney Parliamentary Under-Secretary of State

Senior officials				
				
Pete Betts Acting Director General, International Energy and Climate Change	Edmund Hosker Acting Director General, Corporate Support and Shared Services	Moira Wallace Permanent Secretary	Willy Rickett Director General, Energy Markets and Infrastructure	Phil Wynn Owen Director General, National Climate Change and Consumer Support
		To be appointed DECC Chief Scientific Adviser		

1.3 DECC is organised into four Groups, each headed by a Director General. These are:

- Energy and Climate Change International – Pete Betts (acting)
- Corporate Support and Shared Services – Edmund Hosker (acting)
- Energy Markets and Infrastructure – Willy Rickett
- National Climate Change and Consumer Support – Phil Wynn Owen

1.4 DECC also includes the Office of Climate Change (OCC). The OCC was established in 2007 to provide a cross-government capability to programme manage climate and energy policy and to address specific cross-cutting policy questions. Since DECC's creation, the OCC has continued to play this cross-government role and has also undertaken work on the development of DECC's departmental strategy. Jonathan Brearley is both Director of the OCC and Director of Strategy for DECC.

Section 1.3

Future strategy and objectives

Mission and aims

- 1.5** DECC has a vital and leading role to play in the Government's programme to turn the UK into a low-carbon economy. For the future, DECC has adopted seven specific objectives to help focus efforts towards a low carbon future:
- 1** to secure global commitments that prevent dangerous climate change
 - 2** to reduce greenhouse gas emissions in the UK
 - 3** to ensure secure energy supplies
 - 4** to promote fairness through our climate and energy policies at home and abroad
 - 5** to ensure the UK benefits from the business and employment opportunities of a low carbon future
 - 6** to manage energy liabilities effectively and safely
 - 7** to develop the Department's capability, delivery systems and relationships so that we serve the public effectively
- 1.6** DECC is currently developing these objectives and considering what success measures could be used to measure performance. DECC expects to be able to publish an updated and final set of new DSOs and report progress against them in the 2009 Autumn Performance Report.

The UK Low Carbon Transition Plan

- 1.7** In July 2009 the Government published the UK Low Carbon Transition Plan³ setting out the UK's approach to meeting its climate change and energy objectives. It describes our plan for achieving a Britain in 2050 that is greener, fairer and more prosperous. The Plan demonstrates how we will meet our interrelated objectives for climate change, energy security and affordability, in the overall context of a thriving modern economy – its measures will not only allow us to meet our national carbon budgets and renewable energy targets, but also improve the security of our energy supplies and achieve a fairer society.
- 1.8** The document also meets the requirement of the 2008 Climate Change Act to show how the Government will meet the UK's legally-binding carbon budgets, which were announced at the time of the fiscal Budget in April 2009.

³ <http://www.decc.gov.uk/en/content/cms/publications/publications.aspx>

Section 1.4

Objectives for 2008-09

- 1.9** This report is the formal record of DECC's performance against its objectives for 2008-09. Our Autumn Performance Report will represent the first opportunity to report against DECC's new aims and objectives, once these have been established. This section sets out what our objectives for 2008-09 were.

Public Service Agreements

- 1.10** Like all Government Departments, DECC works to deliver a number of Public Service Agreements (PSAs). These were published in October 2007 as part of the 2007 Comprehensive Spending Review (CSR07).⁴ There are 30 cross-Government PSAs covering the period 2008-2011. The PSAs set out a number of priority outcomes that the Government intends to deliver and therefore make it clear to the public what they can expect from Government. Each PSA contains a delivery plan that gives responsibility for meeting PSAs to a lead department, supported by a number of other departments.

- 1.11** DECC is the lead department for PSA 27:

PSA	Lead department	Central government formal delivery partners
PSA 27 To lead the global effort to avoid dangerous climate change	DECC	● Her Majesty's Treasury (HMT) ● Communities and Local Government (CLG) ● Department for Transport (DfT) ● Department for Environment, Food and Rural Affairs (Defra) ● Department for International Development (DfID) ● Foreign and Commonwealth Office (FCO)

- 1.12** DECC is also a contributing department for PSA 6 – to deliver the conditions for business success in the UK – for which BIS is the lead department.

Departmental Strategic Objectives

- 1.13** DECC's performance is judged against a number of Departmental Strategic Objectives (DSOs). As set out above, we are currently developing our aims for the future, including our formal DSOs. For the period covered by this report, DECC had three DSOs. One of these related to climate change work taken forward by Defra before DECC's creation. Two of them related to BERR work. The three DSOs are:

⁴ http://www.hm-treasury.gov.uk/pbr_csr07_index.htm

DSOs for 2008-09		
DECC DSO	Previously	Objective
DSO 1	Defra DSO 1	Climate change tackled internationally and through domestic action to reduce greenhouse gas emissions
DSO 2	BERR DSO 4	To ensure the reliable supply and efficient use of clean, safe and competitively-priced energy
DSO 3	BERR DSO 5	To manage energy liabilities effectively and responsibly

1.14 Chapter 3 provides a performance report against the PSA and the three DSOs. Information about previous performance against earlier PSAs and DSOs can be found on the Defra⁵ and BIS⁶ websites. See also Annex 2.

⁵ <http://www.defra.gov.uk/corporate/busplan/spending-review/index.htm>

⁶ http://www.berr.gov.uk/aboutus/corporate/performance/performance_Framework/page25148.html

Chapter 2:

What we delivered in 2008-09

Section 2.1

Main achievements in 2008-09

International

- We played a pivotal role in the development of a strong EU position for the UN Framework Convention on Climate Change (UNFCCC) negotiations in Poznan which agreed to enter full negotiating mode in 2009 ahead of Copenhagen.
- We were a high profile party at the UNFCCC negotiations in Bonn (in March and April 2009) at which further proposals were put forward for the negotiation text for a deal at Copenhagen.
- We delivered agreement with EU partners on the EU 2020 legislative package in December 2008, comprising a range of measures to deliver the EU's commitment to a unilateral reduction in EU-wide emissions of 20% by 2020 (increasing to 30% in the context of an international agreement in 2009).
- We successfully completed negotiations on the EU's third package of legislation on the internal energy market, providing the basis for improved energy security and competitiveness in Europe.
- We secured scope for major funding for UK Carbon Capture and Storage (CCS) and offshore wind projects in negotiations on a £4bn package for energy infrastructure projects (the *European Energy Programme for Recovery*).
- We made real progress in producer-consumer relations through a meeting, chaired by Ed Miliband, of Ministers from the most significant oil producing and consuming countries in December 2008.

UK climate and energy legislative framework

- We completed the Parliamentary process on the Climate Change Act which received Royal Assent in November 2008. The first three carbon budgets were announced in Budget 2009 setting us on a path to reduce greenhouse gas emissions by at least 80% by 2050 compared to 1990 levels. They became law on 31 May 2009.

- In November 2008, the Energy Act 2008 also received Royal Assent. We created an Act that establishes one of the first legal frameworks anywhere in the world to permit the geological storage of carbon dioxide.
- We played a vital role in the Planning Act 2008 which became law in November 2008. This will provide the framework for decisions by the new Infrastructure Planning Commission (IPC) on major energy infrastructure projects.

For individuals and households

- We funded the Energy Saving Trust's roll out of its nationwide network of regional advice centres and the ACT ON CO₂ advice line, providing consumers with comprehensive and tailored advice on how to reduce their carbon footprint.
- The Carbon Emissions Reduction Target (CERT) entered into force in April 2008. In the year to March 2009, CERT assisted nearly 1m homes with measures such as loft or cavity wall insulation.
- We announced the Home Energy Saving Programme (HESP), a £1bn package of measures and proposals including a 20% uplift to the level of CERT, a new Community Energy Saving Programme (CESP) and £74m extra funding for Warm Front in September 2008.
- We consulted on the Heat and Energy Saving Strategy (HESS), with the ambition for all homes to have received a 'whole house' package of energy saving and other measures by 2030.
- Our extra funding for Warm Front benefited approximately 50,000 households.
- We announced in October 2008 that smart meters for electricity and gas would become mandatory for the domestic sector.
- We worked with Ofgem to deliver incentives to gas distribution networks to provide mains gas connections to deprived communities, which should deliver at least 20,000 connections in 400 communities over the period 2008-13.

For businesses

- Our system of Climate Change Agreements, which offers a discount from the Climate Change Levy in return for meeting tough energy efficiency targets, delivered 20.3MtCO₂ of savings in the 2008 target period.
- We published the Carbon Reduction Commitment (CRC) User Guide and consulted on the draft Order, marking real progress towards launch of the CRC, the first cap and trade system using Climate Change Act provisions, in 2010.
- In June 2008 the Carbon Trust launched the Carbon Trust Standard, an independent, objective measure that shows how a company is tackling its carbon emissions and demonstrates that it has effective carbon management practices in place.
- We introduced licence conditions to ensure advanced electricity and gas meters are installed in larger business sites over the next 5 years.

- We held two auctions under Phase II of the EU Emissions Trading System (EU ETS) (in November 2008 and March 2009) and successfully linked the UK EU ETS registry to the UN systems, enabling businesses to use UN carbon credits to comply with the EU ETS.
- We launched a quality assurance scheme for carbon offsetting and published a consultation on carbon neutrality in February 2009.
- We published the latest Energy Markets Outlook in December 2008.
- We gave planning consent to over 8GW of new electricity generation in 2008/09, allowing industry to make important investment in power stations.
- We actively facilitated the construction of significant new gas import and storage capacity and continued high levels of exploration and development for North Sea oil and gas.
- We made Coal Investment Aid payments to the last two mines receiving awards under this scheme, which is now closed. A total of £52.6m was paid between 2003-04 and 2008-09 to help to maintain access to viable reserves at 12 deep mines.

Green energy and green jobs

- The Government published its *Low Carbon Industrial Strategy: A Vision* in March 2009, leading to further announcements at Budget 2009.
- We helped fund 4,257 renewable energy projects under the Low Carbon Buildings Programme, spending just under £30m.
- We published the UK Renewable Energy Strategy (RES) consultation in June 2008 alongside a detailed consultation on the introduction of banding in the Renewables Obligation (RO). Banding of the RO was subsequently implemented using powers under the Energy Act 2008 on 1 April 2009.
- We published a consultation on scope and a proposed short list for the Severn Tidal Feasibility study in January 2009.
- We established the UK Environmental Transformation Fund in April 2008, accelerating the development of a range of new low carbon energy and energy efficiency technologies, such as offshore wind, wave and tidal stream energy, bioenergy and anaerobic digestion.
- We launched new rounds of the Bio-energy Capital Grants Scheme and the Bio-energy Infrastructure Scheme to expand the use of biomass energy for heating and combined heat and power.
- We got the Microgeneration Certification Scheme up and running, ensuring consumers can have confidence in the quality of certified microgeneration technologies and installers.
- The Electricity Networks Strategy Group – a senior industry group chaired by DECC and Ofgem – published *Our Electricity Transmission Network: A Vision for 2020* in March 2009.

- We created the Office for Nuclear Development and the Nuclear Development Forum in September 2008.
- In terms of nuclear development, we established the process and criteria for Strategic Siting Assessment following a public consultation.
- We completed our Offshore Energy Strategic Environmental Assessment (SEA). The SEA assessed the potential environmental impacts of the UK Government's draft programme to hold further rounds of offshore wind leasing and offshore oil and gas licensing in UK waters.

Public sector

- We drove forward negotiations on the inclusion of climate change mitigation targets in local area agreements (LAAs) under the new local government framework, with some 90% of LAAs reflecting climate change mitigation as a priority.
- We launched a new round of Salix funding for the public sector, with £30m over three years available for energy efficiency measures.

Managing liabilities

- The Nuclear Decommissioning Authority (NDA) successfully completed the competition for the management of its Sellafield site, one of the largest public procurements in the world. On 24 November 2008 the NDA signed the new Parent Body Agreement for Sellafield Limited with Nuclear Management Partners Limited.
- In June 2008 we published *Managing Radioactive Waste Safely: A Framework for Implementing Geological Disposal*. Three local authorities have opened up discussions on the possibility of hosting a disposal facility.
- We showcased the UK's credentials as an experienced nuclear partner/supplier at a high-level international seminar in Vienna in September 2008.
- In March 2009, we led – with FCO – the International Nuclear Fuel Cycle Conference held in London.
- We made real progress on delivering the UK's Global Threat Reduction Programme against the spread of weapons and materials of mass destruction, to which the Prime Minister has committed a £36m annual budget for the foreseeable future.

Section 2.2

Building the low carbon future: international

- 2.1** Climate change is a global issue that demands a global response; all countries must be part of the solution. The UK plays a leading role at the international level. We are working through the European Union, G8, Major Economies Forum (MEF) and UNFCCC processes to find ways to reach global agreement on action to avert dangerous climate change.
- 2.2** The UK Government's goals are to see the stabilisation of atmospheric greenhouse gas levels so that the world avoids dangerous climate change and to adapt to the climate change that is unavoidable. Securing a global agreement to

a realistic, robust, durable and fair framework for the post-2012 period, when the first set of targets under the Kyoto Protocol expires, is crucial. The UK Government aims to reach an ambitious agreement at the UNFCCC Conference of Parties at Copenhagen in December 2009 (COP15), supported by effective domestic action under the Climate Change Act 2008 and through the EU.

International climate change

- 2.3 Negotiations and near negotiations and key international processes** The Road to Copenhagen picked up pace throughout 2008-09. The UNFCCC meetings in Accra, Poznan and Bonn all helped to take forward both the process for and details of an ambitious global deal on climate change in Copenhagen in December 2009. DECC played a full role in the MEF established by the US in March 2009. The Forum provides a space for candid dialogue between the key countries in the international negotiations, helping to provide political leadership needed. The G20 communiqué following the London Summit⁷ included building a green and sustainable economy as one of the core commitments of economic recovery.
- 2.4** Looking ahead, 2009 is a critical year for the global effort to tackle dangerous climate change. Achieving an ambitious global deal at the UNFCCC negotiations in Copenhagen in December is a high priority for the UK Government. We want to achieve a deal that is sufficient to keep the planet from warming by more than 2°C above pre-industrial levels. This means agreeing ambitious emissions reduction targets for developed countries, getting developing country commitments to do better than business as usual and securing finance and technology flows to support developing country action.
- 2.5** DECC will work to achieve this by developing and implementing a more proactive and strategic approach to our outreach and engagement across HMG, as well as by making use of all parts of the Whitehall machine effectively.
- 2.6 Evidence and analysis** Throughout 2008-09 DECC has continued to improve its evidence base and analytical capabilities. DECC's climate change science programme is described below (see paragraphs 2.51 to 2.56). The Department's ability to model the economic implications of global climate change mitigation is expanding. For example, the Global Carbon Finance (GLOCAF) model allows the modelling of a range of global deal scenarios – varying mitigation targets and carbon market designs – and analysis of costs, financial flows and finance requirements at a regional level. In February 2009, DECC commissioned the development of a macroeconomic model that will allow the international costs of climate change mitigation action to be addressed.
- 2.7** DECC has also enhanced its analytical capacity through the commissioning of country emissions fact sheets and other analysis. A number of analytical research pieces delivered in 2008-09 have helped to inform policy positions. This has involved developing principles and an evidence base to further understand market mechanisms and policy positions on the development of a global carbon market. This includes analysis on the reform of the existing UN Clean Development

⁷ <http://www.londonsummit.gov.uk>

Mechanism, new sectoral mechanisms in developing countries and potential forestry instruments. Analysis has also been undertaken on non-market mechanisms and corresponding finance flows.

- 2.8 Forestry** On forestry, the UK proposed and gained signatories to a statement on forestry that confirmed a willingness to develop national action plans. The Secretary of State announced that the Government will contribute £100m to reduce the impact of deforestation on the world's climate. In addition, leaders agreed on the importance of addressing forestry at the Prince's Rainforest Project Meeting on forestry financing in March 2009.
- 2.9 Finance** The UK has continued to be a major player in the multilateral Climate Investment Funds, administered by the World Bank, and these made substantial progress in 2008–09 following their launch in July 2008, with several new donors joining. The UK deposited £100m of its £800m pledge in 2008–09, in line with its original commitment schedule. Three countries have had their investment proposals endorsed for funding under the Clean Technology Fund. The Scaling-up Renewable Energy Programme has been created as a new funding instrument and design continues on the Forest Investment Programme. DECC has played an active part in both of these.
- 2.10** The Department's global carbon markets team leads on development of policy and international negotiations on international carbon markets. The team supports negotiations in the G8, G20 and MEF and co-ordinates outreach activities on the development and implementation of emissions trading internationally. The team also contributes to meeting international regulatory responsibilities through support to appointment of an official to the Executive Board of the CDM. It operates, on behalf of the Secretary of State, the Designated National Authority (DNA) for the Clean Development Mechanism. In 2008–09, participation was approved in approximately 500 CDM projects. 2008–09 also saw the successful negotiation and implementation of harmonised EU procedures to ensure that large hydroelectric projects satisfy the sustainable development criteria of the World Commission on Dams. The Department also provides the Designated Focal Point for Joint Implementation projects, considering a growing number of projects in 2008–09.
- 2.11 Adaptation** In Poznan in December 2008, proposals from the Adaptation Fund Board were adopted. These put in place administrative and legal arrangements and paved the way for making the Fund operational in 2009. In addition, the Pilot Programme for Climate Resilience (PPCR) was launched at the G8 summit in July 2008. The PPCR established an independent Expert Group which identified eight countries to receive money, all of which have accepted. October saw the culmination in a series of workshops of a three-year project in China, jointly funded by DECC and the Chinese government, which examined climate change impacts on agriculture and developed a regional framework adaptation strategy.

European Union

- 2.12 EU2020 package** December 2008 saw agreement on the EU2020 package⁸, representing a real success for DECC-led UK negotiating efforts. The agreed texts sent a very strong signal that even in the most challenging times it is possible to take far-sighted action to tackle climate change.
- 2.13** The EU2020 package included a range of legislative measures to deliver the EU's commitment to a unilateral reduction in greenhouse gas emissions of 20% by 2020 and a clear commitment to increase this to 30% in the context of an international agreement in Copenhagen in December 2009. We reached an EU-wide commitment that 20% of all energy would come from renewables by 2020. The deal also included agreement to use 300m EU ETS allowances to part-fund up to 12 CCS demonstration plants and certain renewables projects. By 2020 at least 60% of EU ETS allowances will be auctioned. This will help create opportunities in developing clean technology.
- 2.14** The package also included a greenhouse gas emissions effort-sharing Decision that will ensure Member States take steps to reduce emissions not covered by the EU ETS. Aviation emissions will be included in the EU ETS from 2012 effectively placing a cap on aviation emissions at 95% of the average of 2004-6 emissions.⁹

EU ETS

As part of the EU 2020 package we secured EU agreement to centralise and tighten the cap on emissions from heavy industry in the EU Emissions Trading System which covers 46% of UK greenhouse gas emissions. The EU cap will reduce by 1.74% a year from 2013 onwards.

The UK held the first auction of any EU Member State under the EU ETS Phase II (2008-2012) in November 2008. We also held a second auction in March 2009, a third in June 2009 and a fourth in July 2009. Auctioning is the most efficient method for allocating EU allowances and, together, the auctions raised £95m for the Exchequer in 2008-09. We expect to continue to hold competitive auctions, selling about 86m allowances in 2008-12.

Section 2.3

Building the low carbon future: national

- 2.15** Our efforts to demonstrate international leadership and to have real influence in the UN and EU negotiations are backed up by wide-ranging and effective action to build a low carbon economy here in the UK. This action is set against a new and groundbreaking legal framework adopted in 2008. Departmental expenditure is then targeted at a range of programmes, policies, measures and direct incentives

⁸ http://ec.europa.eu/environment/climat/climate_action.htm

⁹ Aviation emissions are capped in 2012 at 97% of the average 2004-06 emissions and in 2013-20 at 95% of 2004-06 emissions. Any emissions by airlines landing in Europe above this cap will have to be offset by purchasing allowances which will fund equivalent offsetting emissions reductions.

that will help businesses, the public sector, individuals and households to embrace the opportunities of the expanding low-carbon sector.

Climate Change Act 2008

2.16 Climate Change Act and carbon budgets In November 2008 the Climate Change Act 2008¹⁰ completed its parliamentary passage and received Royal Assent, introducing the world's first long-term legally binding framework to tackle the dangers of climate change. The Act introduces a legally binding target to reduce emissions by at least 80% below 1990 levels by 2050, with five-year carbon budgets to ensure that the target is met. It also establishes the Committee on Climate Change (CCC) (see paragraph 2.18). It enables new emissions trading schemes to be established more easily, using secondary legislation. The first use of this power was to establish the Carbon Reduction Commitment (see paragraph 2.33). The Act also sets up a new framework for assessing and responding to the impacts of climate change. This requires the Government to report at least every five years on the risks to the UK of climate change and to publish a programme setting out how these impacts will be addressed.

New legal framework for climate change and energy

On 26 November 2008 three Acts of Parliament received Royal Assent that together provide a legal framework for the Government's work on climate and energy. In addition to the **Climate Change Act**, these are the Energy and Planning Acts 2008.

The **Energy Act 2008**¹¹ ensures that the UK's primary legislation is appropriate for today's energy market and fit for the challenges we face. It puts in place provisions to reflect the availability of new technologies (such as CCS, emerging renewable technologies and smart meters), to respond to our changing requirements for security of supply infrastructure (such as offshore gas storage) and to ensure adequate protection for the environment and the tax payer as our energy market changes.

Today there is enough renewable energy capacity waiting in the England and Wales planning system to power more than 1.5m homes if realised. Measures in the **Planning Act 2008**¹² will help address this backlog quickly and fairly. One third of Britain's electricity generating capacity needs replacing, people are facing rising fuel bills and we are becoming more and more dependent on imported energy as supplies from the North Sea decline. Currently over 5% (22,600 GWh) of our electricity comes from renewable sources. The Planning Act allows the Government to create a new body, the Infrastructure Planning Commission, that will be able to take fair decisions on major infrastructure projects in less than a year. It also creates a new national policy framework (National Policy Statements) that will determine and set out what the national infrastructure priorities for this country are on energy, aviation, road and rail transport, water and waste.

10 http://www.opsi.gov.uk/acts/acts2008/ukpga_20080027_en_1

11 http://www.opsi.gov.uk/acts/acts2008/ukpga_20080032_en_1

12 http://www.opsi.gov.uk/acts/acts2008/ukpga_20080029_en_1

2.17 DECC led the Government's work on setting the level of carbon budgets. The Act required the first three carbon budgets to be set by 1 June 2009. We took into account the independent advice of the Committee on Climate Change and sought the views of the Devolved Administrations on the CCC's advice. We then announced the level of the first three budgets alongside Budget 2009. They require greenhouse gas emissions to be reduced by at least 34% by the third budget period (2018-22) compared to 1990 levels. We also announced that we would aim to meet these budgets through domestic emission reductions alone, without the use of international offset credits.¹³

What is a carbon budget?

The Climate Change Act requires the Government to set a limit on emissions of greenhouse gases over successive five-year periods. The limit is known as a carbon budget. The Act sets a legal requirement on the Government to put in place policies that ensure we live within these budgets. Meeting them will require the UK to generate energy in lower carbon ways – like wind-power – and use energy more efficiently – for example by insulating homes and developing cleaner cars. In this way carbon budgets will help drive the transition to a lower carbon economy and put the UK on track to meet the 2050 target required by the Climate Change Act of cutting emissions by at least 80% compared to 1990 levels.

The Government announced the levels of the first three carbon budgets, covering the periods 2008-12, 2013-17 and 2018-22, at Budget 2009. They have subsequently entered into law.¹⁴

	Budget 1 (2008-12)	Budget 2 (2013-17)	Budget 3 (2018-22)
Proposed budget (MtCO₂e)	3,018	2,782	2,544
Annual equivalent reduction below 1990 levels (%)	22	28	34

2.18 The **Committee on Climate Change** (CCC) is an independent expert body, created through the Climate Change Act 2008, tasked with advising the Government and monitoring and reporting on progress against the carbon budgets and targets established by the Act. An Adaptation Sub-Committee of the CCC has also been established to provide advice to and scrutiny of the Government's adaptation work. In autumn 2009, the CCC will produce its first annual progress report. The Government will respond in January 2010.

Renewable energy

2.19 Renewable energy is a central part of the Government's plans to reduce greenhouse gas emissions by at least 80% by 2050. The UK is the world leader in deployed offshore wind, a position set to be strengthened by the construction of

¹³ The use of international offset credits is permitted under the EU ETS, subject to limits.

¹⁴ http://www.opsi.gov.uk/si/si2009/ukxi_20091259_en_1

the world's largest offshore wind farm, the London Array.¹⁵ DECC is now leading the Government's efforts to ensure that we deliver a seven-fold increase, from 2.25% in 2008, in the share of renewables in our energy mix by 2020. This is an important part of our overall strategy for tackling climate change, ensuring security of energy supplies, and maximising business opportunities.

- 2.20** In June 2008 DECC published a consultation on the **UK Renewable Energy Strategy** (RES)¹⁶ setting out a package of potential measures to meet the UK share of the EU target to source 20% of EU energy from renewable sources. The Department has now published the RES and created the Office for Renewable Energy Deployment (ORED). ORED will significantly ramp up the deployment of established renewable energy technologies by addressing delivery issues such as planning, the supply chain, and facilitate investment in renewable energy.
- 2.21** In June 2008 the final report of the Transmission Access Review was also published, setting out measures to address barriers to grid access for new generators. We included provisions in the Energy Act 2008 to enable the introduction of feed-in tariffs (FITs), a Renewable Heat Incentive (RHI) and a banded RO. A banded RO was subsequently implemented through secondary legislation on 1 April 2009. Further amendments to the RO and the introduction of FITs are being consulted on over the summer of 2009 and a consultation on the RHI is to follow.

What is the Renewables Obligation (RO)?

The RO is the Government's main mechanism for supporting renewable electricity generation. Since its introduction in 2002, the level of renewable electricity has tripled (from 1.8% of total UK supply to 5.3%¹⁷ in 2008). Renewables generation also grew by 10% in 2008 compared to 2007. Reforms to the RO took effect on 1 April 2009. The most significant change is the introduction of banding, which aims to bring forward additional generating capacity by targeting more support at emerging technologies, combined with a reduction in support for some of the cheaper, more established technologies. Banding will make the RO more effective, enabling it to bring forward a higher level of generation from a wider range of renewable sources.

- 2.22 Biomass Strategy** In 2008–09 DECC took forward a range of actions under the 2007 Biomass Strategy to expand the use of sustainable biomass energy, including mapping the potential for biomass heating on the Government estate, provision of grants for biomass heating, research on new sources of biomass and support for the Forestry Commission's Woodfuel Strategy. The Department promoted sustainable renewable materials and sponsored the construction of a demonstration house built with these products. DECC provided core funding for the National Non-Food Crops Centre for its work building supply chains and promoting new markets for renewable fuels and materials.

¹⁵ <http://www.londonarray.com>

¹⁶ http://www.decc.gov.uk/en/content/cms/consultations/cons_res/cons_res.aspx

¹⁷ Provisional figure

- 2.23** In Budget 2009 the launch of a review of the level of support for offshore wind under the RO was announced in response to evidence that the costs of projects reaching financial close have risen markedly recently. If the review and subsequent consultation confirm the evidence so far presented, DECC proposes to provide even more incentive to offshore wind projects for a time-limited period and subject to certain conditions. The additional support being proposed is expected to protect up to 3GW of planned investment over the next two years – enough to power 1.7m homes. Offshore wind has the potential to create 70,000 new green jobs and bring economic benefits and investment to the UK of up to £8bn in annual revenues by 2020.
- 2.24** The UK **Environmental Transformation Fund (ETF)**¹⁸ was set up to bring greater coherence to the Government's support for the demonstration and pre-commercial deployment phases of bringing low carbon technologies to market with the aim of accelerating the commercialisation of new low carbon energy and energy efficiency technologies. The first year of ETF has seen significant support for microgeneration and bio-energy deployments, grant funding for fuel cells and offshore wind and a range of support funding, via the Carbon Trust, for low carbon business development. In addition new rounds have been started in areas such as clean coal, anaerobic digestion and offshore wind.
- 2.25 Low Carbon Buildings Programme (LCBP)** We have a range of policies to support distributed energy technologies, including funding demonstration through the £86m LCBP.¹⁹ DECC funded more than 4,250 projects in 2008-09 under both Phase 1 (households) and Phase 2, offering nearly £30m support. In Budget 2009, the Government announced a further £45m for LCBP. We are now considering options to ensure this money can be used to support the full range of technologies at the domestic and community levels.

Energy efficiency and use

- 2.26** Assisting and encouraging energy efficiency is central to DECC's objectives to mitigate climate change. This holds equally well for individuals and households



Photo courtesy of Penwith Housing Association and Plug Into The Sun

as for businesses and the public sector. For individuals and households, reducing energy demand and increasing energy efficiency can help save money by reducing bills and alleviate fuel poverty. For businesses, there is scope for major improvements in energy efficiency and therefore cost savings. In all cases, by reducing overall demand, improved energy efficiency can also contribute to a more secure and reliable energy supply.

¹⁸ <http://www.berr.gov.uk/energy/environment/etf/page41652.html>

¹⁹ <http://www.lowcarbonbuildings.org.uk>

2.27 Carbon Emissions Reduction Target (CERT) A number of important milestones were reached during 2008–09, not least the commencement of the third phase of the energy supplier obligation – CERT²⁰ – in April 2008. CERT represents a doubling of the ambition level of its predecessor, Phase 2 of the Energy Efficiency Commitment, and is expected to help some 5m households to benefit from significant energy saving measures, including insulation, by 2011. CERT will make a significant contribution towards the Prime Minister’s commitment to insulate 6m households by the end of 2011. The HESS consultation proposed continuing with a CERT-type obligation to December 2012. See also paragraph 2.63 for further information on CERT in the specific context of fuel poverty.

2.28 Save money, Save energy Rising energy prices in autumn 2008 placed a fresh impetus on our energy efficiency policies to help households save money on their bills. The Prime Minister responded to this challenge with the announcement on 11 September of a £1bn package of measures to extend and enhance our energy efficiency programme. Known as the Household Energy Saving Programme (HESP)²¹, the package included a wide range of proposals (see box).

Home Energy Saving Programme (HESP)

The Prime Minister announced on 11 September 2008 a new £1bn package of measures designed to help cut domestic energy bills while driving long-lasting behaviour change in energy efficiency and consumption

HESP includes:

- a 20% increase in CERT, from 154m lifetime tonnes of CO₂ to 185m tonnes.
- a new Community Energy Saving Programme (CESP) worth approximately £350m, offering free or heavily discounted whole house energy efficiency packages to low income areas.
- a £74m increase in the Warm Front budget.
- an increase in Cold Weather Payments from £8 to £25 per week for winter 2008–09.
- a Financial Inclusion Taskforce report on the use of direct debit.

Act On CO₂, the Department’s major social marketing campaign, is supporting HESP’s objectives. HESP will also play an important role in our efforts to reduce fuel poverty. See paragraphs 2.59–2.72 below.

2.29 DECC drew up proposals for the new CESP²², with a consultation document published on 12 February 2009. CESP creates an obligation on the major suppliers and generators to deliver around £350m of energy efficiency improvements to some 90,000 homes in low income areas across the country. It will provide significant packages of support to the households targeted,

20 <http://www.defra.gov.uk/environment/climatechange/uk/household/supplier/cert.htm>

21 http://www.decc.gov.uk/en/content/cms/what_we_do/consumers/home_energy/home_energy.aspx

22 <http://www.decc.gov.uk/en/content/cms/consultations/open/cesp/cesp.aspx>

resulting in real carbon reductions and fuel bill savings for them. The programme is designed to be delivered through a partnership approach involving energy companies, local authorities and other relevant organisations in the areas concerned. In developing and finalising the scheme, DECC has benefited from extensive input from a very wide range of stakeholders who attended a series of regional roadshows organised over the consultation period. Looking ahead, we want to launch CESP in full by the end of 2009.

2.30 In Budget 2009, the Government announced that it will seek to extend the Climate Change Levy exemption for Combined Heat and Power (CHP) and put £25m into new low carbon district heating schemes to bridge the gap before the new financial incentives under the Energy Act 2008 come into force. As set out previously, new funding of £45m was also announced for the Low Carbon Buildings Programme.

2.31 In addition to major achievements in our existing policy programme, we have also taken an important step in determining the policy landscape for the next decade and beyond. The HESS consultation published in February 2009 acknowledges the need to go much further if we are to achieve our long-term climate change targets, particularly in light of the recently established carbon budgets. The ambition set out in the HESS consultation is for all homes to have received by 2030 a 'whole house' package including all cost-effective energy saving measures, plus renewable heat and electricity measures as appropriate. The HESS consultation also proposes continuing a CERT-type obligation until December 2012. The proposals include looking at new ways to provide financial support so that people can make more substantial energy-saving and renewable energy improvements to their homes through mechanisms that allow costs to be more than offset by energy bill savings. We also considered whether a new delivery model is needed to support our ambitions. There was also a focus on the potential for modern district heating systems and how the Government can remove some of the barriers to its expansion. The consultation also considered the support system for CHP and the future for fossil fuel powered CHP. We want to publish the finalised strategy by the end of 2009.

2.32 Climate Change Agreements (CCAs) are an example of an incentive to reduce energy use and improve energy efficiency within the business sector. CCAs are agreements with energy intensive industry to meet challenging energy efficiency targets in return for an 80 per cent discount from the Climate Change Levy. The full results of sector performance in the fourth target period (2008) will be published in summer 2009. We already know that 36 out of 52 sectors met their targets outright, 99% of facilities were recertified to continue receiving the Levy discount and sectors achieved savings of 20.3MtCO₂.²³ Targets for 2010 (the last target period under the current scheme) were reviewed in 2008. Industry agreed to a tightening of targets that will increase the savings achieved by the targets alone from 7MtCO₂ to over 10.5MtCO₂.²⁴ Following the Pre-Budget Report 2007 announcement of the extension of CCAs from 2013 to 2017 a consultation

²³ The savings are measured against baselines.

²⁴ Targeted savings are measured against business-as-usual projections.

document on the form and content of the next scheme was published in March 2009.

- 2.33** The **Carbon Reduction Commitment**²⁵ (CRC) is a scheme to drive behaviour and infrastructure change in large private and public sector organisations to reduce carbon emissions and in particular improve energy efficiency. It will be introduced across the UK using provisions in the Climate Change Act 2008. In 2008–09 we published a draft User Guide to help organisations know what they need to do to comply with the scheme, alongside the third round of formal consultations on the design of the scheme.

How does the Carbon Reduction Commitment work?

The CRC is a groundbreaking mandatory carbon reduction and energy efficiency scheme to cover large UK business and public sector organisations. The CRC will target organisations that have annual electricity consumption through half hourly metering systems in excess of 6,000 megawatt hours. Scheme participants are given incentives to reduce emissions and increase energy efficiency by having to buy allowances in the CRC cap and trade system. The proceeds are recycled to the best performers when ranked in a CRC performance league table.

The CRC is scheduled to begin in 2010. We estimate that the CRC will deliver carbon savings of at least 4MtCO₂ per year by 2020.

- 2.34 Smart meters** The availability of information about energy use to those using it is vital in the drive to cut use and improve efficiency. Smart and advanced meters²⁶ will enable consumers and businesses to see their energy consumption – and therefore take action to reduce it. Such meters will also allow suppliers to take remote readings of customers' energy consumption, provide accurate bills and help to speed up switching between suppliers. The accurate consumption information provided by smart meters will allow suppliers to reduce their costs and also offer a greater range of tariffs and services to consumers. Network businesses will be able to use the information to make more informed judgements about infrastructure investment. In the longer term, smart meters will help networks in the management of increasing levels of intermittent renewable energy sources and microgeneration.
- 2.35** In 2008–09 the Energy Demand Research Project (also known as the smart meter trials) moved into its second year, with smart metering installed in around 17,000 homes and display devices in a further 8,000 homes. Continuing into 2010, the trials will provide valuable information about how consumers respond to better information about their energy consumption. This is a £20m project jointly funded by the Government and industry.
- 2.36** On 28 October 2008, the Government announced its intention to mandate smart meters for the domestic sector. Building on this, we published a consultation in

²⁵ http://www.decc.gov.uk/en/content/cms/what_we_do/lc_uk/crc/crc.aspx

²⁶ http://www.decc.gov.uk/en/content/cms/what_we_do/consumers/smart_meters/smart_meters.aspx

May 2009²⁷ which set out proposals on how we intend to implement the roll out of smart meters. The proposals addressed a range of fundamental issues, including the delivery model for the roll out and the required functionality of smart meters. The consultation also sets out proposals for extending smart and advanced metering in the small and medium non-domestic sector. The proposals in the consultation document reflect extensive analytical work conducted by the Department in consultation with stakeholders during 2008-09.

Public engagement

2.37 There is a clear need for the Government to engage directly with the broad public on climate and energy issues. Since its creation, DECC has placed genuine, open and transparent public engagement at its heart.

2.38 Big Energy Shift²⁸ In a project commissioned and supported by DECC and the Northern Ireland Executive and Welsh Assembly Government participants from nine communities in England, Wales and Northern Ireland met together in spring 2009 for a series of deliberative discussions. The research explored reactions to a range of domestic low carbon propositions including how people heat and power their homes and communities. The project found that the public is overwhelmingly positive to energy efficiency and microgeneration. Spreading messages by word of mouth is important, as is offering concrete examples of how solutions have worked in the real world for ordinary people. The project also showed that dialogue makes a difference.

2.39 Throughout 2008-09 DECC continued to deliver the **ACT ON CO₂ campaign²⁹** which had a budget of £13m. Launched in 2007, ACT ON CO₂ is a major Government-led campaign that aims to engage the public on climate change issues, address the confusion and powerlessness which can impede people from taking action and encourage genuine and sustained behaviour change to help reduce CO₂ emissions and meet UK targets. In January 2009 independent research suggested that 73% of people with some contact with the campaign have taken, or are planning to take, action to reduce their CO₂ emissions as a result of the campaign – an increase of 23 percentage points since summer 2007. There have been some 660,000 unique visitors to the campaign website between September 2008 and June 2009. There were almost 535,000 calls to the ACT ON CO₂ advice line, run by the Energy Saving Trust, between September 2008 and February



ACT ON CO₂ roadshow, Birmingham 2009

²⁷ http://www.decc.gov.uk/en/content/cms/consultations/smart_metering/smart_metering.aspx

²⁸ <http://www.bigeneryshift.org.uk>

²⁹ <http://www.direct.gov.uk/ActOnCO2>

2009, an increase of more than 60% on the same period in 2007–08. The campaign won two Green Awards in 2008 for Best Audio Visual and Best Integrated Campaign.³⁰

- 2.40** We provided the **Energy Saving Trust (EST)**³¹ with some £36m in 2008–09 to support their activities in promoting the sustainable and efficient use of energy and a low carbon lifestyle to the public. In November 2007, the Prime Minister announced that the Government would be providing the Energy Saving Trust with over £100m from 2008–11 to develop a proactive green homes service. In 2008–09 the Energy Saving Trust developed and rolled out their nationwide network of regional advice centres and ACT ON CO₂ advice line. The ‘one-stop-shop’ offers consumers a range of free and impartial advice on energy efficiency, microgeneration and renewable energy, low carbon transport, water efficiency and waste reduction and a range of independent services that will help them take action to follow that advice. The advice centres also join up a number of sources of funding to provide easy access to the full range of discounted and free offers available, in particular the Carbon Emissions Reduction Target and the Warm Front Scheme.

Energy Saving Trust

In 2008–09 EST:

- advised over 1.3m consumers through the EST Advice Centres, on the phone or at outreach events;
- saw the number of products achieving Energy Saving Recommended (ESR) status exceed 3,200 through its work with the supply chain;
- leveraged in £10.2m of advertising equivalency (with a ratio of private to EST funding of 10:1) through working in partnership with B&Q, Tesco, GE, Philips, J Sainsbury and Marks and Spencer on marketing activities; and
- achieved 393 pieces of coverage with an advertising equivalency value of over £2.4m through its Energy Saving Week in October 2008.

The Energy Saving Trust’s work through their consumer, community and local authority programmes is highly cost effective, with one tonne of lifetime CO₂ saved costing just £1.20. Total lifetime savings stimulated by EST activities have risen from 16MtCO₂ in 2006–07 to 21MtCO₂ in 2007–08.

Low carbon economy

- 2.41** Over recent months, the UK and countries around the world have experienced a significant economic downturn. The Stern Review³² demonstrated that a failure to act now to tackle climate change would have dramatic economic impacts, eclipsing even those of the credit crunch, with a loss in world GDP of at least 5% each year. Investing in a low carbon economy will not only help re-energise the UK economy

³⁰ http://www.greenawards.co.uk/past_winners/winners_2008

³¹ <http://www.energysavingtrust.org.uk>

³² <http://www.sternreview.org.uk>

in the short term, including boosting employment through green jobs, but also make a major contribution to reducing greenhouse gas emissions and lowering the future costs of the impacts of unavoidable climate change. New investment to support the UK's low carbon economy was announced in Budget 2009.

2.42 Low Carbon Industrial Strategy³³ The Government published its *Low Carbon Industrial Strategy: A Vision* on 6 March 2009 at a Summit hosted by Ed Miliband and Lord Mandelson. The discussions held at the Summit helped shape policy intentions that were announced alongside Budget 2009 and spelled out in *Investing in a Low Carbon Britain* published on 23 April. *Investing in a Low Carbon Britain* makes the case for applying the Government's new activism to low carbon growth, focusing on key sectors where the UK may have an advantage to help us secure a significant share of the £3 trillion global market for low carbon and environmental goods and services. The UK is already in a strong place, with a clear regulatory commitment to low carbon, a strong manufacturing base and a strong tradition of skills, innovation and research. The low carbon economy in the UK is already worth £107bn and employs around 880,000 people, with significant potential for growth.

Investing in a Low Carbon Britain and Budget 2009

We will:

- provide £405m for the development and deployment of low carbon technologies and to help remove barriers to low carbon industries investing in the UK;
- advance the growth of the renewable energy industry in the UK through the RES, which is likely to mean an investment of some £100bn in the renewables industry;
- put the UK at the forefront of CCS technology through a levy mechanism to deliver up to four CCS demonstration projects, including both pre- and post-combustion capture on coal power generation plant;
- help businesses, schools, hospitals and households benefit from energy and resource efficiency savings through a package of £375m of new investment in efficiency across the economy;
- invest in new measures to unlock community heating through £25m of investment in community projects; and
- extend the exemption from the climate change levy for Combined Heat and Power to 2023, to unlock at least £2bn of investment in this industry.

³³ <http://interactive.berr.gov.uk/lowcarbon/>

2.43 We provided **Carbon Trust**³⁴ with some £90m in 2008-09. DECC provides the majority of the Carbon Trust's income. The Carbon Trust helps to cut carbon emissions now by providing business and the public sector with expert advice, finance and accreditation and by stimulating demand for low carbon products and services. Through this work, the Carbon Trust has already helped save over 17m tonnes of carbon, delivering cost savings of over £1bn. The Carbon Trust also helps cut future carbon emissions by developing new low carbon technologies through project funding and management, investment and collaboration and by identifying market failures and practical ways to overcome them.

2.44 Since 2001 the Carbon Trust has:

- helped customers save 17MtCO₂ and save over £1bn;
- worked with over 70% of FTSE 100 companies;
- supported the development of over 200 new UK low carbon technology projects and companies;
- supported 166 applied research projects, with 70% going on to raise patents, secure funding and/or investment or get commercial sales.

2.45 The Carbon Trust's work with business is highly cost effective (£4-6 per tonne of CO₂ saved) and the Carbon Trust estimates that its activities overall leverage direct and indirect investment into the low carbon economy at a rate of 7:1.

2.46 Local government DECC was successful in its work with Government Offices and local authorities to see the inclusion of targets against the climate change mitigation indicators in LAAs³⁵ for 2008-09 to 2010-11. When announced in July 2008, 101 out of 152 LAAs³⁶ contained targets against National Indicator (NI) 186 on reducing per capita emissions in their communities. 35 LAAs also included targets against NI 185 on reducing emissions of CO₂ from local authority operations. This means that some 85% of LAAs include at least one target on climate mitigation. This is testament to a determination by local government to make a strong contribution to tackling climate change.

2.47 Regional government The local authority best practice programme on climate change is now in its second year. This is a four-year programme to which DECC contributed a further £550,000 in 2008-09. The programme provides support to local authorities enabling them to deliver effectively against the climate change elements of the local government performance framework. The Regional and Improvement Efficiency Partnerships are responsible for programme delivery. Looking ahead, the Local Democracy, Economic Development and Construction Bill³⁷ currently before Parliament will require a Regional Strategy to be developed for each region in England. We will expect new strategies to be ambitious and to secure enduring progress against the UK's greenhouse gas emissions targets and budgets, making a full contribution to national energy policies.

³⁴ <http://www.carbontrust.co.uk>

³⁵ <http://www.localpriorities.communities.gov.uk>

³⁶ These figures reflect changes to local government structures in April 2009.

³⁷ <http://www.communities.gov.uk/communities/communityempowerment/localdemocracypill/>

Regional Development Agencies (RDAs)

RDAs have made real strides in reducing the carbon impact of the programmes they fund. Several RDAs have developed tools to calculate the carbon emissions resulting from proposed projects at the appraisal stage and have put mechanisms in place to identify carbon reduction measures. An example of a carbon-cutting project in 2008-09 is the Christmas energy monitor for Swavesey Village College, which was developed with funding from the East of England Development Agency (EEDA). Students used one of Green Energy Options' (GEO) monitors to compare old-style and LED Christmas tree lights and found that LED ones used around 80% less energy. EEDA helped the Cambridge-based company to create a series of energy monitors with Proof of Concept Funding and a grant for Research and Development.

- 2.48** We want to ensure that the **public sector** leads by example in energy efficiency. Article 5 of the Energy Services Directive³⁸ requires the public sector to fulfil this role. In 2008-09 we secured agreement from all Government departments to promote energy efficiency measures across their estate and use the Buy Sustainable Quick Wins product list to purchase energy efficient equipment and vehicles. We also started a new £30m round of Salix³⁹ funding for the public sector, providing loans for energy efficiency technologies. In 2009-10, we will launch a new one-year funding scheme through Salix, with an additional £51.5m available in loans for the public sector.
- 2.49** More generally, DECC continues to work closely with the Office of Government Commerce⁴⁰ to provide ways of supporting departments and to deliver significant energy efficiency savings in the most cost effective way. This includes developing collaborative procurement contracts for energy efficiency technologies. In particular, DECC has worked with the health and education sectors to develop and implement their carbon reduction strategies.
- 2.50 Transport emissions** We successfully lobbied in Europe throughout 2008 for a challenging long-term target for 2020 to be added to the proposed EU new car CO₂ regulation.⁴¹ This will deliver significant carbon savings as well as reducing running costs for purchasers of new cars. With UK support, the regulations were also amended to give an extra incentive for ultra low carbon vehicles. In April 2009 the Government published a report entitled *Ultra-Low Carbon Vehicles in the UK*.⁴² DECC played a significant part in shaping this document that laid out the future of low carbon vehicle research, development, demonstration and production in the UK. We will continue to work across government in this field. The Department for Transport leads on this overarching policy area.

38 http://eur-lex.europa.eu/LexUriServ/site/en/oj/2006/L_114/L_11420060427en00640085.pdf

39 <http://www.salixfinance.co.uk>

40 <http://www.ogc.gov.uk>

41 http://ec.europa.eu/environment/air/transport/co2/co2_home.htm

42 <http://www.berr.gov.uk/files/file51017.pdf>

Carbon offsetting and carbon neutrality

In February 2009 DECC launched a quality assurance scheme for carbon offsetting.⁴³ The scheme signposts high quality carbon offsets to consumers (individuals and businesses) through the award of a quality mark for approved offsets. The quality mark is awarded where offset providers can demonstrate that they calculate emissions accurately, that they use only UN-approved carbon credits, that they emphasise the need to avoid and reduce emissions before offsetting and that they use clear and transparent pricing information.



For its part, the Government continues to offset Ministers' and officials' air travel through the Government Carbon Offsetting Fund.⁴⁴ In 2008–09 the contract continued to be managed successfully by DECC and, by its close, 305,000t of carbon credits had been bought to offset emissions. Work has been ongoing since summer 2008 to develop the next contract. This will be managed by Buying Solutions and is expected to come into effect in 2009–10. In February 2009 DECC also launched a public consultation on carbon neutrality, to define the term for government and other use and to set out good practice recommendations for those who wish to become carbon neutral. The consultation exercise ended in May 2009 and DECC expects to publish definitive guidance in autumn 2009.

Climate change science

2.51 Scientific analysis and evidence Our policies and decision-making on climate change and energy – both nationally and internationally – need to be underpinned by timely and sound scientific analysis and evidence. This analysis is provided through a team of in-house scientists working closely with policy teams. The Department directly funds a wide range of climate change research to inform UK policy development. DECC's research contributes to the science base for the Intergovernmental Panel on Climate Change (IPCC) and supports negotiations on international action on climate change through the UNFCCC.

2.52 The aims of our climate change research programme are to:

- improve understanding of and reduce uncertainty in climate predictions;
- improve climate impact assessments and adaptation strategies;
- meet the UK's national and international commitments for assessing trends in greenhouse gas emissions and future projections;
- improve assessment of mitigation options and costs;
- help to build internationally acceptable approaches to responding to climate change in the long term; and

⁴³ <http://www.defra.gov.uk/offsetting> and <http://www.direct.gov.uk/offsetting>

⁴⁴ <http://www.defra.gov.uk/environment/climatechange/uk/carbonoffset/govt.htm>

- continue long-term measurement of changes occurring in the ocean and the atmosphere.

- 2.53** DECC and Defra commission research from the **Met Office Hadley Centre** for Climate Prediction and Research.⁴⁵ **The Integrated Climate Programme**, launched in September 2007, combines departmental requirements for information from the Hadley Centre on climate change. The cost of the Integrated Climate Programme was some £19m in 2008-09.
- 2.54** The Met Office Hadley Centre in conjunction with UK university collaborators has developed a fully coupled Earth-System model (HadGEM2-ES) including representation of the terrestrial and oceanic ecosystems and atmospheric chemistry. This model will be a valuable tool for predicting future climate change, studying mitigation pathways and understanding climate feedbacks within the earth system. It will be assessed in the Fifth Assessment Report of the IPCC.
- 2.55** **AVOID Programme** This programme was launched by DECC and Defra in February 2009. AVOID⁴⁶ aims to provide policy-relevant evidence and research on avoiding dangerous climate change. It will attempt to identify risks associated with different levels of climate change, emission pathways that can deliver mitigation targets as well as adaptation strategies needed to respond globally to different levels of climate change.
- 2.56** **National system for preparing the UK greenhouse gas inventory** The UK's greenhouse gas inventory is compiled annually under contract to DECC by AEA. AEA also compiles the UK's National Atmospheric Emissions Inventory used for reporting emissions to other international agreements, including the Gothenburg Protocol and the UNECE Convention on Long Range Transboundary Air Pollution. Most of the underlying information is held on common databases and this helps ensure consistency between the inventories.

Section 2.4

Energy markets and prices and security of energy supply

- 2.57** Energy powers the economy. One of the Government's key responsibilities is to ensure that the UK continues to enjoy secure and competitively priced energy. The UK is importing more energy and competition for energy resources can make energy prices volatile, as the spike in the oil price in the summer of 2008 demonstrated. It is clear that if we are to achieve a secure, affordable and low-carbon energy supply in the years and decades ahead we need an energy mix that is diverse in terms of both technologies and geographical sources of imported fuels, within a framework that will deliver competitive prices.

Energy markets

- 2.58** DECC is committed to independently regulated markets operating within a clear legislative framework as the most efficient mechanism to achieve policy objectives including securing competitive and fair prices for consumers. DECC

⁴⁵ <http://www.metoffice.gov.uk/climatechange/science/hadleycentre/>

⁴⁶ <http://www.metoffice.gov.uk/climatechange/policymakers/policy/avoid.html>

works to remove barriers to the effective functioning of energy markets in the UK, within the EU and further afield, while ensuring that our market framework is fit for the purpose of managing the transition to a low carbon economy in a fair way.

Fuel poverty and deprived communities

2.59 Tackling fuel poverty is a priority for the Government. DECC is responsible for coordinating activity on fuel poverty across a range of Government departments. The Government's Fuel Poverty Strategy has policies to target the three main factors that influence fuel poverty – household energy efficiency, fuel prices and household income. We have put in place a strong package of measures to address these concerns and have spent £20bn on policies and programmes to alleviate fuel poverty in the UK since 2000. This includes Warm Front, CERT and the Decent Homes programme primarily addressing the energy efficiency of households and a range of policies including Winter Fuel and Cold Weather Payments to increase household incomes. The Government is currently reviewing its fuel poverty policies, examining whether existing measures to tackle fuel poverty could be made more effective.

2.60 **Warm Front**⁴⁷ is DECC's flagship scheme to tackle fuel poverty. It is managed by eaga. The scheme has assisted nearly 2m households since its inception in June 2000. This has included half a million households in the last two years alone. On average, each household receiving Warm Front assistance has the potential to save £300 per year on energy bills. As well as assistance provided for insulation and heating measures, all Warm Front applicants are offered a free and confidential Benefit Entitlement Check (BEC) to ensure they are claiming all the benefits that they are entitled to. Since April 2008, over 78,000 BECs have been completed. A new or an additional eligible benefit has been identified in 45% of cases resulting in an average weekly increase in household income of £31 per applicant.



Photo courtesy of NEA

⁴⁷ <http://www.warmfront.co.uk>

- 2.61** Funding for the scheme now stands at over £950m in the current spending round to March 2011. This includes an increase of £74m announced in September 2008 and a further increase of £100m in the Pre-Budget Report. Additionally, £50m of the existing allocation will be spent a year sooner than planned, ensuring that up to 30,000 vulnerable households will have less time to wait for their heating or insulation measures to be fitted. In April 2009 we announced measures to ensure increased value for money from the existing contract with eaga and an increase to the grant limits to £3,500 (or £6,000 where oil or a new low carbon technology is recommended). These changes will mean that the vast majority of households will not have to contribute towards their measures. In addition the scope of the scheme is being expanded to include the installation of low carbon technologies such as solar thermal heating and air source heat pumps, which will help householders generate their own low-cost, renewable energy. These technologies will initially be trialled in small-scale pilot programmes.
- 2.62** Energy suppliers will continue to play an important role in helping the Government tackle fuel poverty. The measures set out in the HESP (see paragraph 2.28 above) form a crucial part of our fuel poverty strategy.
- 2.63** Under CERT, 40% of the energy suppliers' target has to be achieved in a priority group of vulnerable customers. Suppliers achieve their targets by promoting a range of low carbon and energy efficiency measures and typically need to install these for little or no cost to the priority group. Overall, customers in the priority group are more likely to be in danger of falling into fuel poverty than the average householder and the vulnerability to fuel poverty increases with age. Among householders aged 70 or more who do not claim benefits the average fuel poverty level is around 50% higher than for the overall population. On 1 April 2008 DECC expanded the priority group to include not only low-income customers but also all elderly customers of age 70 and over. By extending the priority group to include the over 70s we are ensuring that a large number of vulnerable households, who were not eligible under the previous criteria, become eligible for support. With the proposed CERT uplift, there will be additional energy supplier investment into households, so that in total an estimated £1.9bn will be directed at the priority group in Great Britain. We expect a significant number of additional households to realise energy bill savings from this uplift.
- 2.64** DECC also provides enhanced incentives – up to 12.5% of the 40% priority group obligation – for a small list of whole-house measures including heat pumps and solid wall insulation in off gas grid properties.
- 2.65** 2008-09 was the first year of a **Voluntary Agreement** between Government and the energy suppliers that saw suppliers deliver £100m spend on social programmes to vulnerable customers. The spend will rise to £125m in 2009-10 and £150m in 2010-11. Examples of assistance from companies might include rebates, support from trust funds, free installation of energy efficiency measures if it is above the suppliers' existing energy efficiency targets and social tariffs. Social tariffs have already brought significant benefits to eligible groups on low incomes. Ofgem estimated in December 2008 that the number of customer

accounts benefiting from social tariffs stood at 800,000, almost double the level in March 2008.

- 2.66 Ofgem probe** Ofgem, the independent regulator, continues to protect the interests of consumers, existing and future, by promoting competitive behaviour and regulating the monopoly companies which run the gas and electricity networks. In March 2009, Ofgem set out a package of new rules for energy suppliers to make them deal more fairly with customers. As part of this, Ofgem is considering banning unjustified price differences to make prices reflect the cost to the company. For example, prices charged for pre-payment meters and direct debit will have to reflect the cost to the supplier of offering those payment methods.
- 2.67** Of those households who use a pre-payment meter to pay for their electricity, 15% are fuel poor. For gas customers who pay by prepayment meter the figure is 13%. This is compared to 8% and 7% respectively for those households who pay for their electricity and gas by direct debit. Households can make significant savings from moving onto direct debit payments. Of course, not all are able to pay this way and many may prefer to pay by pre-payment meters and standard credit in spite of the extra expense. But DECC wants to make sure that as many households as possible can benefit from the savings direct debit payment can bring.
- 2.68** For this reason, we asked the Financial Inclusion Task Force in September 2008 to work with energy companies, Ofgem and other stakeholders to develop new ways to encourage greater use of direct debits. The Taskforce reported back in December 2008 suggesting new ways of encouraging customers to pay by direct debit, including discounts for quarterly direct debit payments, weekly direct debits and direct debit text alerts. However it also noted that the Government and the energy suppliers should exercise caution when promoting direct debits, as this method of payment could increase the risk of debt for a large portion of customers who traditionally are on low and/or variable incomes. The Government is currently working with the energy suppliers on proposals to develop weekly budgeting schemes.
- 2.69** Ofgem has also proposed new obligations on suppliers to provide clearer information, in particular:
- a standard annual statement including the tariff name, the customer's consumption and a reminder of the right to switch; and
 - simplified information on tariffs to make comparison easier, including a clear price score card.

Decent Homes

A 'decent' home should be warm, weatherproof and have reasonably modern facilities. Homes should be energy efficient and, where possible, insulated. Since 1997, over £29bn has been invested in improving social housing. The Government has increased the funding available to local authorities to invest in improvement of their stock by 33% in real terms. Over £40bn in total will have been invested in social housing by the end of 2010.

The number of non-decent social homes has been reduced by more than 1m. Between 2001-08 this includes installing over 1m new central heating systems into council homes as well as 700,000 new kitchens, 525,000 new bathrooms and re-wiring 740,000 council homes to ensure that they meet fire and safety requirements. By 2010 work will have been completed to 3.6m council homes, with improvements for 8m people in total, 2.5m children among them. The Government expects around 95% of social sector homes to be decent by 2010.

- 2.70 Winter Fuel Payments** are made to provide a significant contribution to higher winter costs of fuel (bills in the winter account for 60% of the annual fuel bill). Payments were increased in winter 2008-09 by £50 to £250 for pensioners aged 60-79 and by £100 to £400 for those over 80. The cost of winter fuel payments in 2008-09 is expected to be around £2.7bn (with payments made to more than 8m households). **Cold Weather Payments** are provided to help vulnerable groups on low incomes. In winter 2008-09 8.4m such payments were made at a cost of £210m, with the payment increased from £8.50 to £25. All these payments are made by the Department of Work and Pensions (DWP).
- 2.71 Local government** National Indicator (NI) 187 measures progress in tackling fuel poverty through the improved energy efficiency of households. It has been designed to measure the proportion of households on income related benefits for whom an energy assessment of their property has been carried out with a resulting SAP of below 35 or greater than 65. This is ensuring fuel poverty is tackled in the most energy inefficient households and also measures progress towards achieving a SAP of 65. 40 Local Area Agreements (LAAs) out of 150 have included NI 187 as one of the 35 local improvement targets and have set challenging but achievable targets. Additionally, a number have adopted NI187 as a local indicator.
- 2.72** We have worked with Ofgem to deliver incentives to gas distribution networks to provide mains gas connections to deprived communities. We expect this to deliver 20,000 connections in 400 communities between 2008-13. We have also taken forward work with the Regional Development Agencies in north east England and Yorkshire and Humber to complete the delivery of pilot programmes to give mains gas connections and renewable technologies to deprived communities. 400 air-source heat-pumps have been installed under the pilots at a price below that of oil-fired heating. Twenty communities have been – or are being – connected to the gas network.

Energy infrastructure

- 2.73** Significant investment in gas supply infrastructure has enabled the UK to continue to diversify its sources of imported gas as indigenous production declines. Phase 2 of the Isle of Grain LNG importation terminal in December 2008 tripled the facility's capacity, enabling it to supply approximately 12% of UK gas demand. The South Hook LNG import terminal in Milford Haven began commissioning in March 2009 and the Dragon terminal, also in Milford Haven, is expected to commission in summer 2009. Between them they will be able to handle some 2.7bn cubic metres of LNG per annum. There are 18 gas storage projects at different stages of development and planning which, if they all come forward, will have a combined capacity of 18.5bn cubic metres by about 2020.
- 2.74** Much of the UK's old coal and oil-fired power stations will be closing between now and 2016 as a result of environmental legislation we have adopted at an EU level. Energy companies are currently building a significant amount of new, more efficient gas-fired generation plant, along with renewables, which will help ensure that the UK does not face security of supply concerns as a result of a gap between these closures and large-scale deployment of low-carbon generation.
- 2.75** DECC has maintained planning control of energy infrastructure including power stations, windfarms and the electricity network. Decisions were taken in 2008-09 that will allow industry to make important investments in over 8GW of new electricity generation using energy from gas, wind, waste and biomass. We are also closely involved in the Government's reform of the planning system which will see the Infrastructure Planning Commission (IPC) established under the Planning Act 2008. We will consult on energy National Policy Statements during 2009 and these Statements will provide essential guidance to the IPC on decision making.
- 2.76** DECC and Ofgem agreed a set of proposals making it easier for small-scale community electricity suppliers to become licensed in a way that is proportionate to their size and impact. The proposals are set out in a decision letter published by Ofgem on 6 February 2009⁴⁸ along with guidance on how the new 'licence-lite' regime will work in practice.

Low carbon energy supply

- 2.77** The successful achievement of our renewable energy and energy efficiency targets does not negate the need for the UK to have a diverse energy mix both for climate change and energy security reasons. The mix will include both nuclear development and cleaner fossil fuels.
- 2.78 Nuclear development** One year on since the Nuclear White Paper⁴⁹ we are seeing significant investment in the UK. New nuclear is good news, not just for energy security and tackling climate change but also for the UK economy, British business and jobs. The Office for Nuclear Development was launched on 18 September 2008. Its aim is to facilitate new nuclear investment in the UK to enable operators to build and operate new nuclear power stations from the

⁴⁸ http://www.ofgem.gov.uk/Sustainability/Environment/Policy/SmallrGens/DistEng/Documents1/DE_Final_Proposals.pdf

⁴⁹ <http://www.berr.gov.uk/energy/sources/nuclear/whitepaper/page42765.html>

earliest possible date and to enable new nuclear to make the fullest possible contribution, with no public subsidy and with unnecessary obstacles removed.

2.79 DECC has made progress in improving the investment climate. The Planning and Energy Acts respectively provide the framework to set up the IPC and to ensure that funding plans are put in place by nuclear developers. The Nuclear White Paper sets out the four main facilitative actions the Government is taking to enable new nuclear build. Progress has been made as set out in the following table:

Area of action	Progress made
Generic Design Assessment	• The regulators are continuing with their detailed assessment of the reactor designs.
Funded decommissioning and programme guidance	• The enactment of the Energy Act 2008 created a framework for the arrangements that operators of new nuclear power stations will have to put in place so that they meet the full costs of decommissioning and the full share of their waste management and disposal costs. • We have published guidance on what appropriate arrangements might look like. • We have published two out of three discussion papers on our work to estimate the costs of decommissioning and waste management. • We have created the Nuclear Liabilities Financing Assurance Board, chaired by Lady Balfour of Burleigh, which will provide advice to the Government on the suitability of an operator's waste and decommissioning financing arrangements and any subsequent modifications to them.
Siting/ Strategic Siting Assessment	• We published the Government response to the consultation on the process for Strategic Siting Assessment (SSA). This included the final SSA criteria and next steps for nominators to nominate sites for potential new nuclear power stations. The nomination process closed on 31 March 2009. • In autumn 2009 we intend to seek views on a list of suitable sites as part of the consultation on the draft Nuclear National Policy Statement.
Justification⁵⁰	• The Government is currently consulting on the application from the Nuclear Industry Association (NIA) for justification of nuclear power station designs. The consultation on NIA application was published at the end of December 2008 and closed in March 2009.

2.80 The Government is also helping to create a globally competitive UK nuclear supply chain. This is particularly important in the current economic climate. We are working with the supply chain and nuclear reactor vendors and operators to assist in this process.

⁵⁰ Justification is the process required by European law which will establish whether the benefits of new nuclear outweigh health detriments.

- 2.81** The **Low Carbon Energy Innovation Review** was conducted by DECC in 2008–09 and focused on how the UK could enhance the Government's support to business in order to accelerate the development of low carbon energy generating technologies and help meet our 2050 climate change targets, coupled with supporting emerging new industries with prospects of economic growth. The review centred on government leadership, the customer journey, co-ordination of funding and collaboration between developers and investors.
- 2.82 CO₂ storage** The Energy Act 2008 sets out a legal framework for storing carbon dioxide in the UK offshore area as well as the basis for enforcing that framework. Rights to store carbon dioxide are vested in the Crown. The Act also provides for the decommissioning of facilities used for carbon dioxide transport and storage.
- 2.83** In summer 2008 DECC held a consultation exercise on **carbon capture readiness** (CCR) and subsequently announced its policy on 23 April 2009.⁵¹ With immediate effect, applicants for all new combustion power stations with electrical output at or over 300MW have to demonstrate that their power station will be, and will be maintained as, carbon capture ready. CCR aims to ensure that there are no barriers to the deployment of CCS on the full capacity of the power station, once the technology has been proven.
- 2.84 Funding for CCS demonstration** In 2007, we launched a competition to support one of the world's first commercial-scale CCS projects using post-combustion capture on a coal fired power station. We were instrumental in securing an EU-wide mechanism which makes available 300m allowances, worth billions of pounds, from the New Entrant Reserve of the EU ETS to support up to 12 commercial-scale CCS demonstration projects as well as demonstrations of innovative renewable energy technologies. In Budget 2009, the Chancellor announced plans to support up to four UK CCS demonstration projects, including the project launched in 2007, enabling a wider range of technologies to be tested. The draft legislative programme for the fifth session of Parliament contains proposals for an Energy Bill to set the framework for a financial mechanism to provide incentives for CCS demonstration projects. We will also proceed with the procurement of the first CCS demonstration competition.
- 2.85** On 23 April 2009 the Department set out a proposed **framework for the development of clean coal**. This framework brings together the funding for CCS demonstration with a proposed requirement for any new coal power station to demonstrate CCS on a defined part of its capacity and to retrofit CCS to its full capacity once the technology has been independently judged proven. A consultation exercise on this was published in June 2009.

Offshore environment and decommissioning

- 2.86 Decommissioning** We worked with the oil and gas industry on the development of a model security agreement and on legislative changes that recognised developments in the industry to sustain protection for the taxpayer and the potential for carbon capture and gas storage projects.

⁵¹ http://www.decc.gov.uk/en/content/cms/news/090423_ccs_sta/090423_ccs_sta.aspx

2.87 Offshore environment A comprehensive framework of environmental protection measures has been developed to minimise the impact of oil and gas activities. During 2008-09 DECC reviewed the existing regulatory regimes and, where appropriate, provided updated guidance to industry. We also made a significant contribution to the development of Defra's Marine and Coastal Access Bill.⁵² The Department also managed, participated in and completed Exercise Unicorn to test the UK national contingency plan for marine pollution from shipping and offshore installations. In 2009-10, a four-year cetacean research programme will begin in the Moray Firth. Following an SEA, DECC announced in June 2009 a decision to enable up to 25GW of further rounds of offshore wind farm leasing in the UK Renewable Energy Zone and the territorial waters of England and Wales by 2020.

Getting the best out of North Sea oil and gas and UK coal

2.88 Although oil and gas production from the UK Continental Shelf (UKCS) has been declining for some years, it remains central to our energy security – production in 2008 of oil and gas combined corresponded to around 60% of total UK energy supplies. It also makes a major contribution to the economy, with expenditure by the industry totalling some £12bn a year. The industry supports over 300,000 jobs directly or indirectly, with 100,000 more supported by exports of oilfield goods and services. Getting the best out of North Sea oil and gas is therefore crucial to our security of supply and to the economy.

2.89 The remaining hydrocarbon potential of the UKCS is very substantial. Though four decades of development have produced the equivalent of 39bn barrels of oil, there could be another 20bn barrels, or more, still to come. DECC therefore seeks the fullest exploration of the hydrocarbon resources of the UKCS. 2008 saw a continued high level of exploration and appraisal activity (105 wells completed offshore). The 25th round of offshore licensing attracted a very high level of interest and high quality applications, resulting in offers of 171 new licences – the highest number in any round since the early 1970s.⁵³ The 13th round of onshore licensing also showed continuing strong interest in onshore prospects. Total investment runs at around £5bn a year.

2.90 DECC also works closely with industry to ensure that acreage already licensed is either actively used or traded. We support the work of the PILOT forum, which is chaired by the Secretary of State. The forum engages all sectors of the industry, together with Government and trade unions and aims to secure the long-term future of the industry in the UK.

2.91 The latter half of the year saw a sharp change in the outlook for the industry, with a very large fall in the price of oil in parallel to the broader crisis in banking and financial markets. Action was agreed in the PILOT framework to focus on the practical financing problems and to monitor the emerging picture. There was also agreement to share information on possible sources of working credit and

⁵² <http://www.defra.gov.uk/marine/legislation/>

⁵³ Information on petroleum licensing, fields in production, reserves, etc. is available at <https://www.og.berr.gov.uk/information/index.htm>

of new finance where needed, including the Government's broader measures to help businesses.

- 2.92** The North Sea fiscal regime is a vital mechanism for capturing for the nation the economic benefit from the UK's oil and gas resources. Its clear aim is to support the Government's objective of maximising the economic recovery of the UK's oil and gas reserves. The regime continues to be developed to ensure that it strikes the right balance between encouraging investment in and production from the UKCS while ensuring a fair return for the taxpayer from the UK's national resources.⁵⁴ Building on reforms already taken forward between 2006 and Budget 2008, a further package of reforms aiming to encourage investment in the UKCS was outlined at Pre-Budget Report 2008 and was the subject of a further consultation. *Supporting Investment*⁵⁵ proposed targeted fiscal incentives which should help bring forward specific categories of challenging developments. A package of measures based on these proposals, including a new 'field allowance' which should help to bring forward developments in small fields, ultra heavy oil fields and ultra high pressure/high temperature fields, was announced in Budget 2009.
- 2.93** Total **UK coal** production in 2008 was 17.4m tonnes from 17 deep mines and 35 surface mines. Most of this was used for coal-fired electricity generation, representing around 35% of total UK feedstock. The balance was imported, mainly from Russia. The industry believes that this level of production can be maintained for the foreseeable future.

Energy resilience including adaptation to climate change

- 2.94 Energy resilience** Within the energy sector, the critical national infrastructure comprises those facilities, systems, sites and networks necessary for the functioning of the country and the delivery of the essential services upon which daily life in the UK depends. DECC works across government, with the Devolved Administrations and with industry to reduce the risks to energy supplies from civil emergencies, ranging from a full flu pandemic and serious flooding to international terrorism and wider international stability. The energy sector also has a programme of flood risk management which aims to reduce the risks to electricity and gas supplies caused by flooding. DECC maintains its readiness by building up resilience to shocks and its capacity to lead the response to energy emergencies. This means planning, training and exercising effectively, as well as being ready to move into action immediately if a major disruptive challenge arises requiring central government co-ordination.
- 2.95** In the longer term, DECC also has a leadership role in the context of adaptation to climate change in the energy sector. DECC is working with the energy industry to ensure that it is aware of those aspects of climate change that will impact on its operations and that it is taking necessary steps to ensure continuity of supply.

⁵⁴ Responsibility for the North Sea fiscal regime lies with HM Treasury and HM Revenue & Customs, but DECC works closely with these Departments in developing policy and in maintaining a full dialogue on all relevant issues with industry stakeholders.

⁵⁵ http://www.hm-treasury.gov.uk/prebud_pbr08_northsea.htm

Energy and the European Union

- 2.96** Much of the UK's energy policy is influenced by decisions and laws that we agree with our European partners in the European Union. The UK takes an active part in these negotiations and seeks to lead the debate on energy and climate change policy. This includes helping to shape the EU's Strategic Energy Technology Plan, which will play an important role in helping to deliver the new energy technologies needed to achieve our agreed climate and energy targets for 2020 and 2050.
- 2.97** Throughout 2008-09 we worked hard on negotiations on the **third internal energy market package** of legislation within the European Union.⁵⁶ The Council of Ministers gave its view on the texts (so-called Common Positions) in January 2009 and the European Parliament voted on them in April 2009. After the necessary formalities, the texts should be adopted in the summer. The final texts meet our objectives, in particular greater separation of responsibilities among the commercial players, more transparency and improved regulation. We will seek early implementation of this legislation to ensure that consumers can benefit as soon as possible.
- 2.98 Revision of Security of Gas Supply Directive** Following the Russia/Ukraine gas dispute it was agreed at EU level that a revision of this important Directive should be brought forward to 2009. We are now expecting the European Commission to issue a proposal in the summer. We have worked with them in its preparation.
- 2.99** The Department worked closely with its partners in Whitehall and the EU to ensure that the final **European Energy Programme for Recovery (EEPR)** package included funding for CCS and offshore wind infrastructure projects in the UK as well as providing support to important interconnections in the EU to improve energy security.
- 2.100 European and international collaboration on research and development and demonstration of new energy technologies** DECC continues to play an active role in the development of the EU's Strategic Energy Technology Plan and in guiding the EU's Framework Programme 7 energy technology funding and support priorities. Both are important initiatives ahead of achieving the EU's energy and climate change related 2020 targets and 2050 vision.
- 2.101** Looking forward, the UK will continue to play an active role in EU negotiations, including the development of a new EU Energy Saving Action Plan and agreement to a revised Oil Stocking Directive. We will also continue to press for sustained and co-ordinated EU-level engagement and progress on diversifying sources of gas supply via the southern gas corridor.

⁵⁶ The package contains a Regulation establishing the EU Agency for the co-operation of National Energy Regulators, an Electricity Directive (replacing Directive 2003/54), a Gas Directive (replacing Directive 2003/55), an Electricity Regulation (replacing Regulation 1228/03) and a Gas Regulation (replacing Regulation 1775/05).

Russia-Ukraine gas dispute

On 1 January 2009 Russia suspended gas supply to Ukraine following the failure of negotiations for their bilateral supply contract. Gas continued to flow through Ukraine to Europe until 7 January, when all supplies of Russian gas through Ukraine were cut. This situation lasted until 21 January when gas flows returned to pre-dispute levels.

This unprecedented supply disruption had a direct and severe impact on a number of Central and Eastern European countries. In the UK the main effect was a significant increase in the quantities of gas exported through the Interconnector to continental Europe. DECC led in preparing daily updates to Ministers and senior officials across government, working closely with colleagues in the FCO and Cabinet Office.

UK Ministers and senior officials were in regular contact with the European Commission and Czech Presidency throughout, supporting a united EU front and urging both parties to settle the dispute and restart gas supplies as a matter of urgency.

The EU is clear about the need to take concrete action to improve **EU energy security**. Following UK lobbying, led by the Department, the Spring European Council agreed action to diversify sources and routes of gas supply, improving interconnection within the EU to facilitate greater integration within the EU gas market and emphasising the importance of a properly functional internal gas market.

International energy

2.102 As domestic production of oil and gas continues to decline, our security of energy supply will increasingly depend on our ability to import fuels from geographically diverse international sources via a range of supply routes. The UK will also be increasingly reliant on the effective operation of global energy markets to ensure that oil and gas flows to meet market needs.

2.103 International gas With these considerations in mind, the Department has continued to engage closely with key producer countries, both current and potential gas suppliers to the UK. In August 2008 the then Minister for Energy, Malcolm Wicks, led a delegation to Nigeria which established a Joint UK-Nigeria Energy Working Group to support reform of the Nigerian energy sector. Ministerial level engagement with other important producers in the Middle East and North Africa was further strengthened during the year.

2.104 The UK sees the **Southern Corridor** – which would bring gas from the Caspian, via Turkey, into Europe – as a vital part of future UK and EU energy security. As such, we helped to secure agreement to the Southern Corridor as one of six priority projects within the Second Strategic Energy Review and to its inclusion for support under the EEPR. We also began a programme of high-level engagement

with key producer and transit states aimed at delivering political and commercial support.

2.105 The London Energy Meeting held in December 2008 brought together Ministers and other representatives of 38 countries and the international energy institutions. It agreed on the importance of measures to promote stability in the oil market, including improving transparency of planned investment and consumption, and reviewing the regulation of trading in financial markets. It was also agreed that an international expert group be formed to examine the institutional framework for future producer-consumer dialogue and considered measures that reduce oil price volatility. This will report to the March 2010 International Energy Forum (IEF) Ministerial meeting in Mexico.

2.106 International Energy Forum Malcolm Wicks led the UK Delegation to the IEF Ministerial meeting in Rome in April 2008. The Minister chaired a session on sustainable energy and also, working with the Norwegians, a meeting on CCS. Ministers concluded a series of actions, including developing a better understanding of how energy markets function and the impact of financial markets and the need to address the lack of investment in energy. They also reaffirmed their support for the Joint Oil Data Initiative.

G8 meetings

The Department worked closely with the Japanese presidency and other G8 members to secure concrete energy deliverables at the 2008 G8 Energy Ministers' meeting and Summit. These included:

- announcement of the establishment of an International Partnership for Energy Efficiency Co-operation (IPEEC), which aims to improve energy efficiency through the exchange of information and best practice and the development of public-private partnerships in key energy consuming sectors;
- a commitment from G8 countries to implement the IEA's 25 energy efficiency recommendations;
- a commitment to support the launch of 20 CCS commercial-scale demonstration projects globally by 2010, together with an agreement between the G8, South Korea, India and China to work with the G8 to develop the legal and technical frameworks for CCS; and
- an agreement to accelerate low carbon technology research and development.

The Department was also closely involved in the preparations for the 2009 G8 meetings under Italy's presidency.

2.107 International energy technologies The Department continued to play an active role in international discussions concerning the development and deployment of the energy technologies needed to move to a global low carbon economy, based on the IEA's technology roadmaps (published in the IEA's Energy Technologies

Perspectives 2008⁵⁷). In addition to our involvement in the G8 Energy Ministers' meeting and G8 Summit, we were also active participants in the 2008 series of Major Economies Meetings. Discussions are now being taken forward further under both the Italian G8 presidency and the Major Economies Forum.

- 2.108** The Prime Minister asked his Special Representative on International Energy Issues, Malcolm Wicks, to conduct a **Review of international energy security** and to suggest ways in which energy security concerns can be addressed while we work towards our climate objectives. The Department has supported Malcolm Wicks in his review, which is expected to conclude in summer 2009.
- 2.109** The UK has been involved throughout the reporting year in the process to establish the **International Renewable Energy Agency (IRENA)**. IRENA aspires to become the main driving force for promoting a rapid transition towards the widespread and sustainable use of renewable energy on a global scale. It already has more than 130 signatory states.
- 2.110 International energy efficiency** In addition to helping secure the commitments from G8 countries to implement the IEA's 25 energy efficiency recommendations and establish the IPEEC, DECC has actively participated in a number of other international processes devoted to international co-operation on energy efficiency. We have worked in the G8+5 Heiligendamm Process which has had a strong focus on energy efficiency and which has proposed the creation of a Sustainable Buildings Network to improve the co-ordination of international efforts to improve the energy efficiency of buildings. The Department also continues to support the important work of the Renewable Energy and Energy Efficiency Partnership in building international capacity for the deployment of energy efficiency technologies.

Section 2.5

Managing energy liabilities

Introduction

- 2.111** The coal, gas and electricity industries used to be in public ownership. The Government continues to be responsible for significant liabilities and assets inherited from those industries when they were privatised. DECC's responsibilities include the liabilities for civil nuclear decommissioning managed through the Nuclear Decommissioning Authority (NDA) and residual liabilities arising from the coal industry. These include claims relating to the health of former coal workers employed during the period of state ownership.
- 2.112** In addition, DECC works to ensure nuclear security and safety through supervisory and regulatory activities to protect public and international safety. Substantial assistance is also given to former Soviet Union and Eastern European countries in addressing nuclear legacy issues, to reduce the global threat posed by the potential spread of weapons and materials of mass destruction.

⁵⁷ <http://www.iea.org/Textbase/techno/etp/index.asp>

2.113 Our work on non-proliferation makes a significant contribution to the FCO-led PSA 30 (to reduce the impact of conflict through enhanced UK and international efforts) and to PSA 26 (to reduce the risk to the UK and its interests overseas from international terrorism).

Nuclear Decommissioning Authority

2.114 The NDA was set up in April 2005 to deliver the Government's commitment to dealing with the nuclear legacy. It is responsible for driving substantial change to improve delivery and cost-efficiency in a large and complex industry, managing a budget of some £3bn per annum, funded by government and commercial income. In its first four years the NDA has made significant progress in tackling this unprecedented challenge. For the first time we have a single body with responsibility for, and an ever improving understanding of, the UK's nuclear liabilities. In the last year the NDA consolidated its position as a strategic authority and completed the re-structuring of its estate to facilitate the programme of competitions. Good progress has been made on decommissioning, with the focus being on tackling the highest hazards, particularly at Sellafield.

2.115 While there remain some areas of uncertainty, the NDA does have certainty about the majority of the task ahead and the associated costs. Last year the NDA provided for the first time a baseline against which to measure future performance in its 2007-08 Annual Report and Accounts.⁵⁸ For its 19 sites there is an estimated £45bn liability after discounting and other accounting adjustments. The expectation remains that competition will lower costs in the longer term as it drives innovation and efficiency.

2.116 Competition for the management of the NDA sites is at the heart of the NDA's strategy for tackling the legacy. Competitions have been completed for the Low Level Waste Repository near Drigg and for the management of the Sellafield site. Both have brought world-class capability to the UK for the delivery of safe, secure and environmentally responsible decommissioning and clean-up. On 8 December 2008, the NDA announced its intention to run a further two Parent Body Organisation competitions over the next four years: first for Dounreay, scheduled to begin in the autumn 2009; and, second, a single competition to manage the Magnox sites and research sites at Harwell and Winfrith. Securing value from the competitions and ensuring that the contractual relationships develop to meet the evolving plans of the NDA will be high priorities.

Management of radioactive waste

2.117 Coupled with the publication of the White Paper *Managing Radioactive Waste Safely: A Framework for Implementing Geological Disposal* in June 2008⁵⁹ was an invitation to communities to open up discussions with Government – without commitment – on the possibility of hosting a disposal facility at some point in the future. The White Paper and the invitation to communities followed from the recommendations of the independent Committee on Radioactive Waste Management which carried out extensive expert, public and stakeholder

⁵⁸ <http://www.nda.gov.uk/news/arac-0708.cfm>

⁵⁹ <http://www.defra.gov.uk/environment/radioactivity/mrws/pdf/white-paper-final.pdf>

consultation. Geological disposal is internationally recognised as the preferred approach for the long-term management of higher activity radioactive waste and is supported by a number of UK learned societies including the Royal Society, the Geological Society and the Royal Society of Chemistry.

- 2.118** Following the invitation, three local authorities have made Expressions of Interest and discussions with Government and within local communities have begun. The option to express an interest will be left open for the foreseeable future and we will continue to work with any community interested in finding out more.

Chronic Obstructive Pulmonary Disease and Vibration White Finger

- 2.119** DECC is responsible for schemes to compensate coal miners and their families in relation to Chronic Obstructive Pulmonary Disease (COPD) and Vibration White Finger (VWF). These are the biggest personal injury schemes in British legal history.

- 2.120** Some 592,000 claims have been registered under the COPD scheme.⁶⁰ As at the end of March 2009, £2.3bn has been paid in compensation to claimants, with 575,000 claims having been settled. DECC's focus is on resolving issues preventing the settlement of claims with a view to reducing outstanding claims to 2,000 by 30 November 2009, with the remainder to be settled by end 2010.

- 2.121** The total number of claims received under the VWF compensation scheme is 170,000.⁶¹ By the end of March 2009, over 169,000 claims had been settled, with a total of £1.8bn paid in compensation. The VWF litigation was concluded on 1 May 2009. The Department expects to have settled the remaining VWF compensation claims by the end of 2009.

National Concessionary Fuel Scheme

- 2.122** The National Concessionary Fuel Scheme provides concessionary solid fuel, or cash in lieu, to former employees of the British Coal Corporation. At the end of March 2009, the total number of beneficiaries in the scheme was just over 90,000. This represents a reduction of 7% from the previous year. Of these, around 18,000 beneficiaries took their entitlement as solid fuel.

Coal Authority

- 2.123** The Coal Authority has continued to manage the legacy issues arising from the UK coal mining industry, principally those of subsidence and polluted mine water discharge. Particular effort has been directed towards identifying and, where necessary, addressing the safety risks associated with the historic underground mining estate, including the many thousands of abandoned mine shafts recorded on registers held by the Authority. The Authority has continued to interact with industry and the Government to promote understanding of the role of UK coal reserves as part of a diverse and secure energy portfolio.

⁶⁰ <http://www.berr.gov.uk/energy/coal-health/background/resp-disease/page16565.html>

⁶¹ <http://www.berr.gov.uk/energy/coal-health/background/vwf/page16575.html>

Former Soviet Union and Eastern European Countries

2.124 The **Global Threat Reduction Programme**⁶² delivers the UK's commitments to the G8 Global Partnership against the spread of weapons and materials for mass destruction, a ten year programme launched in 2002. As in previous years, 2008-09 saw continued progress in dealing with spent nuclear fuel legacies in North West Russia and also the start of spent nuclear fuel cask loading operations at the former weapons-grade plutonium-producing reactor at Aktau in Kazakhstan. We also made improvements to the physical security of nuclear and radiological materials at a number of sites in the Former Soviet Union. We initiated a new project in Ukraine to establish a facility for safe and secure long-term storage of highly radioactive spent sources. We showed ourselves to be on track to meet the aim of creating up to 3,000 sustainable jobs in closed nuclear cities and nuclear institutes in Russia and other Former Soviet Union states by 2012 under our scientist redirection programme.

Non-proliferation

2.125 DECC's non-proliferation work includes ensuring that the UK (government, industry and academia) meets the requirements of the international regime – primarily the Nuclear Non-Proliferation Treaty, Euratom Treaty covering nuclear safeguards and the Chemical Weapons Convention – thus denying opportunities in the UK for those seeking to gain access to material, expertise or technology for Weapons of Mass Destruction. Our work also entails delivering international projects to address and remove threats from radiological and nuclear material worldwide. DECC also provides technical expert input into the development of international policy, especially to the two international verification bodies – the International Atomic Energy Agency (IAEA) and the Organisation for the Prohibition of Chemical Weapons (OPCW).

2.126 Nuclear non-proliferation With FCO, DECC led on the March 2009 International Fuel Cycle Conference.⁶³ At this conference, the Prime Minister launched the concept of the 'Road to 2010' to provide a coherent, comprehensive and visible statement of UK policy on and commitment to nuclear non-proliferation. 2010 will see the next Review Conference of the Non-Proliferation Treaty. In 2009-10, we will launch the UK-led Nuclear Fuel Assurance proposal to IAEA member states as an example of credible arrangements to increase confidence in nuclear fuel supply and avoid unnecessary growth in the number of sensitive enrichment facilities. We also expect to sign Nuclear Co-operation Agreements with at least two key partner countries.

2.127 Chemical weapons non-proliferation DECC officials from the Chemical Weapons Convention National Authority played an important role in securing a successful outcome to the April 2008 Review Conference of the Chemical Weapons Convention.

⁶² <http://www.berr.gov.uk/energy/non-proliferation/global-threat-reduction/ar-english/page40802.html>

⁶³ <http://www.fco.gov.uk/en/fco-in-action/counter-terrorism/weapons/nuclear-weapons/nuclear-energy-conference/>

Chapter 3:

Measuring our performance in 2008-09

Section 3.1

Summary of performance

1. The Department's PSA and three DSOs are each assessed in the same way. They are supported by a range of indicators. DECC can measure progress against these indicators and then, based on that measurement, make an assessment of the Department's overall performance against its objectives using a standardised approach. This is in conformity with HM Treasury guidance to Government departments, which sets out the following system for rating performance:

Performance rating	Requirement
Strong progress	Where more than 50% of indicators have improved
Some progress	Where 50% or less of indicators have improved
No progress	Where no indicators have improved
Not yet assessed	Where 50% or more of the indicators have yet to be assessed

2. The HM Treasury guidance allows departments to exercise discretion where the application of the above performance rating system produces an unusual or unjustifiable result.⁶⁴

⁶⁴ DECC has made use of this to modify its assessment of PSA 27.

3. Based on our application of the system, here is the summary of DECC's performance.

PSA 27 To lead the global effort to avoid dangerous climate change	Assessment of indicator performance	Assessment of overall performance
Global CO₂ emissions to 2050	No improvement	Some progress Improvement in four out of six indicators ⁶⁵
Proportion of areas with sustainable abstraction of water	Not assessed	
Size of global carbon markets	Improvement shown	
Total UK greenhouse gas and CO₂ emissions	Improvement shown	
Greenhouse gas and CO₂ intensity of the UK economy	Improvement shown	
Proportion of emissions reductions from new policies below the Shadow Price of Carbon	Success measure met for 2008-09	

DSO 1 Climate change tackled internationally and through domestic action to reduce greenhouse gas emissions	Assessment of indicator performance	Assessment of overall performance
Global CO₂ emissions to 2050 (this is also an indicator for PSA 27)	No improvement shown	Some progress Improvement in one out of five indicators
Milestones towards a post-2012 international agreement	Improvement shown	
Number of households in England that need to spend more than 10% of income to maintain an adequate heating regime	No improvement shown	
UK energy consumption	Position maintained	
Carbon intensity of energy consumption	Position maintained	
International community helped to adapt to climate change	Not assessed	

⁶⁵ This includes the indicator relating to the proportion of emissions reductions below the Shadow Price of Carbon.

DSO 2 To ensure the reliable supply and efficient use of clean, safe and competitively-priced energy	Assessment of indicator performance	Assessment of overall performance
CO₂ intensity of UK economy (this is also an indicator for PSA 27)	Improvement shown	Some progress Improvement in three out of seven indicators
Total UK CO₂ emissions (this is also an indicator for PSA 27)	Improvement shown	
De-rated peak capacity margin for electricity and gas	Improvement shown	
Customer minutes lost on GB distribution networks for gas and electricity	Position maintained	
Industrial gas and electricity prices compared to EU-15 median (this is similar to indicator 4 under the BERR-led PSA 6)	Position maintained	
Number of households needing to spend more than 10% of income on fuel to keep warm (this is also an indicator for DSO 1)	No improvement shown	
Absence of significant safety-related incidents	Position maintained	

DSO 3 To manage energy liabilities effectively and responsibly	Assessment of indicator performance	Assessment of overall performance
Reduction in UK civil nuclear liabilities at least in line with agreed and published Nuclear Decommissioning Authority business plans	Improvement shown	Strong progress Improvement in all indicators
Delivering minimum value for money savings on costs equivalent to 3% per annum averaged over the 3 year CSR07 period from 2008-09	Improvement shown	
Reduction of the risk associated with high hazards by progressively mitigating hazards and ensuring radioactive waste continues to be put into a passively safe form	Improvement shown	
Achievement of the Aspirational Scheme End Date for completion of the COPD Coal Health Compensation scheme	Improvement shown	

4. The rest of this Chapter gives a detailed breakdown of performance against each indicator. There is also further information relevant to performance reporting elsewhere in this report. For example, Annex 2 focuses on the quality of the data systems used to measure progress on the PSAs and DSOs.

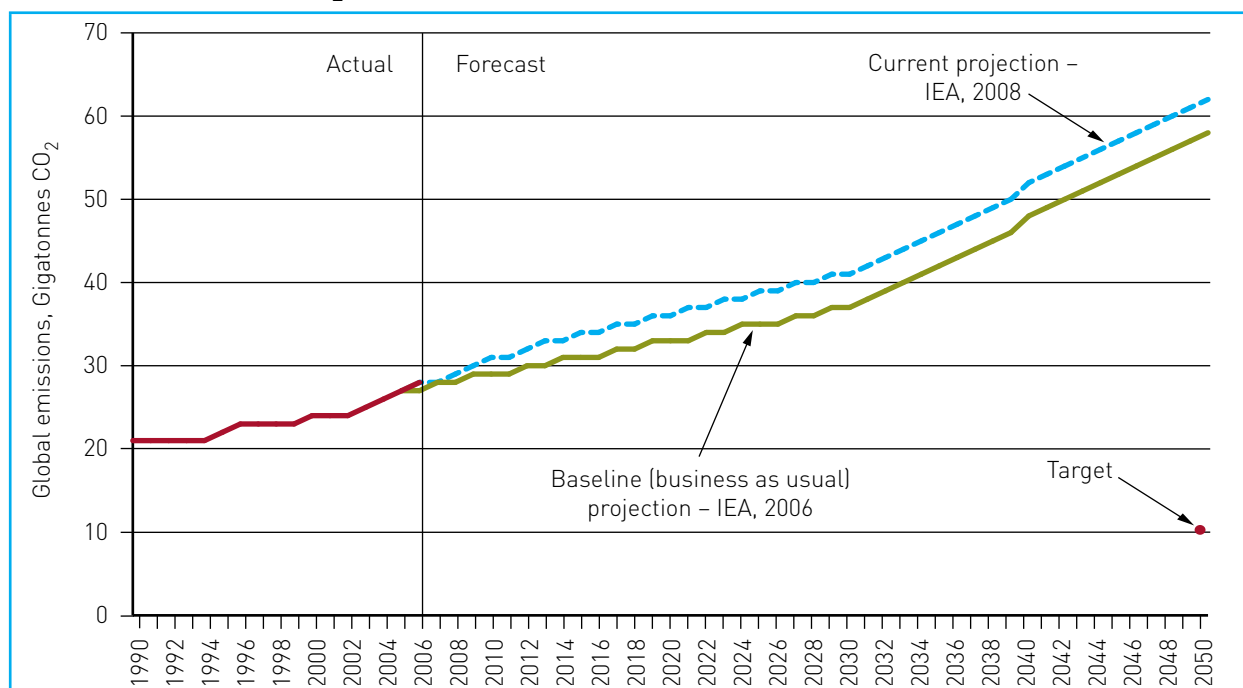
Section 3.2

Performance report on PSA 27

PSA 27 – TO LEAD THE GLOBAL EFFORT TO AVOID DANGEROUS CLIMATE CHANGE	Assessment of performance: Some progress (four out of six indicators)
The assessments of each of the six indicators for the PSA that follow show that DECC can demonstrate improvement, or meet the success requirement, for four indicators. Because this is more than half of the number of indicators, it could be concluded, using the HM Treasury performance rating system, that DECC is making 'strong progress' in delivering the PSA. However, as the analysis for indicator 1 in particular shows, the challenges faced remain significant. Therefore the overall assessment has been modified. With an undeniable ongoing improvement in UK emissions of greenhouse gases and advances in other important areas such as the size of the global carbon market, we believe a performance assessment of 'some progress' is an accurate reflection of performance in 2008-09 and the challenges faced.	
Indicator 1 – Global CO ₂ emissions to 2050	No improvement shown
- See Figure 1. - The IEA's latest forecast for emissions⁶⁶ to 2050, published in July 2008, was 7% higher than its 2006 estimate. Actual and forecast emissions are therefore moving in the wrong direction with global emissions set to treble by 2050 (compared to 1990 levels) while DECC's goal is to see them cut by 50% by 2050. A global deal agreed through the UNFCCC is needed to change these trends. 2008-09 has seen agreement on the EU's 2020 package, a new US administration and constructive global talks at Poznan. These are positive signs ahead of the key Copenhagen UNFCCC meeting in December 2009, but tough challenges remain (e.g. securing an EU position on finance). The UK is playing its full part in the Major Economies Forum to bring together 17 major economies for regular discussion in preparation for Copenhagen. - The European Spring Council on 19-20 March 2009⁶⁷ agreed actions on EU energy security. It also renewed the EU's commitment to a role in ensuring a global deal and outlined possible financing mechanisms, but further discussion will be necessary at European Councils in June 2009 and in the Autumn. Within DECC, the Road to Copenhagen Campaign Centre has been set up to promote country engagement and co-ordinate UK Government preparations for Copenhagen - Overall, progress has been made against the proxy indicator reflecting progress against milestones in the UNFCCC negotiations. See indicator 1b for DSO 1, below.	

⁶⁶ From fuel combustion

⁶⁷ http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/106809.pdf

Figure 1: Global CO₂ emissions from fuel combustion, actual and forecast

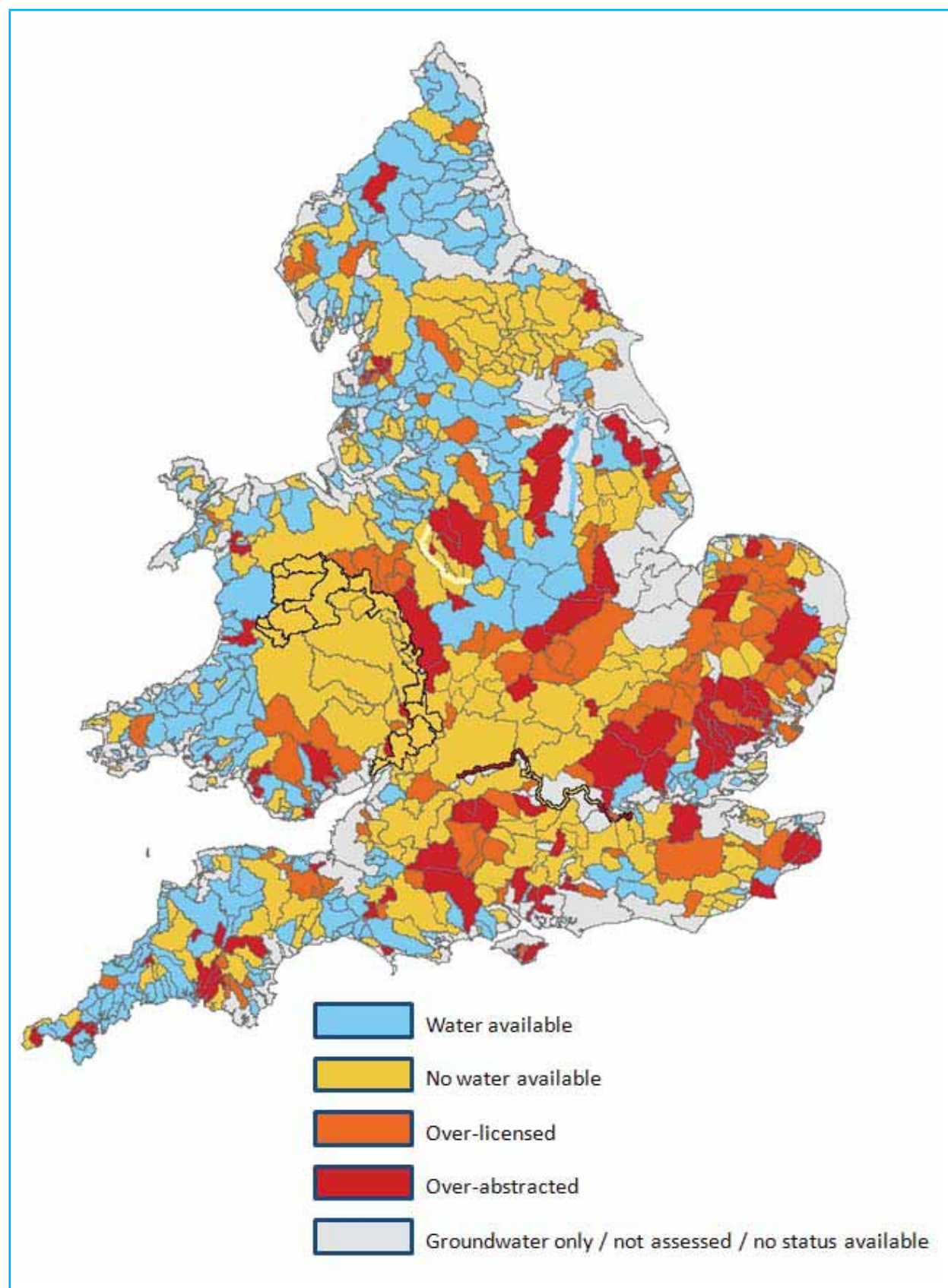
Source: IEA

Indicator 2 – Proportion of areas with sustainable abstraction of water**Not assessed**

- See Figure 2. Defra leads on this indicator.
- Science is painting a worsening picture of the impacts of climate change, which means there needs to be more emphasis on adaptation. Guidance is available in the form of an adaptation website launched in September 2008 and new projections of the impact on the UK's climate published in June 2009.⁶⁸
- The headline indicator captures an important aspect of adapting to climate change. Areas in blue show where sustainable abstraction of water is possible. As of March 2008, 32% of the 927 catchment units were sustainable. The next update is due in summer 2009. Progress against the indicator will be achieved through a mix of demand and supply measures, for example revoking or modifying abstraction licences, time-limiting licences, introducing measures to reduce consumption of water. The Environment Agency⁶⁹ has finalised its plans for revoking licences.
- Other action on adaptation includes the Environment Agency's aims to protect 160,000 additional homes from flooding during the CSR07 period, 10% above target. Defra also published its Flood and Water Bill in April 2009⁷⁰ and 56 local authorities have made adaptation a priority indicator for their area under the new local government framework. The first self-assessment took place in June 2009.

68 <http://www.defra.gov.uk/environment/climatechange/adapt/index.htm>69 <http://www.environment-agency.gov.uk/homeandleisure/climatechange/44074.aspx>70 <http://www.defra.gov.uk/environment/water/flooding/flow/index.htm>

Figure 2: Resource availability status for units of surface water and/or surface water combined with groundwater in completed catchment abstraction management strategies (CAMS), March 2008

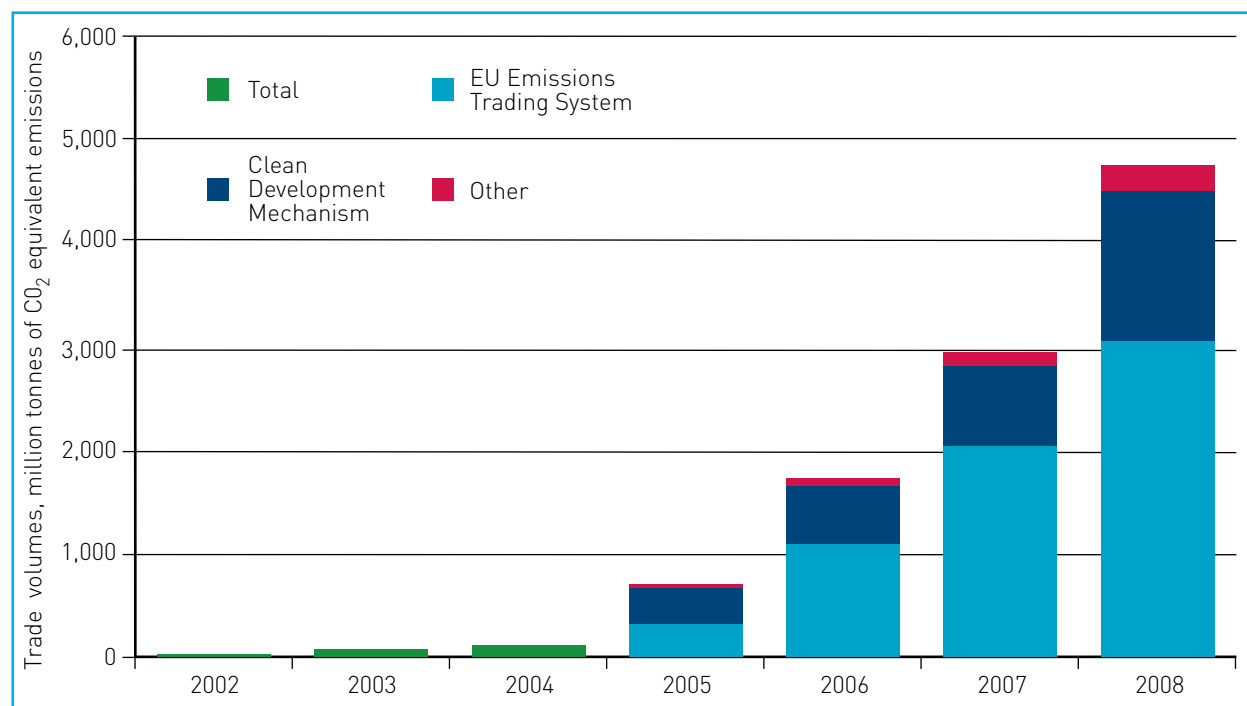


Source: Environment Agency

Indicator 3 – Size of global carbon markets	Improvement shown
• See Figure 3. • In 2007, volumes traded increased by 70% on the previous year, with much of the growth coming from the EU ETS. This was far in excess of the success measure of annual growth of 7-10%. In 2008, volumes traded increased by a further 61%. The growth of the EU ETS was 50%. • COP14 in Poznan in December 2008 saw agreement ahead of UN negotiations in March 2009 on options for carbon market design and some reforms of the UN Clean Development Mechanism (CDM). • The EU 2020 package adopted in December 2008 will result in a tighter cap for the EU ETS and increased auctioning. At least half of the reduction effort under the EU ETS, which will be expanded in stages to include aviation by 2012, will be made in the EU. As well as sectoral expansion of the EU ETS, cap and trade is rapidly expanding geographically. New Zealand and Australia have both designed cap and trade systems. Design of the former is under review following the change of government – but the commitment to cap and trade remains undimmed. An Australian cap and trade system will come into effect in 2011. A voluntary emissions trading scheme has been developed by Japan; Mexico has announced its intentions for domestic cap and trade by 2011. In the US, the new Obama administration has declared its preference for cap and trade and an intention to reduce emissions by 80% by 2050. The Waxman-Markey Bill passed through Congress in June 2009 and aims to cover 85% of total US emissions under cap and trade.⁷¹ The first regional system – RGGI⁷² – also became operational this year. • The carbon price in the EU ETS has fallen slightly as a result of changing market fundamentals (e.g. drop in production due to the global recession, oil prices etc.), but has stabilised recently at around €14 a tonne.	

71 http://energycommerce.house.gov/index.php?option=com_content&view=article&id=1697:house-passes-historic-waxman-markey-clean-energy-bill&catid=155:statements&Itemid=55

72 Regional Greenhouse Gas Initiative – <http://www.rggi.org>

Figure 3: Size of carbon market – global trading

Source: World Bank – *State and Trends of the Carbon Market*

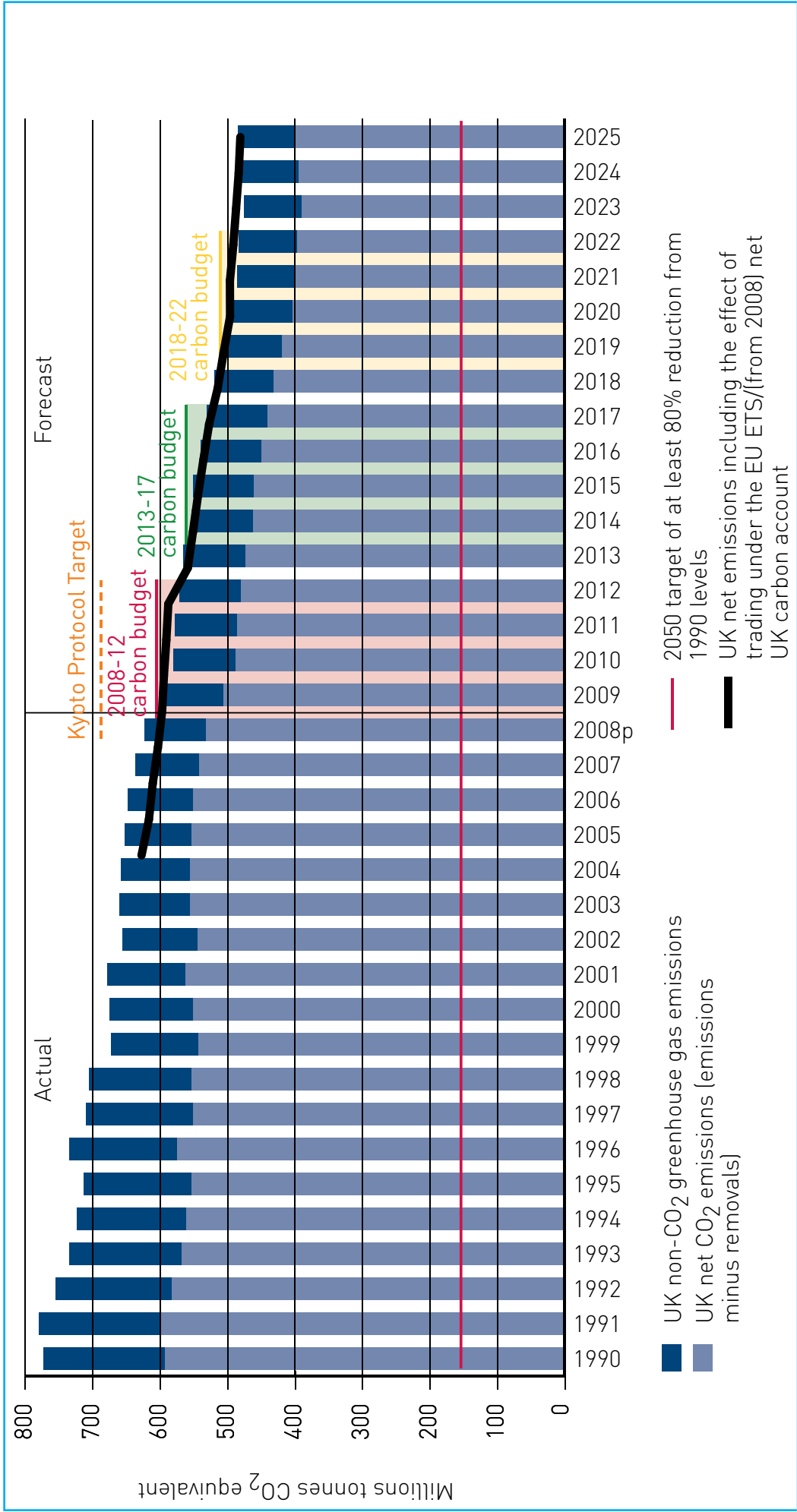
Indicator 4 – Total UK greenhouse gas and CO₂ emissions

Improvement shown

- See Figure 4.
- UK emissions continue to fall with total greenhouse gas emissions down by 2% between 2007 and 2008 (provisional figures). The UK is one of the few European countries on track to meet (and exceed) its Kyoto target which is to cut greenhouse gas emissions by 12.5% compared to 1990 levels over the period 2008-12. Our progress is underpinned by agreement of the EU2020 package and new car standards (December 2008) as well as domestic policies such as those included in the Home Energy Savings consultation (February 2009) and the many others set out in Chapter 2.
- The Climate Change Act 2008 introduced a new system of legally binding carbon budgets and the Government published its policies and proposals for the meeting the budgets in the Transition Plan published in July 2009.
- The carbon budgets set a limit on the level of the net UK carbon account. This is calculated by adjusting net UK greenhouse gas emissions to account for any carbon units that have been brought in from overseas by Government and others to offset UK emissions ('credits') and UK carbon units that have been disposed of outside the UK ('debits').

Figure 4: UK greenhouse gas and CO₂ emissions, actual and forecast (1990–2025)

Data for 2008 are provisional. For 2009 onwards data are based on projections under a central scenario. Carbon budgets are shown as equivalent annual greenhouse gas emissions.

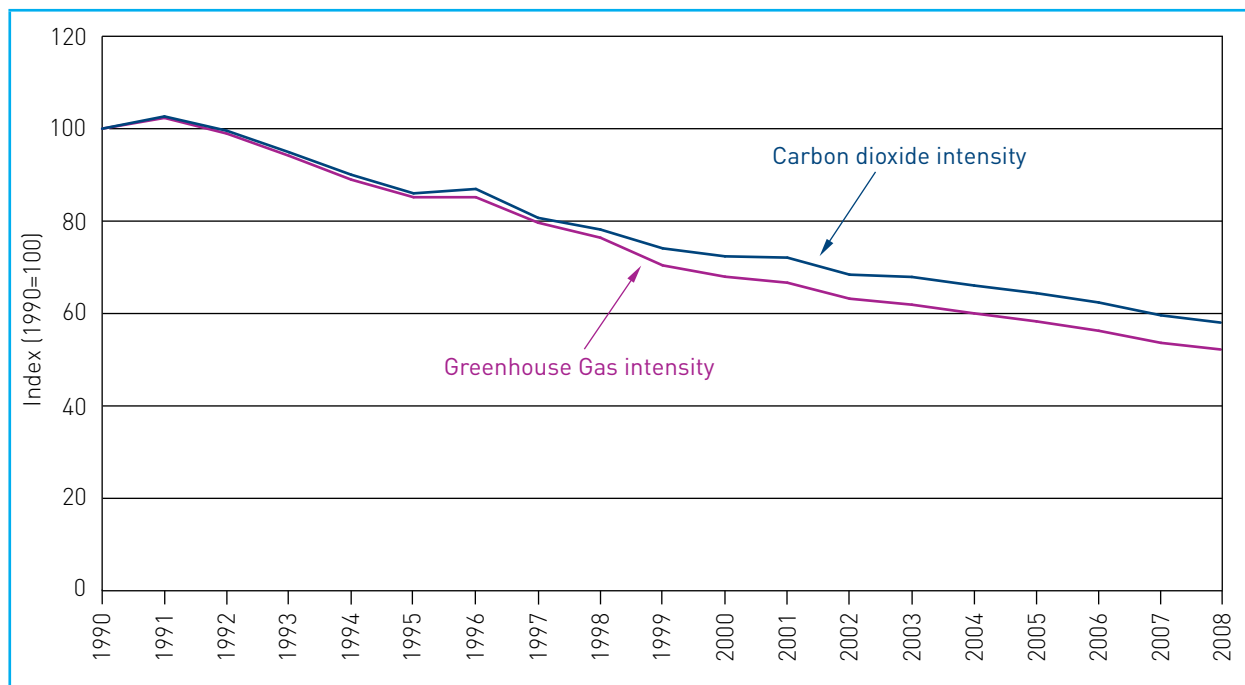


Indicator 5 – Greenhouse gas and CO₂ intensity of the UK economy**Improvement shown**

- See Figure 5.
- The greenhouse gas intensity of the economy has not increased year-on-year since 1990-91, with a clear decrease in most years. However, the effect of the economic downturn on future years is uncertain. The introduction of the Climate Change, Energy and Planning Acts (in November 2008) provided the legislative framework for the transition to a low carbon economy. This was underpinned by a Manufacturing Strategy (published in September 2008) and a Low Carbon Vision (published in March 2009).
- We have also delivered against key measures in the 2007 Energy White Paper. For example, the Renewables Obligation has tripled renewable electricity generation in the past five years to 5.3% at the end of 2008 with a 10% increase in 2008 levels. (These are provisional figures.) Our renewables target is for 15% of energy consumption (electricity, heat, transport) to come from renewable sources by 2020. We launched the Office of Renewable Energy Development and finalised a Renewable Energy Strategy in July 2009.

Figure 5: Greenhouse gas and carbon dioxide intensity of the UK economy

Data for 2008 are provisional.



Source: DECC, Office for National Statistics

Indicator 6 – Proportion of emissions reductions from new policies below the Shadow Price of Carbon

Success measure met for 2008-09

- The Shadow Price of Carbon (SPC) is related to the cost of the global damage caused by emitting one tonne of CO₂ equivalent (tCO₂e). For 2008-09 it was estimated at £26/tCO₂e for policies starting in 2008.⁷³

	Emissions reductions achieved above the SPC (MtCO ₂ e)	Emissions reductions achieved below the SPC (MtCO ₂ e)	Proportion of total emissions reductions under SPC (%)
Policies subject to full IAs only	1.1	207.7	99.5
All policies (subject to full and partial IAs)	312.9	211.6	40.3
- A method for this indicator has been developed to help assess whether greenhouse gas emissions are being reduced cost-effectively. It is based on information in impact assessments published since April 2008. The indicator measures the cost of abating a tonne of carbon in either the traded or non-traded sector and compares it against the weighted average discounted Shadow Price of Carbon. Early results from full Impact Assessments (IAs) show that 99.5% of emission reductions will cost less than the Shadow Price of Carbon. Note that the indicator relates to full IAs. If partial IAs are also included then 40% of new policies will cost less than the SPC. The emissions reductions costing more than the SPC are mostly associated with one impact assessment: the Home Energy Savings Strategy, specifically the RHI which is currently being developed.
- This indicator captures policies between April 2008 and March 2009 only. Information on the cost-effectiveness of earlier mitigation measures was provided in the first two UK Climate Change Programmes.⁷⁴ An evaluation of the first programme in 2006 found that three-quarters of policies resulted in an increase in welfare. Moreover, 50% of the UK's emissions are covered by the EU ETS which aims to reduce emissions at the lowest possible price.
- A review of the SPC is expected to be published in the summer 2009 which will entail changes to the methodology for this indicator.

⁷³ More information is available at <http://www.defra.gov.uk/environment/climatechange/research/carboncost/pdf/costeffect-psa-indicator6.pdf>

⁷⁴ The programmes for both 2000 and 2006 can be found at <http://www.defra.gov.uk/environment/climatechange/uk/ukccp/>

Section 3.3

Performance report on DSO 1

DECC expenditure on tackling climate change internationally and through domestic action to reduce greenhouse gas emissions

Expenditure on tackling climate change internationally and through domestic action to reduce greenhouse gas emissions is shown in expenditure tables 2 and 3 in Annex 5, on the lines marked:

- bringing about a low-carbon UK;
- developing an international agreement on climate change; and
- promoting low carbon technologies in developing countries.

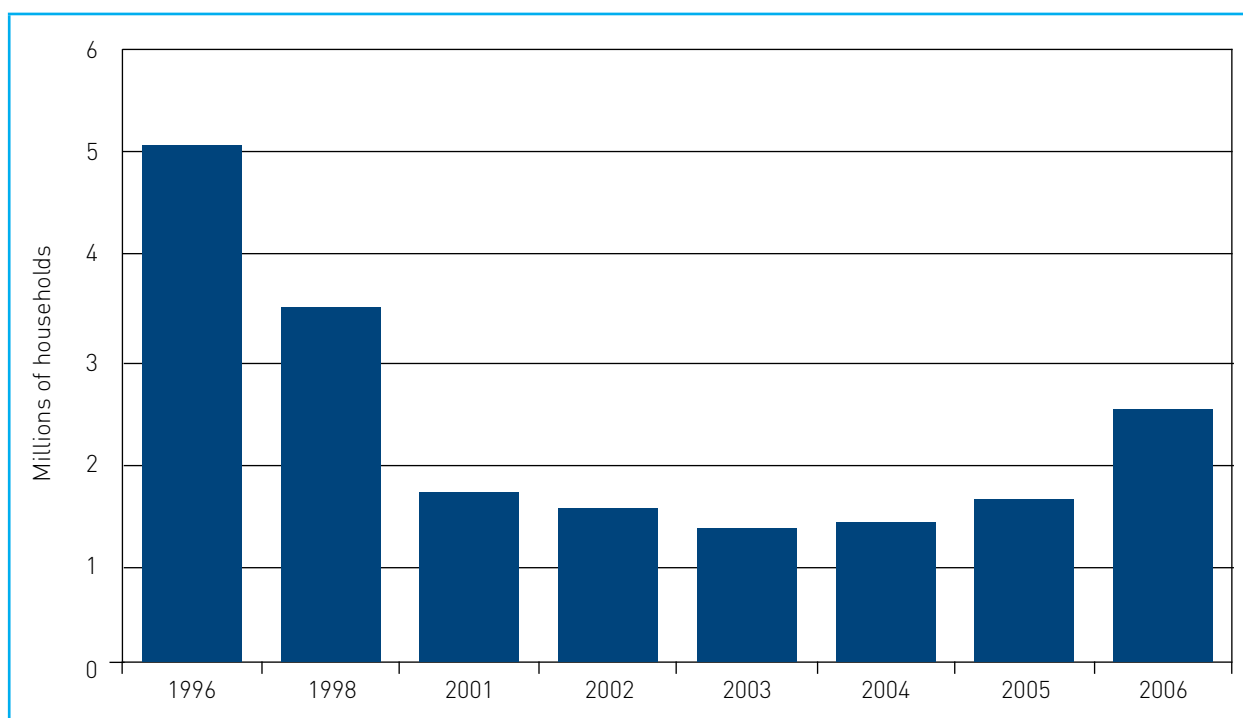
DSO 1 – CLIMATE CHANGE TACKLED INTERNATIONALLY AND THROUGH DOMESTIC ACTION TO REDUCE GREENHOUSE GAS EMISSIONS	Assessment of performance: Some progress (one out of six indicators)
Indicator 1a – Global CO₂ emissions to 2050	No improvement shown
• This indicator is the same as indicator 1 for PSA 27. Please see the performance report on PSA 27 above for details.	
Indicator 1b – Milestones towards a post-2012 agreement	Improvement shown
• Reflecting the fact that the indicator on global CO₂ emissions by 2050 is a very long-term measure of DECC's success – and that of the UK more generally – a proxy indicator has been developed. This allows us to measure our progress in influencing the international deal that is needed to reduce global emissions. • The proxy indicator is based on a number of process strands and milestones towards a post-2012 agreement in the UNFCCC negotiations. Strands 1 to 7 were formerly reported against by Defra (in its Autumn Performance Report). Strands 1 to 4 are now complete. All milestones from Strand 5 onwards have been updated to reflect recent developments. We have also added additional milestones to cover financial instruments and the full CSR07 period.	

Strand or Milestone	Measure
1 Complete	To develop a UK route map to securing a comprehensive global agreement at Copenhagen in December 2009, including ambitious outcomes on key elements of a framework of commitments for the period beyond 2012 which will avoid dangerous climate change.
2 Complete	To ensure the UK approach is reflected in EU negotiating positions for Poznan in December 2008, including a strong message of commitment to UNFCCC negotiations, a sense of urgency and strong signal of EU readiness to step up to meet our own commitments, and through October 2008 Environment and European Council conclusions/negotiating mandates and EU submissions ahead of Poznan Conference.
3 Complete	To support the French Presidency (and COP hosts, Poland) in EU efforts to achieve progress at Poznan, including: reaffirming the primacy of the UNFCCC process as the forum for a global deal; building momentum towards ambitious outcome at Copenhagen, for example by agreeing to enter formal negotiating mode; and a successful review of the Kyoto Protocol, which provides the basis for continued negotiations on key elements in the run-up to Copenhagen.
4 Complete	To secure agreement to 2020 Climate and Energy package (including Member States greenhouse gas targets) at the December 2008 European Council.
5 Ongoing during 2009	To develop, maintain and implement country engagement strategies (initially by October 2008) to influence key countries to accept/support ambitious outcomes at Copenhagen – using the full range of vehicles and mechanisms available, in particular G8 (Italian Presidency in 2009), the US-initiated Major Economies Forum process and the UN Secretary-General's initiatives (including possible UN Summit in September 2009).
6 Ongoing and relevant to European Councils (March 2009 and June 2009)	To ensure that the EU proposal for the final deal reflects UK ambition including finance and technology packages.

Strand or Milestone	Measure
7 By December 2009	To achieve an ambitious, comprehensive global deal at Copenhagen, including: i) a pathway compatible with limiting the global average temperature increase to no more than 2°C above pre-industrial levels, which translates into a reduction in emissions by at least 50% by 2050, compared to 1990 levels; ii) clear mid-term targets with fair contributions from all Parties, with developed countries taking a lead and reducing their emissions by 25-40% by 2020, compared to 1990 levels; iii) an appropriate level of action by advanced developing countries in line with their common but differentiated responsibilities and respective capabilities; iv) well-developed, evidenced based policy decisions on forestry, adaptation and institutional reform.
Additional By December 2009	To achieve ambitious agreement for finance and technology packages at Copenhagen, including: i) further movement towards a global carbon market combined with policies to drive investment towards low-carbon and climate resilient technology, and agreed pilots for deployment through bilateral/multilateral partnerships; and ii) enhanced action on provision of financial resources and investment for mitigation and adaptation, including through the \$6bn Climate Investment Funds in the period to 2012 and innovative financial mechanisms thereafter.
Additional By COP 16 in December 2010	To agree detailed implementation arrangements arising from the agreement reached at Copenhagen.
Additional By European Council in December 2010	To agree detailed EU arrangements for implementation of financial architecture and mitigation agreements reached at Copenhagen.
Additional By mid-2011	To ensure that the World Bank and Multilateral Development Bank's Clean Energy Investment Framework delivers clean energy investments of up to \$117.7bn.

Indicator 2 – Number of households in England that need to spend more than 10% of income to maintain an adequate heating regime
No improvement shown

- See Figure 6.
- Progress between 1996 and 2004 was positive, with total numbers of households in fuel poverty in the UK falling from around 6.5m to around 2m. Subsequently, this increased by 1.5m to 3.5m (2.4m in England) in 2006, the period for which latest figures are available. As fuel prices continue to rise faster than incomes, the proportion of households in fuel poverty will continue to increase. Projections indicate a further 1.2m households might be shown to be in fuel poverty in England when 2008 figures become available.
- The Government is committed to tackling fuel poverty and has a legal duty to ensure that, as far as reasonably practicable, people in the UK do not live in fuel poverty after November 2016 (2018 in Wales). The eradication of fuel poverty is a devolved issue, with the Devolved Administrations responsible for the achievement of respective targets in their own countries. DECC is responsible for eliminating fuel poverty in vulnerable households, as far as reasonably practicable, in England by 2010. Rising energy prices have made achieving our fuel poverty targets more difficult – the current mix of fuel poverty measures is unlikely to totally eradicate fuel poverty amongst the vulnerable by 2010. Since March 2009 the Government has requested Ofgem to produce a quarterly report on energy prices. This has helped to improve DECC's understanding of the link between wholesale and retail prices and provide greater transparency.

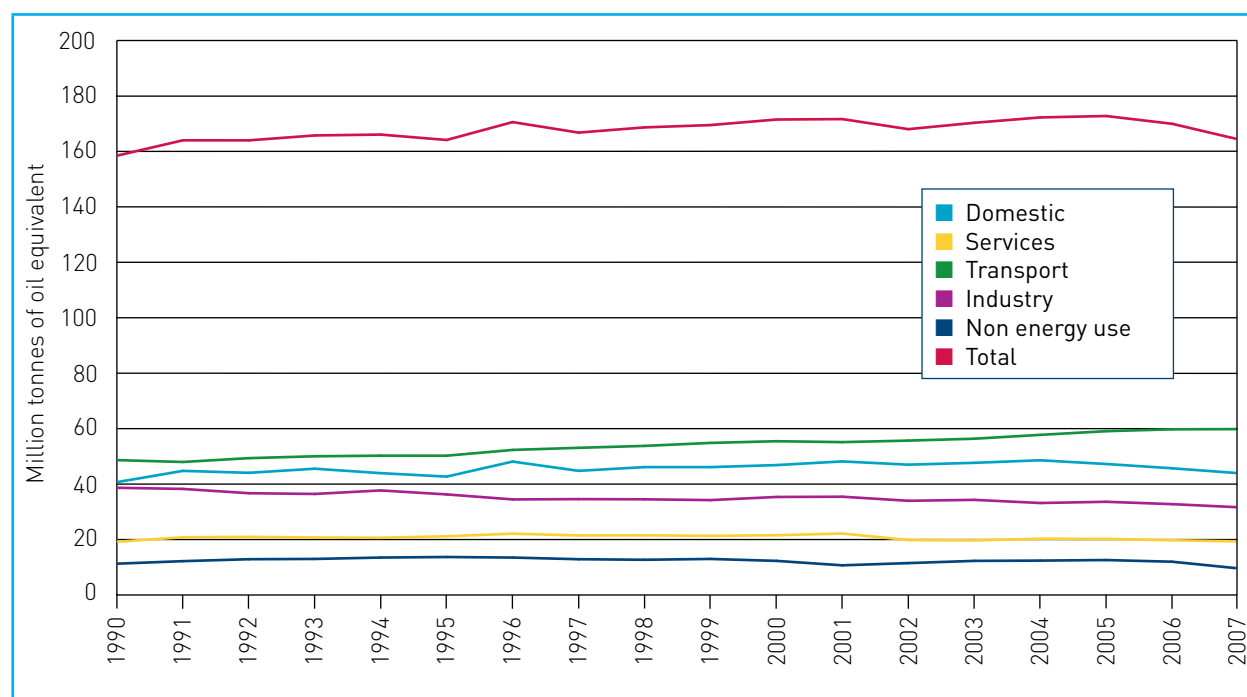
Figure 6: Number of households in fuel poverty in England


Source: Defra/BERR – *Sixth annual progress report on fuel poverty (2008)*

Indicator 3a – UK energy consumption	Position maintained
Indicator 3b – Carbon intensity of energy consumption	Position maintained
• See Figure 7 and Figure 8. • The following charts show historical data for UK energy consumption and the carbon intensity of energy consumption. • Following a slowly rising trend since 1990, there is some evidence of a decrease in UK energy consumption since 2005 which is probably due to a combination of increased energy efficiency, increased energy prices and mild winters. • The carbon intensity of UK energy consumption has been broadly unchanged since the 'dash for gas' in the 1990s when generators began using more gas and less oil and coal.	

Figure 7: UK energy consumption

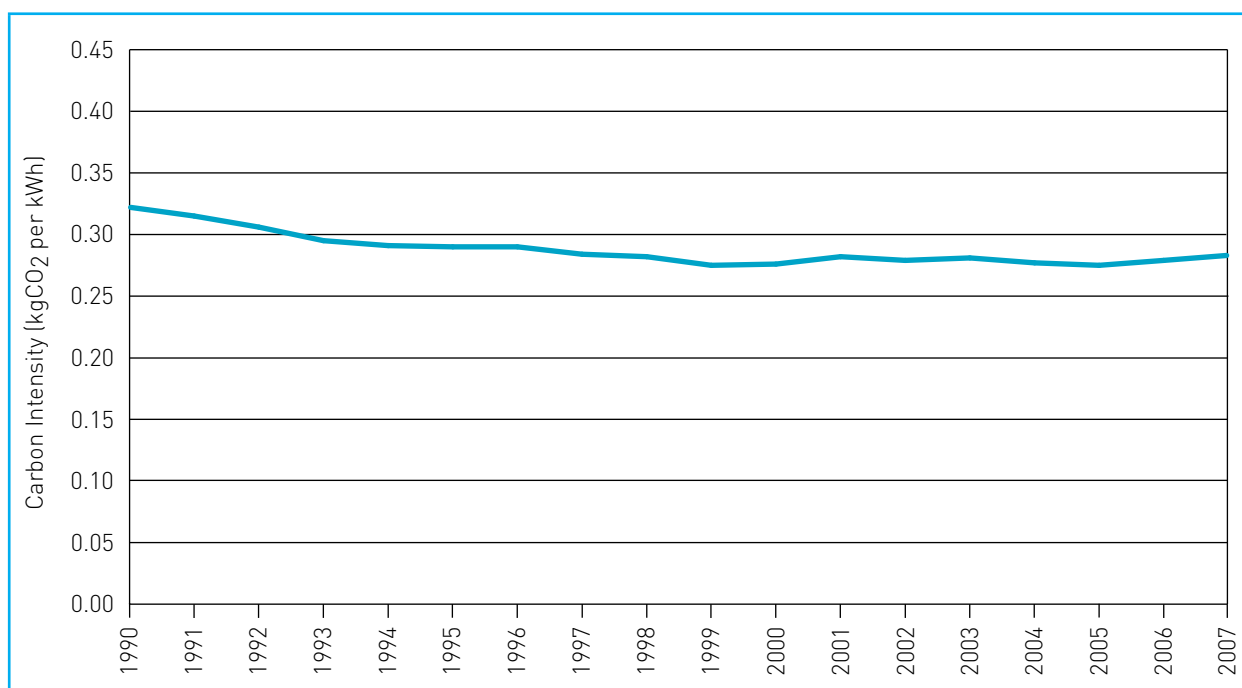
This excludes generation and transmission losses and own use within the energy sector



Source: BERR – 2008 Digest of UK Energy Statistics

Figure 8: Carbon intensity of energy consumption

This is derived by dividing total UK CO₂ emissions by total final consumption of energy



Source: DECC, AEA – UK Greenhouse Gas Inventory and BERR – 2008 Digest of UK Energy Statistics

Indicator 4 – International community helped to adapt to climate change

Not assessed

- This indicator is still under development and progress has not yet been assessed. As an interim measure, progress in delivering the Pilot Programme for Climate Resilience (PPCR)⁷⁵ will be monitored. The objective of the PPCR is to provide incentives for scaled-up action and transformational change through pilot projects that demonstrate how to integrate climate risk and resilience into core development planning, while complementing other ongoing development activities in a given country. PPCR programmes are country-led and enable pilot countries to transform country-specific plans and investment programs to address climate risks and vulnerabilities. The PPCR also provides lessons for the evolution of the operation of the Adaptation Fund. Nine countries and two regions have been invited to participate in the pilot. The programme will also support countries to develop country-level results frameworks and indicators for monitoring adaptation outcomes.
- The UK has committed £225m to the PPCR from the Environmental Transformation Fund. This year (the first of three) DECC has contributed £8.75m of its overall £112.5m contribution to the Programme.

⁷⁵ <http://www.climatefundsupdate.org/listing/pilot-program-for-climate-resilience>

Section 3.4

Performance report on DSO 2

DECC expenditure on ensuring the reliable supply and efficient use of clean, safe and competitively-priced energy

Expenditure on ensuring the reliable supply and efficient use of clean, safe and competitively-priced energy is shown in expenditure tables 2 and 3 in Annex 5, on the line marked:

- supporting affordable, secure and sustainable energy.

DSO 2 – TO ENSURE THE RELIABLE SUPPLY AND EFFICIENT USE OF CLEAN, SAFE AND COMPETITIVELY-PRICED ENERGY		Performance assessment: Some progress (three out of seven indicators)		
Indicator 1a – CO ₂ intensity of UK economy		Improvement shown		
Indicator 1b – Total UK CO ₂ emissions		Improvement shown		
These indicators relate solely to carbon dioxide (CO₂). As such, indicator 1a is one part of indicator 5 for PSA 27 and indicator 1b is one part of indicator 4 for PSA 27. Please see the performance report on PSA 27 above for details, including Figures 4 and 5.				
Indicator 2a – De-rated peak capacity margin for electricity and gas		Improvement shown		
- There are no quantitative targets as such for this indicator: a higher capacity margin is not necessarily better, if the cost of achieving it outweighs the benefits. Electricity The capacity margins for electricity are the difference by which de-rated capacity based on existing plant and plant consented and under construction at the time of reporting exceeds peak winter demand figures projected by the Distribution Network Operators (DNOs). Figures for capacity margins as a share of winter peak demand are as follows:				
Electricity	As at spring 2008	As at autumn 2008	As at January 2009	As at June 2009
Winter 2009-10	6%	9%	12%	17%
Winter 2013-14	2%	6%	11%	17%
Winter 2014-15	n/a	n/a	9%	17%

- Over the last year, projected de-rated capacity margins have risen. This is the result of a combination of an expected increase in forthcoming capacity (in particular because several CCGT plants are due to be commissioned or have gained planning consent) and a reduction in demand forecasts by the DNOs, reflecting recent economic conditions. Hence the margin by which supply exceeds demand has increased considerably in the period up to 2014-15 in comparison to the previous report. Up to 2014-15, new capacity due to be commissioned will more than compensate for some of the closures of plant opted out of the Large Combustion Plant Directive (LCPD), although beyond 2015, when all opted out stations will have closed, capacity margins may reduce, depending on the number of projects in the planning process that come to fruition. In addition, demand may recover over and above current projections which could also result in reduced margins.
- Gas** The table below presents the estimated de-rated capacity margins for gas as at December 2008, compared with those published in the last reporting period. More recent estimates are not yet available. Delays in the development of a number of storage projects have resulted in a slight reduction in the capacity margin for winter 2009-10. However, since April 2008 there has been progress in the construction and commissioning of other new gas import and storage infrastructure, hence the improvement in the 2008 estimate over those of 2007 for winter 2010-11 onwards. The significant change in the figures for winter 2013-14 is due to several delayed projects' being scheduled for completion that year. In addition, a downward revision by National Grid of forecast peak day demand has widened the margin.

Gas	2007 estimates	2008 estimates
Winter 2009-10	7%	6%
Winter 2010-11	5%	11%
Winter 2011-12	3%	13%
Winter 2013-14	-2%	19%

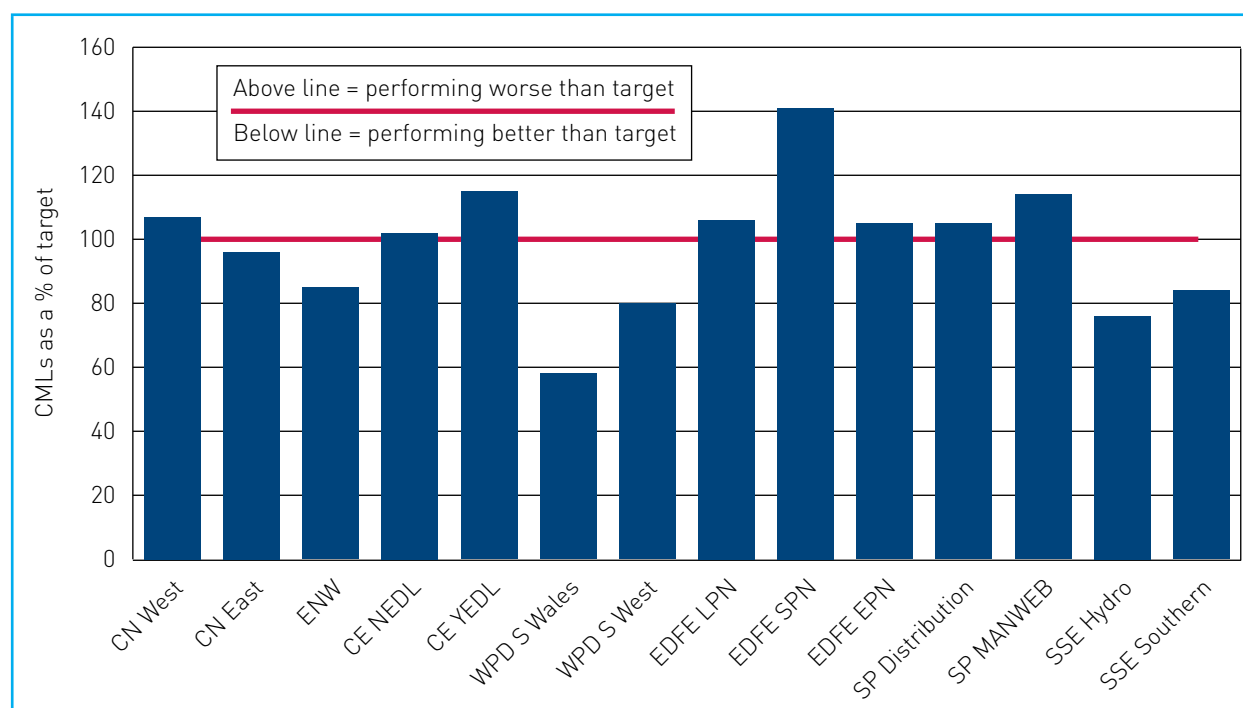
Indicator 2b – Customer minutes lost on GB distribution networks for gas and electricity**Overall position maintained**

- See Figure 9.
- **Electricity** Ofgem reported on the quality of service performance for the 14 electricity DNOs in its 2007-08 Electricity Distribution Quality of Service Report.⁷⁶ DNOs are responsible for the local distribution of electricity, ensuring that customers have a reliable electricity supply. All licensees are required to report on their performance in maintaining quality of service to Ofgem on an annual basis.
- The table below shows the historical number of customer minutes lost (CMLs) on GB distribution networks for the three years up to 2007-08. For the period 1 April 2007 to 31 March 2008 Ofgem reports that the DNOs' underlying performance was better than that experienced in 2006/07, partly due to less severe weather conditions which affected the earlier year. The number of customer minutes lost has reduced by 9 per cent. Figures for 2008-09 are not yet available.

Electricity	Customer Minutes Lost (CMLs)		
	2005-06	2006-07	2007-08
With storms	69.2	100.1	81.9
Without storms	65.6	78.1	74.6

- In 2007-08 DNOs performed slightly better than in the previous year in terms of not exceeding the target set for the number of customer minutes lost. The specific target data for the maximum customer minutes lost are not published. However, the graph below shows how DNOs performed compared to the level of CMLs that should not be exceeded (shown as 100%). In 2007-08, eight DNOs did exceed this figure (unchanged from the previous year) and six of the DNOs were successfully below their 100% target limit (compared to five the previous year). Interruptions arising on other networks (e.g. transmission networks) are excluded as they are outside the DNOs' control.

⁷⁶ <http://www.ofgem.gov.uk/NETWORKS/ELECDIST/QUALOFSERV/QOSINCENT/Documents1/2007.08%20Quality%20of%20Service%20Report%20v2.pdf>. This document includes the list of 14 DNOs.

Figure 9: Customer minutes lost (electricity), 2007-08

Source: Ofgem – 2007-08 Electricity Distribution Quality of Service Report

- **Gas** Ofgem reported on the quality of service performance for the eight Gas Distribution Networks (GDNs) in its 2007-08 Gas Distribution Quality of Service Report.⁷⁷ GDNs are required to report on the number of non-contractual supply interruptions to customers from planned and non-planned activities per 100 customers per year.
- The table below presents the reported number of non-contractual gas supply interruptions per 100 customers. Though the number of reported interruptions per 100 customers has increased for both planned and unplanned interruptions in comparison to last year, it is important to note that a large proportion of these increases appears to have been due to the GDNs' improving their interruption reporting systems. Such improvements will enable interruptions to be managed more effectively. Please note that figures for 2006-07 have been revised (r).

Gas supply – type of interruption	2004-05	2005-06	2006-07	2007-08
Planned interruptions	1.04	1.37	1.77 (r)	1.99
Unplanned interruptions	0.25	0.24	0.33 (r)	0.4
Total	1.29	1.61	2.1 (r)	2.4

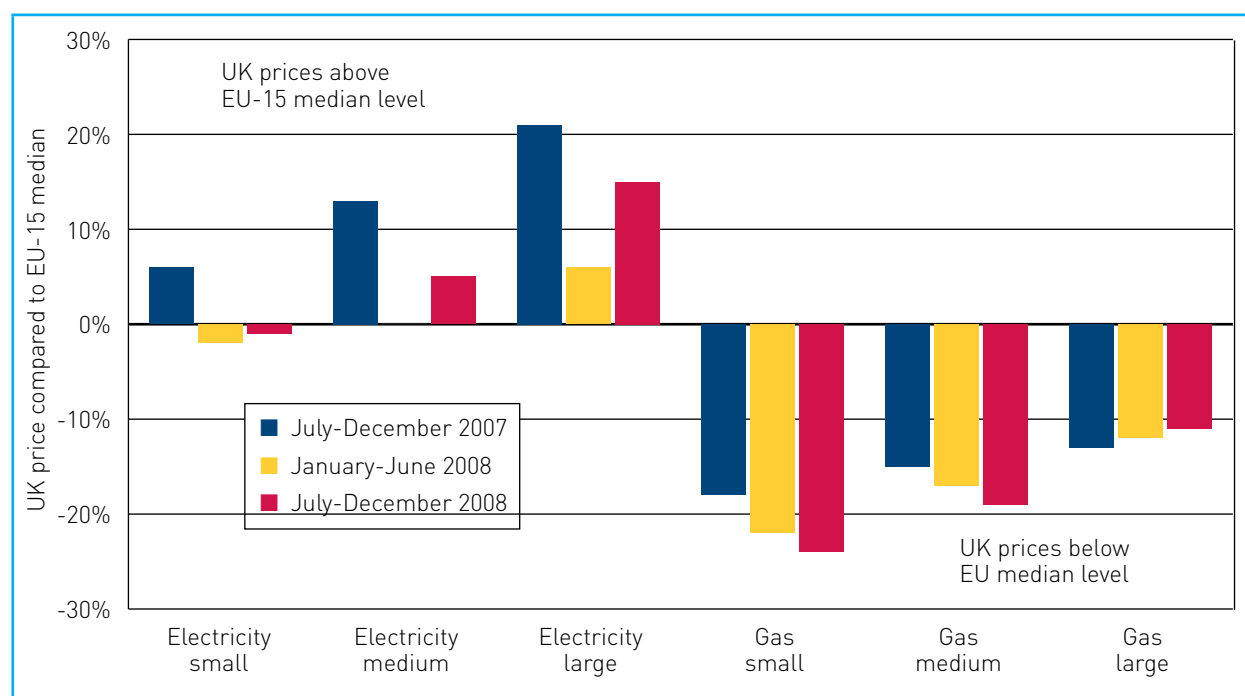
77 <http://www.ofgem.gov.uk/Networks/GasDistr/QoS/Documents1/2007%20to%2008%20QoS%20report.pdf>

Indicator 3a – Industrial gas and electricity prices compared to EU-15 median (this is similar to indicator 4 under the BERR-led PSA 6)

Overall position maintained

- See Figure 10.
- The latest estimated data⁷⁸ for the period July to December 2008 show that UK industrial electricity prices were generally above the EU-15⁷⁹ median level, whilst UK industrial gas prices were below the EU-15 median level. UK industrial gas prices have generally become more competitive against EU median levels compared to the previous period (Jan 2008 to July 2008), whilst industrial electricity prices have become slightly less competitive.
- In the chart, a positive value shows that industrial prices are more expensive in the UK than the EU-15 median. Prices include all taxes where these are not refundable on purchase.

Figure 10: UK industrial electricity and gas prices compared to the EU-15 median



Source: DECC Quarterly Energy Prices

⁷⁸ These can be found in the Quarterly Energy Prices.

See www.berr.gov.uk/whatwedo/energy/statistics/publications/prices/index.html

⁷⁹ The EU-15 is EU member countries prior to 1 May 2004. These are: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and the UK.

Indicator 3b – Number of households needing to spend more than 10% of income on fuel to keep warm (this is also an indicator for DSO 1)**No improvement shown**

- This indicator is the same as indicator 3 for DSO 1. Please see the performance report for DSO 1 above for details.

Indicator 4 – Absence of significant safety-related incidents**Overall position maintained**

- Incidents at nuclear facilities are rated according to the International Nuclear and Radiological Event scale – INES.⁸⁰ Events are rated from Level 1 to Level 7. There are also events below the scale, sometimes known as Level 0. Throughout the period 2008-09, there were no events at Level 3 or higher. An incident at Sellafield first reported as an INES Level 1 incident in January 2009 was, after investigation, up-rated in May 2009 to an INES 2 Level event. There were no other significant safety related incidents. The number of events at lower INES levels at UK facilities was as follows:

INES events 2008-09

Level 0 (below-scale)	Level 1	Level 2
58	13	1

- The UK has in place a strict regulatory regime. It ensures the highest standards of safety both in minimising radiation exposures from normal operations and in preventing accidental releases of radioactivity at nuclear installations. The legislative framework requires the highest standards of safety and also keeps the safety of nuclear sites under constant review. Nuclear operators must demonstrate to the Health and Safety Executive's Nuclear Installations Inspectorate the safety of activities at nuclear sites. They must also show that they are complying with the strict conditions of their nuclear site licence and other relevant safety legislation.

80 <http://www.iaea.org/Publications/Factsheets/English/ines.pdf>

Section 3.5

Performance report on DSO 3

DECC expenditure on managing energy liabilities effectively and responsibly

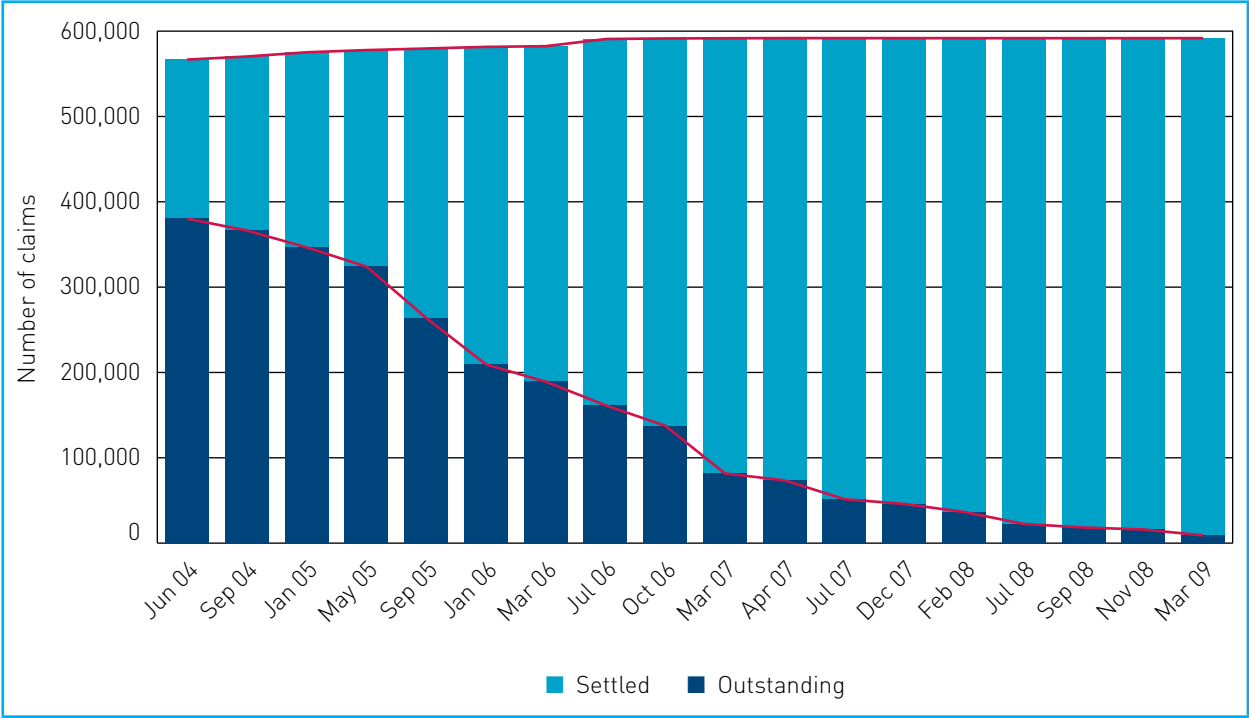
Expenditure on managing energy liabilities effectively and responsibly is shown in expenditure tables 2 and 3 in Annex 5, on the line marked:

- managing historic energy liabilities effectively and responsibly.

DSO 3 – TO MANAGE ENERGY LIABILITIES EFFECTIVELY AND RESPONSIBLY	Assessment of performance: Strong progress (four out of four indicators)
Indicator 1 – Reduction in UK civil nuclear liabilities at least in line with agreed and published Nuclear Decommissioning Authority business plans	Improvement shown
- The NDA reports that it is on track to deliver under this DSO, which relates to establishing a safe, affordable, innovative and dynamic market for clean up and decommissioning, ensuring progress in tackling the civil nuclear liability in line with agreed end states for the NDA's sites, and delivering value for money. This is measured through indicators 1, 2 and 3 for DSO 3. - For indicator 1, progress has been made throughout the year against the target of reducing the UK civil nuclear liabilities in line with the agreed and published NDA business plans. Lower level metrics have been identified that relate to completion of specific site programme and project milestones as well as total scheduled performance by the Site Licensed Company (SLC). A success goal has been set of achieving at least 75% of the lower level metrics. The latest best estimate is that this will be met and possibly exceeded.	
Indicator 2 – Delivering minimum value for money savings on costs equivalent to 3% per annum averaged over the three-year CSR07 period from 2008-09	Improvement shown
- The NDA has targeted the achievement of 2% value for money savings for the financial year 2008-09, 3% for 2009-10 and 4% for 2010-11. This equates to the 3% per annum averaged over the three-year CSR07 period. The 2% target for 2008-09 reflects the anticipated impact of the Parent Body transition for the Sellafield SLC. - Improvements in the value for money savings have been seen month on month throughout the year. The NDA's latest best estimate for 2008-09 is that the in-year target will be achieved. All NDA SLCs apart from Sellafield Limited are on or above target. The supporting year-to-date Cost Performance Index continues to reflect the improvements being achieved.	

Indicator 3 – Reduction of the risk associated with high hazards by progressively mitigating hazards and ensuring radioactive waste continues to be put into a passively safe form.	Improvement shown
• The NDA is reporting steady progress against this target. As with indicator 1, with which there is some overlap, lower level metrics have been identified as a measure of achievement. These relate to: completion of specific site programme and project milestones related to hazard reduction; progress on processing waste; and overall hazard risk reduction in line with plan. A success goal has been set of achieving at least 75% of the lower level metrics; the current forecast is to achieve 76%. The sub-metric relating to the overall level of risk of hazard is currently driving down the overall forecast performance. The NDA continues to monitor and assess SLC performance on the hazard work-off with a view to ensuring that performance is maintained and improved.	
Indicator 4 – Achievement of the Aspirational Scheme End Date for completion of the COPD Coal Health Compensation scheme.	Improvement shown
• See Figure 11. • The Aspirational Scheme End Date for completion of the Chronic Obstructive Pulmonary Disease compensation scheme was 16 February 2009. This date was set more than four years ago as an aspirational target for the reduction of claims still to be settled to 500 out of the 592,000 claims registered. • During 2008-09 DECC re-assessed the progress of claims towards settlement. In March 2009, this culminated in agreement with the Court overseeing the COPD Scheme that the target should be to reduce the number of claims to be settled to 2,000 by 30 November 2009. We aim to resolve the remaining claims by end 2010. • The table below shows the progression of settlement of claims in the period June 2004 to March 2009.	

Figure 11: Chronic Obstructive Pulmonary Disease claims profile



Source: DECC

Chapter 4:

Managing the Department

Section 4.1

Introduction

- 4.1** The delivery of the Department's objectives hinges in large part on how well DECC staff perform and how the Department is managed. This in turn depends on the governance structures in place in DECC and the way in which we organise ourselves to perform. This chapter explains what steps have been taken in DECC to ensure that we are in a position to deliver.

Building DECC as a new department

- 4.2** The Prime Minister's appointment of the Rt Hon Ed Miliband MP as the first Secretary of State for Energy and Climate Change on 3 October 2008 required the immediate creation of the new Department, bringing together policy areas and staff from the former BERR and Defra. An acting Permanent Secretary, Moira Wallace (subsequently permanently appointed), was identified immediately and the Prime Minister appointed DECC's other Ministers in the days that followed.
- 4.3** The Ministerial team and the Permanent Secretary made clear to staff and stakeholders that DECC would be a new department with a new mission and its own culture, not just a patching together of two existing groups. They encouraged the sense of excitement among staff at a new opportunity based around a focused and compelling policy challenge. They highlighted three overall priorities for the Department:
- ensuring our energy is secure, affordable and efficient;
 - bringing about the transition to a low-carbon Britain;
 - achieving an international agreement on climate change at Copenhagen in December 2009.

4.4 Building the Department Once the fundamentals were in place, such as negotiating the Department's resources, selecting its headquarters and creating its external identity, a programme of work was set out, running until the summer of 2009. Significant activities included:

- involving staff and others in the Building DECC effort (through transition team members' attendance at team meetings, staff workshops, user groups and steering groups);
- agreeing a new structure for the Department;
- appointing people to fill key posts in the new structure – particularly senior jobs in the corporate centre;
- developing the Department's aims and overall strategy;
- conducting DECC's first business planning process to allocate our resources for the 2009-10 and 2010-11 financial years;
- refurbishing the building at Whitehall Place for DECC's needs and planning a series of staff moves, such that all London-based staff would occupy the building by mid-June 2009;
- selecting the Department's IT supplier and solution;
- negotiating to benefit from a number of services with other Government departments, in order to maximise the resource available to policy and operational delivery;
- improving internal and external communications, including through a DECC intranet, an improved public website and efforts to increase the internal visibility of the Management Board;
- facilitating a cross-departmental effort to define and implement DECC's culture, values and ways of working; and
- working to green the department, through changes to the building and to ways of working.

4.5 Business as usual The transition team is by definition time-bound. Its programme includes a gradual handover of many of its functions to business as usual teams, mostly elsewhere in the Corporate Support and Shared Services Group. Effort will then shift from building DECC to further development of the Department's capability, notably preparing for DECC's first Capability Review in autumn 2009.

Section 4.2

Our people and culture

4.6 Since its creation, the Department has been working hard to develop its identity, culture and values through staff forums and engagement with senior leaders and stakeholders. DECC is working to create a new shared set of values to help ensure that it works as a unified high-performing Department that fully realises the benefits of bringing together energy and climate change into an integrated whole.

- 4.7** The Department intends to make full use of its extended family, including Whitehall partners and delivery partners, to bring together diverse skills, insights and people from across society. The planned internal skills strategy will ensure that staff have the opportunity to develop.
- 4.8** DECC has made progress in establishing good working relationships with Trade Unions and has set up a joint Policy and Reward Committee with the Unions as a forum for discussions and negotiations to work together in agreeing a set of terms and conditions that will apply to all staff in DECC. The Department has undertaken a review of the terms and conditions of ex-BERR and ex-Defra staff and identified those terms and conditions that are the same and those where there are differences.

Leadership

- 4.9** DECC is committed to developing its leadership capability by continuing to develop its top team (the Department's Management Board) and its senior managers. The Board appointed a coach to support its development.
- 4.10** Jointly with BERR, the Department ran a successful Accelerated Development Programme for employees with the potential to reach team leader posts within three to four years and senior management positions in the future. It also supported some of its leaders in their application for the High Potential Development Scheme run centrally across the civil service.

Skills strategy

- 4.11** Developing the skills of DECC's employees will be a priority for the Department going forward. A DECC skills strategy will be developed for approval by the Board as part of a wider HR Strategy. This will support the continued growth of staff capability for DECC and the broader skills strategy for Government.
- 4.12** Born out of BERR's Energy School, the DECC School has also been developed. It is an innovative learning and development opportunity for all staff, with the aims of helping staff to improve skills and of sharing knowledge across the Department. The School provides the opportunity for staff to share the knowledge gained in their policy areas across DECC through a structured approach. The knowledge-sharing theme of the school allows staff to gain two certificates, *Induction into Energy and Climate Change* (through a series of eight induction seminars) and *Understanding Energy and Climate Change* (through a wide ranging series of themed seminars). The subject areas covered range from Global Climate Change to The UK Coal Industry, from Energy and Climate Change Statistics to Trends and Drivers of Energy Prices. All seminars have a short before and after quiz associated with them so that the Department can gauge understanding and knowledge.

Staff survey

- 4.13** DECC is committed to taking part in the first cross Whitehall staff survey in the autumn and will establish a baseline from which to measure the Department in advance of this.

Diversity within DECC

- 4.14** DECC's policies impact on a wide range of people who will experience them in different ways. The Department recognises, however, that some staff can face particular barriers, for instance because of disability, race or gender. DECC has a responsibility to promote equality, diversity and social inclusion, as an employer and as a policy-making Department.
- 4.15** Section 4.3 of this report discusses how the Department promotes equality of opportunity for race, gender and disability in its functions. The Department takes the duty to promote equality seriously and continues to consider and mitigate against any potential negative impact its people policies may have on under-represented or disadvantaged groups of staff.
- 4.16** The diversity of DECC's senior civil service (SCS) staff is currently made up as follows:

DECC SCS diversity data at May 2009			
	Numbers	Proportion (%)	Civil service target for 1 April 2011 (%)
SCS women	14 out of 63	22	39
SCS women PB2 and above	3 out of 15	20	34
SCS BME⁸¹	2 out of 63	3	5
SCS disabled	2 out of 63	3	5

- 4.17** This diversity profile largely reflects the way in which staff transferred to DECC in October 2008. DECC's own diversity strategy has not yet been finalised. It will reflect actions to address differences between DECC's current position and the overall civil service long-term target.

Recruitment

- 4.18** With the exception of a small number of priority moves that have needed to be made quickly, all permanent job vacancies are advertised to all DECC staff on the intranet and are open to eligible staff with the relevant skills and/or experience to apply. The standard practice is that for every job an interview will take place, with a panel that normally includes an Independent Panel Member (IPM). All interviewing managers and IPMs are specifically trained in recruitment skills, including the diversity aspects of recruitment. In addition, temporary cover can be used, for example to provide resource for one-off projects or maternity cover. For some staff this will be an opportunity to develop skills and experience not otherwise available. Priority is given to internal staff for all vacancies. However, on occasions it is necessary to advertise externally. Going forward, DECC's recruitment policy will be to advertise all jobs on the DECC external website, the Civil Service recruitment gateway and JobcentrePlus. This will give access to a

⁸¹ Black and minority ethnic

broad candidate base. In addition, the Department will actively seek to promote its vacancies with diversity related organisations.

Section 4.3

Promoting equality of opportunity

- 4.19** Along with other public sector organisations, DECC is required by law to promote equality of opportunity in all its functions for race, gender and disability.⁸² As a relatively new Department, DECC is going through a period of transition to ensure its policies are relevant and practical. During this transition period all staff that were previously with Defra will be guided by that organisation's policies which have been widely advertised internally. All other staff, including staff recruited directly to DECC, are guided by the former BERR policies.
- 4.20** An early action will be to harmonise the different diversity schemes. Likewise, DECC will harmonise all its terms and conditions over the coming twelve months to ensure fair and equal treatment to all staff. Examples will include opportunities for recruitment, promotion and training.
- 4.21** Paragraphs 4.14 to 4.17 discuss DECC's position on diversity, including race, gender and disability, with regard to DECC employees. DECC will prepare and publish during the next twelve months an Equality Action plan covering race, disability, gender, age, religion or belief, sexual orientation and gender reassignment. This will reinforce the Department's position of providing equality of employment for all people.

Equality of opportunity in practice

Here are two examples of DECC's approach in practice:

- *Relocating staff* – DECC took into account any work place adjustments agreed for staff in respect of individual disabilities when organising the relocation of London staff.
- *Access to information and services* – DECC is developing its website, including a focus on ensuring it meets 'AA' accessibility levels.⁸³

Equality Impact Assessments

- 4.22** Equality Impact Assessments (EqIAs) are undertaken for all major work within DECC to ensure policy makers consider everyone's needs when considering new or changed legislation or a major project involving change. There are threshold criteria – usually £5m – above which an EqIA must take place. For example, an initial EqIA screening was completed in November 2008 in relation to the Carbon Reduction Commitment. The screening showed that no further assessment was

⁸² The Race Relations Act 1976 (as amended by the Race Relations (Amendment) Act 2000), the Disability Discrimination Act (as amended by the Disability Discrimination Act 2005) and the Sex Discrimination Act 1975 (as amended by the Equality Act 2006). There is no similar legislation currently as regards religion or belief, sexual orientation or age.

⁸³ See the World Wide Web Consortium (W3C) Web Accessibility Initiative (WAI) – <http://www.w3.org>

needed. It noted that, as with all policies aimed at mitigating climate change, benefits can be expected to be focused on those most at risk of climate change, including those with health conditions which make them vulnerable to more frequent and prolonged heatwaves in summer and those living in developing countries with limited capacity for adaptation.

Section 4.4

Professional support, capability and infrastructure

Legal and analytical capacity

4.23 DECC has an in-house legal team providing expert advice in support of its policy and delivery teams. The legal team is also responsible for the procurement of legal services from others. Significant projects since the formation of the Department have included delivery of the Energy Act 2008 and the Climate Change Act 2008. DECC also has a substantial in-house team of analysts, including economists, scientists and other specialists. Analytical work is central to evidence-based policy making in every area of the Department.

Communications

4.24 DECC's Communications Directorate works across a full range of disciplines including free media, news media, marketing and community engagement. The Directorate is part of the Directorate General for National Climate Change and Consumer Support but fulfils strategic and operational communications for the whole of DECC. The Directorate's teams are:

- **Press Office**
- **Marketing and campaigns** – including the ACT ON CO₂ campaign (see Chapter 2)
- **Corporate communications** – including internal communications and stakeholder engagement

Correspondence and enquiry handling

4.25 Following its creation, DECC has continued to rely on BERR (now BIS) and Defra central correspondence units to handle DECC-related correspondence and public enquiries.

4.26 The Whitehall correspondence target requires Government departments to reply to correspondence from MPs within a maximum of 20 working days. DECC has set itself a standard of responding to 80% of correspondence within 15 working days. From October 2008 to March 2009, DECC responded to 43% of letters from MPs within target, although this performance has been improving since the first quarter of 2009.⁸⁴ With respect to the handling of public enquiries (letters and

⁸⁴ For this report, figures are only available from 3 October 2008 when DECC was created. It is not possible to separate energy and climate change correspondence and enquiries from other enquiries received by BERR and Defra in the first half of 2008-09.

e-mails), DECC responded to 77% within target and over 83% of phone calls were answered within the agreed service level of 20 seconds.⁸⁵

- 4.27** There have been significant recent improvements in performance. DECC's relatively weak early performance in this area, particularly for the handling of correspondence with MPs, reflects a number of factors. These include issues associated with the setting up of the new department and an up-turn in volume of correspondence (BERR and Defra replied to over 8,000 letters and emails on behalf of DECC). Many of the delays related to highly complex fuel poverty and Warm Front casework requiring additional time to resolve.

Complaints about the Department

- 4.28** Between 3 October 2008 and 31 March 2009, the Parliamentary Ombudsman accepted for investigation one complaint against DECC and resolved and reported on one separate complaint which was partially upheld. Both of these complaints concerned the Warm Front scheme.

Estates management and health and safety

- 4.29** DECC staff now operate from two buildings – 3 Whitehall Place in London and Atholl House in Aberdeen.
- 4.30** Demonstrating leadership on climate change is a vital role for DECC. The Department's attempts to do this in terms of the performance of its own buildings, particularly Whitehall Place, are described in Section 4.8.
- 4.31** In both buildings, DECC is a tenant of the lease-holders, from whom we receive building management services. For 3 Whitehall Place, DECC procures services from Defra, making use of the newly-created Sustainable Built Environment Workplace Support contract service. This provides standard facilities management services, together with telephony services. For Atholl House, the Department procures services from BIS, under the contract with EC Harris covering facilities management services.

Security and resilience

The security and resilience plans put in place by BERR (now BIS) and Defra have applied to DECC. DECC has also appointed its own Departmental Security Officer. The Department is reviewing and developing its plans for security and resilience.

⁸⁵ These figures refer to services provided on behalf of DECC by the Defra Customer Contact Unit. The BIS Ministerial Correspondence Unit does not have an equivalent breakdown for enquiries it has dealt with on behalf of DECC.

Information management and services, including reporting personal data-related incidents

DECC staff have been making use of the information management services of BERR (now BIS) and Defra since DECC's creation. In 2009-10, the Department will build on these systems to develop a consistent approach to information management adopting a shared service approach wherever practical.

There have been no reported data losses to date.

- 4.32 Health and safety** DECC staff are largely office-based, working in buildings that were provided by BERR or Defra. Staff in property leased or owned by BIS (including Atholl House) are covered by its health and safety policies, reporting and support arrangements. Likewise, staff in property leased by Defra (including 3 Whitehall Place) are covered by Defra's policies and other arrangements in this area.
- 4.33** Recognising the importance of health and safety in keeping staff healthy and able to work effectively, the Department expects to appoint its own Health and Safety Officer shortly. That officer will review the policies by which staff are covered, ensuring they are right for DECC, and oversee the development of a health and safety support system that meets the needs of the Department and its staff.

Section 4.5

Value for money programmes

Background

- 4.34** DECC's value for money (VfM) programme includes and builds upon the successful strategies inherited from BERR and Defra and the additional savings required in 2010-11 as announced in the Pre-Budget Report 2008. DECC undertook a rigorous planning process to determine its objectives and allocate its resources for the remainder of the CSR07 period. This process included considerable challenge of individual proposals to ensure that full consideration of value for money issues was made.
- 4.35** DECC will deliver savings of £279m by 2010-11 in order to release resources to sustain key public services and contribute to economic recovery, demonstrating the Department's full commitment to meeting and surpassing the 3% overall target set by the Government.
- 4.36** The cumulative target for DECC by each year of the CSR07 period is as follows:

Overall	2008-09	2009-10	2010-11
VfM savings (£m)	112	191	279

- 4.37** As with all departments, the value for money gains are calculated from a counterfactual baseline that provides an evidence-based view of cost pressures that would be faced in the absence of any value for money reform.

Administration VfM savings over the CSR07 period

- 4.38** DECC inherited admin budgets and VfM savings from BERR and Defra. The figures below are based on the requirement to deliver a 5% per annum savings in real terms in each of the CSR07 years. The required savings have been built into allocated budgets and achieving an outturn within budget – as in 2008-09 – automatically means securing them.

Administration	2008-09	2009-10	2010-11
VfM savings (£m)	7	11	15

Delivery strategy and progress to March 2009

- 4.39** DECC's delivery strategy builds on the plans it inherited from Defra and BERR. It is likely that there may be changes in the estimated forecasts and the proportions of the targets delivered by individual work-streams as the work evolves. However, this will not impinge on the overall target of £279m savings.
- 4.40 Sustainable Energy Capital Grants** Sustainable Energy Capital Grants support the UK goal of achieving at least an 80% reduction in carbon emissions by 2050. The grants, now subsumed within the Environmental Transformation Fund, provide direct financial assistance to demonstration and early stage deployment projects for low carbon emerging energy technologies. Its objective is to drive progress through the innovation chain of a portfolio of energy technologies and so accelerate commercial deployment. The money is spent on a range of capital grant programmes such as offshore wind, bio-energy, wave and tidal energy and carbon abatement.
- 4.41** VfM savings will be made by making savings in the funding available for new grant commitments, ensuring that funding is targeted at those areas where it can have the most impact and reprioritising resources to move new technologies beyond demonstration projects and pilots. These VfM savings will not impact on the Department's commitment to DSO 2 on ensuring the reliable supply and efficient use of clean, safe and competitively priced energy. DECC believes that the creation of the overarching Environmental Transformation Fund offers a coherent means of investing in low-carbon and renewable technologies.

Sustainable Energy Capital Grants	2008-09	2009-10	2010-11
VfM savings (£m)	15	35	45

- 4.42 Nuclear Decommissioning Authority** The NDA's mission is to deliver a world class programme of safe, cost-effective, affordable and environmentally responsible decommissioning of the UK's civil nuclear legacy in an open and transparent manner and with due regard to the socio-economic impacts on our

communities. The NDA also recognises its responsibilities to ensure that existing commercial assets are operated effectively and efficiently to maximise the revenue from these assets to offset the costs to taxpayers of decommissioning and clean-up. The NDA objective is to drive improved performance further through the introduction of innovations and by running competitive tenders for the management and operating contracts to run the sites.

- 4.43** The NDA VfM scheme is self financing: savings will be made by providing incentives to Site Licence Companies, who manage and operate NDA sites under contract, to achieve savings against an agreed budget baseline. These incentives enable NDA to deliver savings that support the decommissioning and clean-up programme and contribute to the wider aim of economic recovery. The actions undertaken by NDA to achieve savings will be identified along with the site initiatives that have contributed to the result. The appropriate change control records will be available to support savings gain claims and an audit trail will be evident.
- 4.44** Project Boards and monitoring processes for all NDA programmes have been established. These project boards report to the NDA Executive on a routine basis. Following completion of the year end audits the NDA Board is presented with a final summary of the year's performance. The NDA reviews the Site Licence Contractors progress against the agreed baseline on a monthly basis. VfM savings claims are subject to detailed review by the NDA on an ongoing basis.

Nuclear Decommissioning Authority	2008-09	2009-10	2010-11
VfM savings (£m)	40	80	125

- 4.45** Cross-departmental initiatives Examples of these initiatives include the IT outsourcing contract, which utilises the existing BIS contract to deliver lower cost operational services and the application of efficient smart working policies, which allows all the Department's London-based staff to be located in one building.
- 4.46** The most VfM savings from a cross-departmental initiative come from the procurement programme, which aims to reduce DECC expenditure on commodities and third parties. Some of the VfM savings will be delivered by utilising framework agreements for areas such as business travel, temporary staff and some areas of professional services inherited from BERR and Defra. This will help secure competitive rates whilst ensuring high standards of service when procuring programme and project management consultancy, management business consultancy, specialist and technical work and research and development.

Cross-departmental initiatives	2008-09	2009-10	2010-11
VfM savings (£m)	22	42	52

Progress to March 2009

4.47 DECC has delivered its VfM target of £112m of savings by the end of financial year 2008-09. All of the key programmes showed an outturn of no more than the sums allocated in DECC's settlement after the Machinery of Government change. This includes the NDA, which has kept costs under strict control and gained extra commercial income as a result of additional electricity generation, increased prices and enhanced income recognition from long-term work and reprocessing contracts. As a result, the NDA did not draw down £230m End Year Flexibility in 2008-09 provided for as part of the CSR07 settlement.

DECC's contribution to 2010-11 VfM savings

4.48 The Pre-Budget Report 2008 required all departments to contribute to the Government's target of an additional £5bn VfM savings from Resource DEL in financial year 2010-11. DECC's contribution to this is £20m, which it will achieve by additional back office and collaborative procurement savings in the core department and key delivery partners including NDA.

Section 4.6

Better regulation

4.49 The creation of DECC brings together two areas of policy-making that already have strong evidence-based cultures. The Department now needs to strengthen this culture and to develop the institutional framework required to deliver its better regulation objectives. In a number of areas, the bringing together of energy and climate-change decision-making in a single organisation is already paying dividends. A number of very major policy initiatives are taking shape, including the Renewable Energy Strategy, the Heat and Energy Saving Strategy, the Carbon Capture and Storage Strategy and the Smart Meter roll-out. It will be important to ensure that the design and implementation of any new policies are consistent with the principles of better regulation.

4.50 The Department's formal objectives, notably PSA 27, have cost-effectiveness embedded into them, helping to ensure proportionate and well-targeted policy-making.

4.51 **Simplification of existing regulations** DECC has inherited a modest amount of administrative burden with the policy areas it controls. The Department expects a target for reducing this burden to be put in place later this year.

4.52 In **designing new regulations**, and reviewing existing ones, DECC needs to adhere to the five principles of good regulation. These principles state that any regulation should be: transparent, accountable, proportionate, consistent and

targeted. An important step towards ensuring these principles are adopted and applied will be the creation of the Department's own Better Regulation Unit in 2009-10.

4.53 In March 2009, in response to the report from the Better Regulation Commission entitled *Regulating to Mitigate Climate Change – a response to the Stern Review*,⁸⁶ DECC published the paper *Making the right choices for our future: An economic framework for designing policies to reduce carbon emissions*.⁸⁷ The paper sets out some economic principles for instrument selection and the design of policy to tackle climate change. It focuses on mitigation policies adopted at the UK and EU level, although similar principles would apply to the design of international policies operating outside the EU. This document will be used to underpin all policy decisions and Impact Assessments going forward.

4.54 In addition, with its new combined climate change and energy remit, the Department has already identified significant overlaps between policy impacts on carbon emissions, leading to a review of policy effectiveness. DECC has conducted a review of the UK approach to the valuation of carbon which will give much greater assurance that policies are being developed to meet carbon budgets at least cost. This has included a check of the implementation of the current approach across all Government Impact Assessments. Going forward, the Department will continue to work to reduce policy overlaps, to review and, where necessary, improve the individual and cumulative effectiveness of existing policies and to ensure new policies are targeted where they will make a real difference.

4.55 DECC's strong economics and science base has also assisted the production of good-quality impact assessments. Major assessments include those for the Community Energy Savings Programme consultation, the Climate Change Bill, the Renewable Energy Strategy consultation, the EU2020 climate change package, the carbon budgets consultation and the roll out of smart meters. But more needs to be done to ensure that all of DECC's Impact Assessment comply with the high standards set by the Better Regulation Executive (BRE) and the parliamentary scrutiny process. This will involve continued early and active engagement with BRE and external stakeholders and a more systematic process of peer review by government economists and, where appropriate, external experts, to ensure that DECC's Impact Assessments are robust, transparent and undertaken throughout the policy making cycle.

4.56 Risk aware approach to regulation The regulatory agenda for DECC focuses on the energy and climate risks to address and who it is who should best manage these risks. This means that the Department already has a strong risk aware approach to regulation. A common theme of climate and energy policy is that the state does not directly deliver the desired policy outcome. Rather, it is delegated to private sector operators, often through the operation of market based instruments. Examples include, the EU ETS, the CRC and the Renewables Obligation. This means that much of the management of the risk associated with these policies appropriately falls to the private sector. Therefore, it is important

⁸⁶ http://archive.cabinetoffice.gov.uk/brc/climate_change.html

⁸⁷ <http://www.defra.gov.uk/Environment/climatechange/research/pdf/economicframework-0309.pdf>

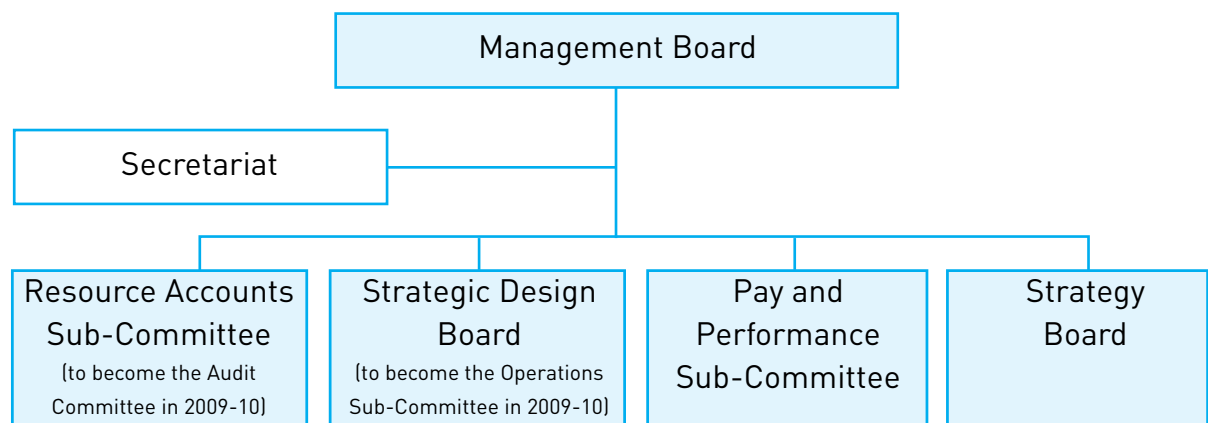
that the Department is aware of the individual and cumulative impact of regulation on private sector operators. The achievement of policy goals, such as energy security of supply, or the extent of compliance with market rules is then monitored via light touch mechanisms, including independent verification. However, in conversation with the private sector, DECC needs to decide how serious the risks of policy are, how they should be managed and who should manage them. This will be achieved by ensuring that the risks, uncertainty and unintended consequences associated with policies are fully reflected in the development, delivery, evaluation and review process.

Section 4.7

Corporate governance

The Management Board and related structures

4.57 The Department's corporate governance structure comprises the Management Board, the Resource Accounts Sub-Committee, the Strategic Design Board, the Pay and Performance Sub-Committee and the Strategy Board.⁸⁸



4.58 Appointments Members of the Management Board and its Sub-Committees are civil servants appointed in accordance with the Civil Service Management Code. This does not apply to DECC's Non-Executive Board Members nor to the independent member of the Resource Accounts Sub-Committee.

4.59 The Management Board's role is to provide the overall strategic leadership to the Department, building and enhancing its reputation and creating passion and pride in DECC. Specifically, its role is to:

- provide overall leadership and direction for DECC, building and enhancing its reputation, and creating passion and pride in the Department;
- define DECC's vision, mission, objectives, targets and strategy;
- allocate resources, make major investment decisions, and approve business plans, prioritising as necessary, ensuring that DECC's work is evidence based and focused on delivering outcomes;
- oversee overall performance, including on financial and risk management;
- ensure close and effective working with Ministers and to build productive relationships with external stakeholders and delivery partners;

⁸⁸ The role and membership of the Pay and Performance Sub-Committee is set out in Section 4.9 below.

- make sure DECC's capability matches its vision and delivery models;
- ensure that staff development, talent management and reward are effective, that DECC makes use of diverse talent and expertise and that its culture and values are reflected in the way people work;
- ensure a high quality working environment, with effective IT and operational processes;
- be effective in influencing the wider Government agenda and to contribute effectively to wider Civil Service leadership.

These terms of reference require the Board to work closely with Ministers, especially on issues of leadership, strategy and resource allocation.

4.60 Meetings of the Management Board are held fortnightly and are chaired by Moira Wallace. The members of the Management Board as at 13 July 2009 were:

Moira Wallace	Permanent Secretary
Willy Rickett	Director General, Energy Markets and Infrastructure
Phil Wynn Owen⁸⁹	Director General, National Climate Change and Consumer Support
Peter Betts⁹⁰	Acting Director General, Energy and Climate Change International
Edmund Hosker	Acting Director General, Corporate Support and Shared Services
Mike Blackburn	Interim Director, Finance
Jonathan Brearley	Director, Strategy
Paddy Feeny	Director, Communications
Andrew Lawrence	Director, Transition
Alison Rumsey	Acting Director, Human Resources and Capability

4.61 DECC is currently recruiting for non-executive members of its Management Board and Audit Committee. Non-executive members provide a valuable external perspective to help improve internal processes, service delivery and change management. They act in an independent capacity and have an important advisory and challenge role.

4.62 Resource Accounts Sub-Committee The Resource Accounts Sub-Committee, established in May 2009, provides assurance to the Management Board and the Accounting Officer that:

- external financial reporting is prudent, accurate, appropriate and consistent with HM Treasury's Financial Reporting Manual (FReM);
- relationships with the National Audit Office are effective and all audit issues are resolved.

⁸⁹ Phil Wynn Owen became Director General for NCCCS on 15 June 2009. Simon Virley was acting Director General for NCCCS from 5 January 2009 until 14 June 2009. Mike Anderson was Director General for Climate Change from DECC's creation until 4 January 2009.

⁹⁰ Peter Betts became acting Director General for ECCI on 2 March 2009. Mike Anderson was Director General for this Group from 5 January 2009 until 27 February 2009.

The Sub-Committee also makes recommendations on the approval by the Management Board of the Department's Resource Accounts, Financial Overview, corporate governance arrangements, Remuneration Report, Statement of Accounting Officer's Responsibilities and Statement on Internal Control.

4.63 The Sub-Committee has four members, three of whom are members of the Management Board and one of whom is independent of DECC. Their appointment is to continue until a formal DECC Audit Committee is established, at which time the Sub-Committee will be wound up.

4.64 Members are:

Willy Rickett	Chairman and Management Board member
Edmund Hosker	Management Board member
Mike Blackburn	Management Board member
Barry Rourke	Independent member Other positions of note are: Non-Executive Director Surrey and Borders Partnership NHS Foundation Trust; Non-Executive Director New World Resources NV; Chairman Croydon Economic Development Company. Formerly Partner at PricewaterhouseCoopers, 1984 to 2001.

4.65 The Head of Internal Audit and the relevant director of the National Audit Office attend meetings of the Sub-Committee.

4.66 Strategic Design Board The Strategic Design Board was established as part of the Building DECC programme management structure. Its role is to consider in detail major aspects of the Department's management and operations and make recommendations to the Management Board on corporate matters in support of DECC's mission and objectives. The Board is chaired by Edmund Hosker, acting Director General, Corporate Support and Shared Services. The Finance Director and Transition Director are members. A further eight members are drawn from the senior civil service and there is a wider virtual group to ensure the Board benefits from as wide a range of contributions as possible. The Board will transfer its functions to a new Operations Sub-Committee in September 2009. Examples of its activities are:

- **IT** – the Strategic Design Board: analysed options for DECC's IT based on its legacy position; launched a competition with potential suppliers; defined criteria for evaluating proposals (including usability, flexibility, sustainability as well as finance and technology); took a decision on an IT supplier, communicating the decision to the Management Board and staff; designed and signed-off the roll-out; and managed links to accommodation.
- **Accommodation** – the Board: analysed options for the DECC Accommodation Programme, including the 7:10 ratio⁹¹, group adjacencies, generic optimum space floor plans and detailed moving schedule; managed the links to IT; and communicated decisions to the Management Board and staff.

⁹¹ In Whitehall Place, there are seven workstations for every ten members of staff.

4.67 Strategy Board The Strategy Board was established in April 2009 to guide the development of UK energy and climate change strategy within DECC and in the short term to oversee production of the Transition Plan. The Strategy Board is a Sub-Committee of the Management Board. Its work includes:

- development of the central strategy and in the short term the Transition Plan;
- DECC departmental policy work programme, including examining relevant progress in other Government departments;
- overseeing and commissioning the DECC work of the OCC/DECC Strategy Unit – alongside the role played by the DASH Board.

The Strategy Board is chaired by Moira Wallace, DECC Permanent Secretary. Membership is drawn from relevant Management Board members tasked with delivering strategy and also includes DECC's Special Advisers. The OCC/strategy team provide the secretariat.

Programme and project management structures

4.68 Programme management DECC's Climate Change and Energy Programme oversees government policies to deliver its top-level objectives in these areas, including the delivery of PSA 27. Before the creation of DECC, the programme was managed as the joint responsibility of Defra and BERR, but the formation of the new department presented the opportunity to streamline the programme's structure and chairing arrangements to reflect DECC's new aims and objectives. The overall programme is managed by the DASH (Delivery and Strategic High-Level) Board. The DASH Board is supported by three Programme Boards: National, International and Adaptation (the latter is chaired by Defra). These Boards exist to provide a clear line of sight to programme deliverables, to improve cross-government co-ordination and to ensure good programme and project management by holding workstream leaders to account.

Section 4.8

Environmental sustainability

4.69 DECC is committed to making itself a low carbon leader and to guide efforts to transform the public sector. Government being seen to lead by example on climate change is critical to our ability to influence others.

Accommodation

4.70 The first priority is to optimise the energy performance of DECC's headquarters, which received a Display Energy Certificate (DEC) rating of G (the lowest possible rating) in September 2008. There are a number of measures that can be taken to improve the energy efficiency of the building. Carbon and energy are only one consideration and we are also seeking to minimise our water consumption and consider our wider sustainability.

4.71 DECC signed a contract with the Carbon Trust in March 2009 to start work on a carbon management strategy for the Department. The work will comprise three

phases. Phase 1 focuses on early action, including the necessary refurbishments to the building to make it suitable as DECC's HQ. Phase 2 focuses on DEC optimisation before reassessment in September 2009. Phase 3 focuses on longer term measures to reduce energy consumption and maximise sustainability of DECC as a whole.

4.72 Phase 1 early action is already underway:

- lighting – replacement of high-energy lights with low-energy alternatives and removal of cosmetic lighting;
- changes to Building Management System controls for heating and cooling – optimisation of controls to improve performance;
- water – scoping the feasibility of rainwater harvesting and grey water recycling.

Ways of working

4.73 Changes to DECC buildings can achieve significant carbon and energy savings, but these need to be accompanied by changes to the ways in which we work and behave to deliver greater changes. We will ensure that DECC's corporate policies and functions – such as procurement and travel – support our efforts to move to a low carbon Department.

4.74 DECC staff have formed a Steering Group to generate ideas and act as ambassadors for the change to a low carbon Department. They have generated campaigns to focus on different elements of staff behaviour, using the ACT ON CO₂ campaign as a vehicle for delivering messages.

Energy usage

4.75 The energy usage of DECC's buildings is shown in the following table:

Consumption (kWh)	3 Whitehall Place	Atholl House ⁹²	Total
Electricity	1,971,679	620,520	2,592,199
Gas	1,340,203	564,438	1,904,641
TOTAL	3,311,882	1,184,958	4,496,840

4.76 DECC is currently undertaking a number of studies to investigate the feasibility of micro-generation and renewable technologies for the DECC estate. The building is constrained by the availability of space for new plant, but DECC is investigating the latest in innovative design in an effort to retrofit its buildings.

⁹² The consumption figures used here are for the whole of Atholl House, not just DECC's share.

Section 4.9

Remuneration report

Remuneration policy

- 4.77** The remuneration policy for senior civil servants is set by the Prime Minister following independent advice from the Review Body on Senior Salaries.⁹³
- 4.78** The Review Body also advises the Prime Minister from time to time on the pay and pensions of Members of Parliament and their allowances; on Peers' allowances; and on the pay, pensions and allowances of Ministers and others whose pay is determined by the Ministerial and Other Salaries Act 1975.
- 4.79** In reaching its recommendations, the Review Body is to have regard to the following considerations:
- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;
 - regional/local variations in labour markets and their effects on the recruitment and retention of staff;
 - Government policies for improving the public services including the requirement on departments to meet the output targets for the delivery of departmental services;
 - the funds available to departments as set out in the Government's departmental expenditure limits; and
 - the Government's inflation target.
- 4.80** The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations.

Performance and reward

- 4.81** The Senior Civil Service (SCS) pay system includes relative performance assessments. Individuals are assessed as being in Group 1, 2, 3 or 4 of their pay band.
- 4.82** All individuals in Group 1 and 2 and a small proportion of the individuals in Group 3 receive a non-consolidated performance related award as a reward for in-year performance against objectives. These awards vary in amount within an overall cost envelope set by the Senior Salaries Review Body and approved by the Government.⁹⁴

⁹³ Further information about the work of the Review Body can be found at <http://www.ome.uk.com>

⁹⁴ Further information about the performance and reward arrangement for Senior Civil Servants can be found at http://beta.civilservice.gov.uk/people/pay_and_reward/scs_pay.aspx

Pay and Performance Sub-Committee

- 4.83** The remuneration of the senior civil servants who are not members of the Management Board is determined by the departmental Pay and Performance Sub-Committee. The members of the committee are:

Moirá Wallace	Permanent Secretary
Willy Rickett	Director General, Energy Markets and Infrastructure
Phil Wynn Owen	Director General, National Climate Change and Consumer Support
Edmund Hosker	Acting Director General, Corporate Support and Shared Services
Alison Rumsey	Acting Director, Human Resources and Capability

- 4.84** An independent member of the committee is to be appointed before the next awards are considered.
- 4.85** The Terms of Reference of the Pay and Performance Sub-Committee are to determine and publish the Department's Senior Civil Service (SCS) pay strategy; assess the relative contribution of its SCS members; authorise decisions on individual pay decisions; ensure the average cost increases are within centrally determined budgets; monitor pay outcomes and identify SCS members needing extra help and support to improve performance; ensure that line managers receive feedback on final pay decisions; comment on the quality of managers' evidence and recommendations; and report to Management Board and the Cabinet Office.

Service contracts

- 4.86** Civil service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointments to be on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made.⁹⁵
- 4.87** The officials covered by this report hold appointments which are open-ended until they reach the normal retiring age, except for Mike Blackburn, whose services are provided by a third party under a short-term contract which expires on 22 July 2009.
- 4.88** Early termination other than misconduct would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

⁹⁵ Further information about the work of the Civil Service Commissioners can be found at <http://www.civilservicecommissioners.org>

Senior Civil Service staff

4.89 The numbers of Senior Civil Service (SCS) staff employed by DECC and their annual salaries, including performance pay, were as follows:

Pay range	Total SCS staff
£55,000-£59,999	6
£60,000-£64,999	11
£65,000-£69,999	9
£70,000-£74,999	12
£75,000-£79,999	3
£80,000-£84,999	7
£85,000-£89,999	2
£90,000-£94,999	1
£95,000-£99,999	3
£105,000-£109,999	1
£110,000-£114,999	3
£120,000-£124,999	2
£140,000-£144,999	1
£160,000-£164,999	1

Salary and pension entitlements for Ministers of the Department

4.90 The remainder of this Remuneration Report contains audited information. The remuneration of Ministers is determined in accordance with the provisions of the Ministerial and Other Salaries Act 1975 (as amended by the Ministerial and Other Salaries Order 1996) and the Ministerial and Other Pensions and Salaries Act 1991. The salary and pension entitlements of the Ministers of the Department of Energy and Climate Change for the year ending 31 March 2009 were as follows:

2008-09	Accrued pension at 65 at 31/03/08	Real increase in pension at age 65	CETV at 31/03/09	CETV at 31/03/08	Real increase in CETV	Ministerial salary received 2008-09
	£'000	£'000	£'000	£'000	£'000	£
Secretary of State						
Rt Hon Ed Miliband, MP (from 3 October 2008) ⁹⁶	0-5	0-2.5	28	22	3	43,191 (86,381 full year equivalent)
Ministers of State						
Mike O'Brien MP (from 6 October 2008) ⁹⁷	10-15	0-2.5	159	146	12	19,777 (40,640 full year equivalent)
Lord Hunt OBE, (from 6 October 2008) ⁹⁸	–	–	–	–	–	–
Parliamentary Under-Secretary of State						
Joan Ruddock MP (from 6 October 2008) ⁹⁹	0-5	0-2.5	25	19	5	15,260 (31,174 full year equivalent)

4.91 This report is based on payments made by the Department and thus recorded in these accounts. In respect of Ministers in the House of Commons, departments bear only the cost of the additional ministerial remuneration; the salary for their services as a Member of Parliament and various allowances to which they are entitled are borne centrally. However, the arrangement for Ministers in the House of Lords is different in that they do not receive a salary but rather an additional remuneration, which cannot be quantified separately from their ministerial salaries. The total remuneration, as well as the allowances to which they are entitled, is paid by their department.

⁹⁶ The Department was recharged £43,191 for salary costs paid by Cabinet Office. CETV stated as 'at 31/03/08' is as from 3 October 2008.

⁹⁷ CETV stated as 'at 31/03/08' is as from 6 October 2008.

⁹⁸ Salary and pension details can be found in the Departmental Resource Accounts for 2008–09 of the Department for Environment, Food and Rural Affairs.

⁹⁹ CETV stated as 'at 31/03/08' is as from 6 October 2008.

Salary and pension entitlements for the members of the Departmental Management Board

4.92 The salary and pension entitlements of the members during the year of the Departmental Management Board were as follows:

2008-09	Accrued pension at age 60 at 31/03/09 and related lump sum	Real increase in pension and related lump sum at age 60	CETV at 31/03/09	CETV at 31/03/08	Real increase in CETV	Salary including performance pay
	£'000	£'000	£'000	£'000	£'000	£'000
Moira Wallace (from 3 October 2008) ¹⁰⁰	45-50 plus 140-145 lump sum	0-2.5 plus 2.5-5 lump sum	759	748	13	80-85 (160-165 full year equivalent)
William Rickett (from 3 October 2008) ¹⁰⁰	60-65 plus 180-185 lump sum	0-2.5 plus 0-2.5 lump sum	1,288	1,243	1	70-75 (140-145 full year equivalent)
Simon Virley (from 5 January 2009) ¹⁰¹	25-30 plus 45-50 lump sum	0-2.5 plus 0-2.5 lump sum	336	341	0	30-35 (130-135 full year equivalent)
Edmund Hosker (from 14 October 2008) ¹⁰²	40-45 plus 125-130 lump sum	0-2.5 plus 5-7.5 lump sum	761	728	36	55-60 (120-125 full year equivalent)
Alison Rumsey (from 19 January 2009) ¹⁰³	5-10 plus 0-5 lump sum	0-2.5 plus 0-2.5 lump sum	63	57	2	15-20 (95-100 full year equivalent)
Jonathan Brearley (from 3 October 2008) ¹⁰⁰	5-10 plus 20-25 lump sum	0-2.5 plus 0-2.5 lump sum	82	74	6	40-45 (85-90 full year equivalent)
Paddy Feeny (from 10 November 2008) ¹⁰⁴	25-30 plus 75-80 lump sum	0-2.5 plus 2.5-5 lump sum	375	343	16	40-45 (105-110 full year equivalent)

¹⁰⁰ CETV stated as 'at 31/03/08' is as from 3 October 2008.

¹⁰¹ CETV stated as 'at 31/03/08' is as from 5 January 2009.

¹⁰² CETV stated as 'at 31/03/08' is as from 14 October 2008.

¹⁰³ CETV stated as 'at 31/03/08' is as from 19 January 2009.

¹⁰⁴ CETV stated as 'at 31/03/08' is as from 10 November 2008.

2008-09	Accrued pension at age 60 at 31/03/09 and related lump sum	Real increase in pension and related lump sum at age 60	CETV at 31/03/09	CETV at 31/03/08	Real increase in CETV	Salary including performance pay
	£'000	£'000	£'000	£'000	£'000	£'000
Andrew Lawrence (from 3 October 2008) ¹⁰⁵	10-15 plus 40-45 lump sum	0-2.5 plus 0-2.5 lump sum	170	155	7	40-45 (85-90 full year equivalent)
Peter Betts (from 2 March 2009) ¹⁰⁶	25-30 plus 75-80 lump sum	0-2.5 plus 0-2.5 lump sum	474	457	0	5-10 (95-100 full year equivalent)
Mike Blackburn (from 10 November 2008)	–	–	–	–	–	–
Mike Anderson (from 3 October 2008 to 27 February 2009) ¹⁰⁷	5-10 plus 0-5 lump sum	0-2.5 plus 0-2.5 lump sum	146	124	9	45-50 (110-115 full year equivalent)

Notes

- The information relates only to the most senior managers of the core department. Similar information relating to the Chief Executives and most senior managers of the bodies within the DECC family is given in the separate resource accounts of those bodies.
- Salary includes gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation.
- Moira Wallace received a benefit in kind assessed at £10,181 relating to the use of a vehicle for the period from 3 October 2008 to 31 March 2009. No other Management Board members received any benefits in kind during the year.
- The services of Mike Blackburn, the interim Finance Director, are provided via a third party. During the period from 10 November 2008 to 31 March 2009 the Department was charged £160,195 (including VAT) by a third party for his services under a short term contract which expires on 22 July 2009.

¹⁰⁵ CETV stated as 'at 31/03/08' is as from 3 October 2008.

¹⁰⁶ CETV stated as 'at 31/03/08' is as from 2 March 2009.

¹⁰⁷ CETV stated as 'at 31/03/08' is as from 3 October 2008. CETV stated as 'at 31/03/09' is at 27 February 2009.

Ministerial pensions

- 4.93** Pension benefits for Ministers are provided by the Parliamentary Contributory Pension Fund (PCPF). The scheme is made under statute (the regulations are set out in Statutory Instrument SI 1993 No 3253, as amended).
- 4.94** Those Ministers who are Members of Parliament may also accrue an MP's pension under the PCPF (details of which are not included in this report). The arrangements for Ministers provide benefits on an 'average salary' basis, taking account of all service as a Minister. The accrual rate has been 1/40th since 15 July 2002 (or 5 July 2001 for those that chose to backdate the change) but Ministers, in common with all other employees of the PCPF, can opt for a 1/50th accrual rate and the lower rate of employee contribution.
- 4.95** Benefits for Ministers are payable at the same time as MP's benefits become payable under the PCPF or, for those who are not MPs, on retirement from ministerial office from age 65. Pensions are increased annually in line with changes in the Retail Prices Index. Members pay contributions of 6% of their ministerial salary if they have opted for the 1/50th accrual rate or 10% of salary if they opted for the 1/40th accrual rate. There is also an employer contribution paid by the Exchequer representing the balance of cost as advised by the Government Actuary; this is currently 26.8% of the ministerial salary.
- 4.96** The accrued pension quoted is the pension the Minister is entitled to receive when they reach 65, or immediately on ceasing to be an active member of the scheme if they are already 65.

Civil Service pensions

- 4.97** Pension benefits are provided through the Civil Service Pension (CSP) arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a 'final salary' scheme (classic, premium or classic plus); or a 'whole career' scheme (nuvos). The statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with changes in the Retail Prices Index (RPI). Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a good quality "money purchase" stakeholder arrangement with a significant employer contribution (partnership pension account).
- 4.98** Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium, classic plus and nuvos. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits in respect of service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 calculated as in premium. In nuvos a member builds up a pension based on the pensionable earnings during the period of scheme membership. At the end of the

scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is updated in line with RPI. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

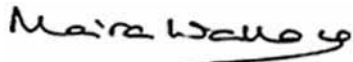
- 4.99** The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a selection of approved products. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement). There were no employer contributions by the most senior managers to partnership pension accounts during the year.
- 4.100** The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus and 65 for members of nuvos.
- 4.101** Further details about the CSP arrangements can be found at the website www.civilservice-pensions.gov.uk.

The Cash Equivalent Transfer Value

- 4.102** A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service Pension arrangements. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension benefits at their own cost. CETVs are calculated in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

4.103 This reflects the increase in CETV effectively funded by the employer. In the case of Ministerial pensions, this is effectively the element of the increase in accrued pension funded by the Exchequer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.



Moira Wallace
Principal Accounting Officer and Permanent Secretary
14 July 2009

Chapter 5:

Financial Overview

Section 5.1

Introduction

- 5.1** This overview deals with the two different but overlapping financial control regimes that apply to central government bodies:
- the Estimates/Accounts boundary covering the Core Department (including the Advisory Non-Departmental Public Bodies) and the grant-in-aid funding of the Executive NDPBs. The Department does not have any Executive Agencies. The Executive NDPBs are not consolidated in the Resource Accounts. Instead, the Department's cash funding of these bodies together with the commercial income of the Nuclear Decommissioning Authority (NDA) is treated as their Non-Budget grant-in-aid. Executive NDPBs publish their own Annual Report and Resource Accounts.
 - the Budget boundary covers the resource and capital consumption of the whole Departmental family (the Core Department and Executive NDPBs, so excluding the Non-Budget grant-in-aid).
- 5.2** The Resource Accounts report the actual financial results based on the Estimates/Accounts boundary so the explanations below largely reflect that regime. However, from a Budget boundary perspective the Department is also responsible for the current and capital consumption of the whole Departmental family. The expenditure tables in Annex 5 of this Report show the estimated outturn against the Budget, as published by HM Treasury in the 2009 Public Expenditure Outturn White Paper (PEOWP).
- 5.3** Because the provision of estimated outturn data to HM Treasury for PEOWP comes before the final drafts of the Resource Accounts for the Department and the Executive NDPBs are prepared and audited, the outturn shown in Annex 5 will not necessarily match the Budget outturn in the reconciliation between Estimates, Accounts and Budget in section 5.3 below. The final Budget outturn figures are supplied to HM Treasury once all the contributing Resource Accounts have been published.

- 5.4** In common with other central Government bodies, the Department's Resource Accounts are audited by the National Audit Office on behalf of the Comptroller & Auditor General.
- 5.5** The Department of Energy and Climate Change was created by bringing together most of the Climate Change Group (CCG) previously part of the Department for Environment, Food and Rural Affairs (Defra) and all of the Energy Group (EG) previously part of the Department for Business Enterprise and Regulatory Reform (BERR), now the Department for Business, Innovation and Skills (BIS), on 3 October 2008, as a Machinery of Government change.
- 5.6** In accordance with the HM Treasury Financial Reporting Manual (FReM), these first Resource Accounts are subject to merger accounting and so are presented as though the Department had been in existence from 1 April 2008, with full comparatives shown in respect of the activities previously undertaken by BERR (now BIS) and Defra. This is more fully described in Note 35 to the Resource Accounts.

Section 5.2

The resources available to the Department

The Spending Review process

- 5.7** A Comprehensive Spending Review (CSR) or Spending Review (SR) is the process by which the Government sets spending plans, usually for the coming three years. This determines the Total Managed Expenditure (TME). TME is made up of the Departmental Expenditure Limit (DEL) Budget and the Annually Managed Expenditure (AME) Budget. The DEL Budget is set before the CSR/SR period starts for each year of the CSR/SR. The AME Budget is set in consultation with HM Treasury at the start of each financial year and updated through the twice yearly Supplementary Estimates. DEL Budgets for the three-year period 2008-09, 2009-10 and 2010-11 were set by the CSR in 2007 (CSR07).
- 5.8** DEL and AME Budgets are split between Resource and Capital. Within the DEL Resource Budget, the Administration Budget is separately identified.
- 5.9** The DEL Resource Budget is split between near cash and non cash elements. Near cash items are transactions that result in real cash flows in the near future, these include staff costs, procurement of goods/services and grants. Non cash items are included to reflect the full economic cost of activities and the usage of long-term assets, including depreciation and cost of capital.
- 5.10** Following the completion of the Budget negotiations with BERR (now BIS) and Defra, HM Treasury issued a CSR07 settlement letter for the Department setting out the DEL Budgets for 2008-09, 2009-10 and 2010-11.

From Estimates to Accounts to Budgets

- 5.11** Whilst the Department's Budgets are agreed in the Spending Review process, additional Parliamentary approval must be sought annually for the planned expenditure of the Department itself. Supply Estimates seek Parliamentary authority each year via a vote on the Request for Resources (RfR). The RfR itself only includes the DEL and AME expenditure of the Core Department plus the Non-Budget grant-in-aid to Executive NDPBs, the RfR excludes the current and capital consumption of the Executive NDPBs.
- 5.12** Notes to the Estimate show the reconciliation between the RfR and the Budget. All subsequent changes to RfRs can only be approved by Parliament as part of the Supplementary Estimates process.
- 5.13** Parliamentary approval for the Department's planned expenditure in 2008-09 was granted via a New Estimate as part of the Spring Supplementary Process for 2008-09. This New Estimate is reported against in the Statement of Parliamentary Supply in these Resource Accounts.
- 5.14** The Department's Estimate has a single RfR: "Supporting the provision of energy that is affordable, secure and sustainable; bringing about a low-carbon UK, securing an international agreement on climate change; promoting low-carbon technologies at home and in developing countries; and managing historic energy liabilities effectively and responsibly."

Section 5.3

Reconciling Estimate, Accounts and Budget outturns

5.15 The Outturn for the Department's Estimate, Accounts and Budget boundaries is reconciled in the following table:

	Notes	2008-09
		£'000
Net Resource Outturn (Estimate)	1	2,739,656
Adjustment in respect of:		
Consolidated Fund Extra Receipts (CFERs) in the Operating Cost Statement	2	(31,275)
Excess Appropriations in Aid	3	(613,111)
Net Operating Cost (Accounts)		2,095,270
Adjustment in respect of:		
Capital Grants treated as Resource in Accounts, but Capital in Budget		(518,449)
Resource consumption of NDPBs	4	(436,459)
Net Budget Outturn (Budget)		1,140,362
Of which:		
DEL		368,363
AME		771,999

Notes

1. See Statement of Parliamentary Supply in the Resource Accounts.
2. See Note 5 to the Resource Accounts.
3. The amount of operating income recognised in excess of that authorised to be Appropriated in Aid.
4. Adjustments for the difference between the Non-Budget grant-in-aid and the Resource DEL Budget consumption.

Section 5.4

Financial Review of the Resource Accounts

Statement of Parliamentary Supply

5.16 This is the main accountability statement for Parliamentary reporting purposes, showing the Net Resource Outturn compared to the Estimate RfR. The Statement also includes a comparison of Non-Operating Appropriations in Aid (capital income) with the amount set out in the Estimate, and discloses amounts payable to the Consolidated Fund as Extra Receipts (CFERs).

5.17 The Net Resource Outturn for 2008-09 of £2,740m compares to the Estimate control of £2,809m, a saving of £69m. The primary reason for the saving is the net

result of the reduced cash drawdown by the NDA during 2008–09 (as a result of increased revenue from electricity generation and reprocessing activities, and exceptionally large cash receipts for income already recognised last year) balanced by accelerated revenue recognition on certain long-term contracts in excess of the voted Appropriation in Aid limit and consequently payable directly to the Consolidated Fund as Extra Receipts (CFERs). This latter adjustment reduced the income charged against the RfR on Subhead B of the Estimate (see Note 2 to the Resource Accounts) but the full income figure was scored as Non-Budget grant-in-aid on Subhead H.

5.18 The detailed analysis of the Net Resource Outturn is shown in Note 2 to the Resource Accounts. The most significant variances are explained below:

- Managing historic energy liabilities effectively and responsibly (Estimate Subhead B) was £22m (2%) higher than the Estimate, as a result of an increase in the concessionary fuel provision arising from new fuel supply contracts capturing significant increases on fuel prices.
- Bringing about a low-carbon UK (Estimate Subhead C) was £18m (3%) lower than the Estimate due to a wide range of smaller variances.
- Managing historic liabilities effectively and responsibly (Estimate Subhead G) was £21m (11%) lower than the Estimate due to a reduced cost of capital as a result of the revised valuations of the Coal Pensions Investments, mitigated by an increase in the other coal health-related provisions as a result of an increase in the estimated future legal costs and the lengthening in the future profile of claims.
- Managing historic energy liabilities effectively and responsibly (Estimate Subhead H) was £50m (2%) lower than the Estimate as explained in paragraph 5.17 above.

Operating Cost Statement

5.19 The Operating Cost Statement is similar to an Income and Expenditure Account in not-for-profit bodies and includes all operating income and expenditure relating to the Core Department on an accruals accounting basis, including that which sits outside of the Estimate. The Net Operating Cost for 2008–09 was £2,095m (2007–08: £2,449m), this is reduced on the previous year largely due to the reduced grant in aid to the NDA.

5.20 The difference between Net Operating Cost and Net Resource Outturn is income payable to the Consolidated Fund (see Note 3 to the Resource Accounts).

Statement of Recognised Gains and Losses

5.21 This reflects the unrealised element of revaluations to fixed assets and investments that are not reflected in the Operating Cost Statement.

Balance Sheet

5.22 The Department had total net liabilities at 31 March 2009 of £2,113m (31 March 2008: total net assets of £159m). The main reason for this change relates to the

change in the valuation of the Financial Assets (Coal Pensions Investments) as noted below and explained in more detail in Note 15.1 to the Resource Accounts.

Coal Pensions Investments

- 5.23** Immediately prior to the privatisation of British Coal in 1994, the Corporation's two pension schemes and associated funds, the BCSSS and the MPS, were closed to new members and Government guarantees were introduced to safeguard the real value of members' pension entitlements.
- 5.24** Investment Reserves and Guarantor Funds exist within each of the two schemes, the former representing British Coal's unused share of pre-privatisation pension scheme valuation surpluses and the latter representing the Government's share, as Guarantor, of post-privatisation surpluses. In defined circumstances these sub-funds can be utilised in support of the master funds from which guaranteed pension entitlements are paid. To the extent that they are not required for the purpose of supporting guaranteed benefits, these sub-funds are payable to the Government and so are treated as financial assets of the Department. The Government agreed in 1994 that it would leave Investment Reserves in place until at least 2019 and indicated that, conditional on the recommendations of the Schemes' actuary, withdrawals were likely to be weighted towards the second half of the 25 year period.
- 5.25** The FReM requires, for the first time in 2008-09, the application of FRS 26 Financial Instruments: recognition and measurement. As a consequence, financial assets are included at fair value (based on discounted future cash flows) rather than market value as before. Consequently, the change in the valuation method has been shown as an adjustment to align accounting treatments as at 31 March 2008 in Note 35 to the Resource Accounts.
- 5.26** Cash payments to the Department from the Investment Reserves and Guarantor Funds are passed to the Consolidated Fund as they are received. During 2008-09, income amounted to £279m (2007-08: £419m) as shown in Note 8 to the Resource Accounts.
- 5.27** The MPS was subject to an actuarial valuation as at 30 September 2008 and the BCSSS is undergoing a similar valuation as at 31 March 2009. Although the effects of these valuations have yet to be determined, DECC Management's opinion is that the expected cash flows to the Department from the funds will be considerably lower than previously anticipated as a consequence of overall market conditions and resultant intra-scheme sub-fund movements.
- 5.28** As a result, the fair values of the reserves of MPS and BCSSS have reduced considerably as shown in Note 15.1 to the Resource Accounts, with a corresponding reduction in the Revaluation Reserve reflected in Note 22 to the Resource Accounts.

Nuclear provision

- 5.29** The Department is obliged to assist British Energy to meet its historic nuclear fuel liabilities so there is a provision in the accounts at 31 March 2009 of £2,153m

(31 March 2008: £2,320m). The valuation is based on discounting the expected monthly indexed cash payments to be made until 2029. The main movements in the provision during the year are the actual cash payments made compared to the unwinding of one year's discount.

Coal provisions

- 5.30** The health liabilities of British Coal transferred to the Department on 1 January 1998 (under the terms of the Coal Industry Act 1994). There are provisions for two schemes to compensate coal miners and their families in relation to Chronic Obstructive Pulmonary Disease (COPD) and Vibration White Finger (VWF). Both schemes are now closed to new claimants; a total of over 760,000 claims having been submitted of which around 17,000 claims remain to be settled at 31 March 2009. These provisions have both reduced considerably during the year as the schemes are nearing completion.
- 5.31** Additionally, there is a further provision covering other injury-related compensation claims such as noise induced hearing loss, accidents and miscellaneous diseases. This also covers payments under British Coal's Pneumoconiosis Compensation Scheme and associated administration costs of managing the health claims. The overall provision as at 31 March 2009 was £124m (31 March 2008: £106m); the increase being due to an increase in the estimated future legal costs, administration costs and the lengthening of the profile of claims in line with actuarial valuations.
- 5.32** The Department has assumed the liability to provide either solid fuel or a cash alternative to former employees of the British Coal Corporation and their widows: the Concessionary Fuel Scheme. During 2008-09, the average number of beneficiaries in receipt of entitlements was just over 90,000, of which around 72,000 have opted for the cash alternative. The provision for future payments under this scheme is £461m (31 March 2008: £386m), the increase being due to the impact of increases on fuel prices.
- 5.33** Other non-health related provisions include the environmental remedial obligations at two former coalfield sites estimated at £57m (31 March 2008: £35m). The increase is due to recognising further environmental and economic appraisals of the remediation.

Cash Flow Statement

- 5.34** The amount of cash required to fund the Department's activities during 2008-09 was £2,866 m (2007-08: £3,413m) compared to an Estimate of £3,078m, a saving of £212m. The saving was due to two factors:
- the saving of the Net Resource Outturn of £69m, although £36m of this was non-cash and provisions movements; and

- changes in working capital, mainly due to higher anticipated accrued income at the start of the year relating to legal fee recoveries for coal health claims and the liability relating to a promissory note of £50m being issued at the end of the year for the International Window of the Environmental Transformation Fund.

Statement of Net Operating Costs by Departmental Strategic Objectives

- 5.35** The Statement of Net Operating Costs by Departmental Strategic Objectives shows how resources, as set out in the Operating Cost Statement, have been deployed to each of the Departmental Strategic Objectives (DSOs).

Section 5.5

Other information

Risks and uncertainties

- 5.36** The Management Board and DASH Board (see below) regularly review the Department's principal risks that might impact on the organisation's position, either in the immediate or long term future. During the year these risks have included the effect of the economic downturn and the political climate internationally.
- 5.37** The cross-departmental DASH (Delivery and Strategy High-Level) Board oversees delivery of the Climate Change and Energy Programme as a whole, including acting as delivery board for the climate change PSA 27. The DASH Board reports up to a ministerial Cabinet Sub-Committee, Economic Development (Energy and Environment) (ED(E)).

Liquidity, interest and currency risks

- 5.38** The Department has no borrowings and relies primarily on voted funds from Parliament for its cash requirements. It is therefore not exposed to liquidity risk. It has no material deposits so it is not exposed to interest rate risk and all material assets and liabilities are denominated in sterling so it is not exposed to material currency risk. Further disclosures are provided in Note 28.4 to the Resource Accounts. Some items on the Balance Sheet are discounted using rates specified by HM Treasury, specifically Financial Assets and Provisions. HM Treasury vary these discount rates from time to time which will affect the value of these assets and liabilities on the Balance Sheet.

Contingent liabilities

- 5.39** Under Parliamentary reporting requirements, the Department discloses contingent liabilities which, by their remoteness, do not fall within the scope of FRS12 Provisions, contingent liabilities and contingent assets. These fall into two categories, those which are quantifiable and those which are unquantifiable; details of both of these are given in Note 30 to the Resource Accounts.

Personal data

- 5.40** The procedures carried out by the Department relating to data handling and security arrangements are noted in the final section of the Statement on Internal Control in Chapter 6. There have been no reported incidences of lost personal data.

Post balance sheet events

- 5.41** Details of post balance sheet events are given in Note 33 to the Resource Accounts. There were no significant post balance sheet events.

Going concern

- 5.42** In common with other Government departments, the future financing of the Department's liabilities is to be met by future grants of Supply and the application of future income, both to be approved annually by Parliament. Such approval for amounts required for 2009–10 has already been given and there is no reason to believe that future approvals will not be forthcoming. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

Pension liabilities

- 5.43** The Department's staff can become members of one of the Principal Civil Service Pension Schemes (PCSPS). The Department's employer's contributions into the Schemes are reflected in the Resource Accounts within staff costs.
- 5.44** The PCSPS are unfunded multi-employer defined benefit schemes and the Department is consequently unable to identify its share of the underlying assets and liabilities. There is therefore no reflection of the Schemes on the Department's Balance Sheet. Further details can be found in Note 9 to the Resource Accounts and in the Remuneration Report in Section 4.9.

Employee sickness absence data

- 5.45** The Department encourages a culture where good attendance is expected and valued. However, it recognises that from time to time absences for medical reasons may be unavoidable. The Department aims to treat its staff who are ill with sympathy and fairness and where possible to provide them with support which will enable them to recover their health and work regularly. In 2008–09, the average number of working days lost was 3.3 days per annum per employee. This compares favourably with the public sector average of 9 days per annum per employee.

Charitable donations

- 5.46** There were no charitable donations in excess of £200 in aggregate made by the Department.

Payment of suppliers

5.47 The Department's policy is to comply with the Institute of Credit Management's Prompt Payment Code, and in February 2009 the Department became an approved signatory to the Code. Whilst the Department's standard terms and conditions for the supply of goods or services specify payment within 30 days of receipt of a valid invoice the Department has, since October 2008, aimed to pay all valid invoices within ten days of receipt. This is in line with the commitment made by the Prime Minister on 8 October 2008. Since the creation of DECC in October 2008, 99.8% of undisputed invoices were paid within the 30 day target. Since November 2008, the first full month of recording achievement against the 10 day target, 91.2% of undisputed invoices were paid within 10 working days.

Auditors

5.48 These financial statements have been audited, under the Government Resources and Accounts Act 2000, by the Comptroller and Auditor General (C&AG), who is appointed under statute and reports to Parliament. The audit opinion is on pages 120 to 122. The notional cost to the Department of the external audit of the financial statements by the National Audit Office for the C&AG was £200,000.

5.49 Drawing upon an NAO report, the Committee of Public Accounts published three reports focused on the Department's work in 2008-09, details of these are given in Annex 4; specifically, one of these was published after the Department's creation as follows:

- Programmes to reduce household energy consumption (5th Report of 2008-09, HC 228, 2 February 2009). The Committee concluded that household energy consumption has started to fall, but that the UK lags behind some other EU countries. They welcomed the Department's recognition that much more needed to be done to achieve substantial reductions in future, particularly to encourage people to change their behaviour.

5.50 The NAO also published a report on:

- *The Warm Front Scheme*. The report examined the Warm Front Scheme to tackle fuel poverty in England. It found that the Scheme had helped to improve the energy efficiency of over 635,000 households between June 2005 and March 2008. There was a high level of satisfaction with the work done to install central heating systems and insulation and the Scheme has helped these vulnerable people who might otherwise suffer from the cold weather. The report concluded that the Scheme provided value for money and most measures provided by the Scheme appeared to be competitive with industry prices. However, the Scheme had resulted in inefficient targeting of resources. Between June 2005 and March 2008 the Scheme has given £34m in grants to households whose properties were already comparatively energy efficient. Furthermore nearly 75 per cent of households who would qualify for the Scheme are not necessarily in fuel poverty. The grant available has not increased since 2005 and more eligible applicants are having to contribute towards the cost of the work carried out and some are therefore withdrawing

from the Scheme, or not progressing their applications. As there were 1.9m vulnerable households in 2006, the rate of progress to date would still leave many in fuel poverty in 2010.¹⁰⁸

5.51 The NAO also published a briefing for the Environmental Audit Committee of the House of Commons on:

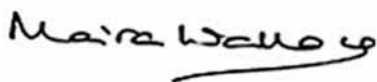
- *The EU Emissions Trading Scheme*: The briefing provided the Committee with an update on the Scheme, reporting on its operation and performance in Phase I and the outcomes of the negotiations for Phase III. It reported that the EU tightened member states' caps for emissions for Phase II but if allowable project credits were fully taken up there would be an increase in emissions of 7% compared to verified emissions in 2005. In the UK the Phase II cap represented an 11% reduction against business as usual, but companies may buy allowances and project credits up to 60% of the reduction effort required. There are inherent difficulties in measuring the impact of the Scheme but there is some indication that it may have had some impact on company behaviour. Across the EU the Phase III cap requires more significant reductions in emissions, but allowing the banking of allowances and project credits from Phase II has weakened this cap and the economic downturn may add to this.¹⁰⁹

5.52 The NAO is currently engaged in work on:

- Government funding for the development, demonstration and deployment of renewable energy technologies.

Disclosure of audit information

5.53 As Accounting Officer, as far as I am aware there is no relevant audit information of which the Department's auditors are unaware. I have taken all of the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the Department's auditors are aware of that information.



Moira Wallace
Principal Accounting Officer and Permanent Secretary
14 July 2009

¹⁰⁸ HC126 2008–09, available at <http://www.official-documents.gov.uk/document/hc0809/hc01/0126/0126.asp>
¹⁰⁹ http://www.nao.org.uk/publications/0809/eu_emissions_trading_scheme.aspx

Chapter 6:

Resource Accounts

Statement of Accounting Officer's responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed the Department of Energy and Climate Change (DECC) to prepare, for each financial year, resource accounts detailing the resources acquired, held or disposed of during the year and the use of resources by the Department during the year. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Department and of its net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the *Government Financial Reporting Manual* and in particular to:

- observe the Accounts Direction issued by HM Treasury including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going concern basis.

HM Treasury has appointed the Permanent Secretary of the Department as Accounting Officer of the Department. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the Department of Energy and Climate Change's assets, are set out in *Managing Public Money* as published by HM Treasury.

Statement on Internal Control

Introduction

1. This is the first annual Statement on Internal Control for the Department of Energy and Climate Change (DECC). The Department was created following Machinery of Government Changes on 3 October 2008 and brought together energy policy from the former Department for Business, Enterprise and Regulatory Reform (BERR) now part of the Department for Business Innovation and Skills (BIS) with climate change mitigation and international adaptation policy from the Department for Environment, Food and Rural Affairs (Defra). As Permanent Secretary, I have had responsibility for establishing the new Department's internal control framework and was formally appointed as Accounting Officer on 12 March 2009 by HM Treasury, following Parliamentary approval of the Spring Supplementary Estimate 2008-09.

The Statement on Internal Control relates to the full financial year from 1 April 2008 to 31 March 2009 and I have received the relevant assurances on internal control and risk management arrangements from both the legacy Departments' Accounting Officers for the period 1 April 2008 to 12 March 2009

Scope of responsibility

2. **As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Department of Energy and Climate Change's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in "Managing Public Money".**

The Department is responsible for all aspects of UK energy policy, and for tackling global climate change. Our Departmental Strategic Objectives are as follows:

- Climate change tackled internationally and through domestic action to reduce greenhouse gas emissions.
- Ensure the reliable supply and efficient use of clean, safe and competitively priced energy.
- Manage energy liabilities effectively and responsibly.

In supporting Ministers in pursuit of this, I am supported by:

- The Department Management Board which I chair. It comprises the core operational Directors General together with the Directors of Strategy, Finance, HR, and Communications, and the Transition Director for as long as that post continues; a recruitment process is currently underway for Non-Executives. The Board currently meets fortnightly, and provides overall leadership and direction; to define the Department's vision, mission, objectives, targets and strategy; to allocate resources, make major investment decisions, and approve business plans; to oversee overall performance, including on financial and risk management; to ensure close and effective working with Ministers, external stakeholders and delivery partners; to ensure that staff development, talent management and

reward are effective; to ensure a high quality working environment; and to be effective in influencing the wider Government agenda and to contribute effectively to wider Civil Service leadership

- The Strategic Design Board which is chaired by the Director General of Corporate Support and Shared Services Group (CSSSG) and was set up to involve DECC staff in making decisions on DECC's development, particularly around the "corporate centre".
- The Resource Accounts Sub-Committee of the Management Board established to oversee the preparation and review of the Department's Resource Accounts (including the Financial Overview, Remuneration Report and Statement on Internal Control) prior to the establishment of the Audit Committee. The sub-committee is chaired by the Director General of Energy Markets and Infrastructure (EMI) and also comprises the Director General of CSSSG, the Finance Director and one external member co-opted from the BERR Audit & Risk Committee.
- The Strategy Board, which I chair and whose membership consists of the core operational Directors General together with the Directors of Strategy, Finance and Communications, and the Department's Special Advisors. This has been established to guide the development of UK energy and climate change strategy within DECC and in the short term to oversee production of the Transition Plan.
- The Pay and Performance Sub-Committee, which I chair and also comprises three of the core operational Directors General and the HR Director; an independent member is to be appointed before the next awards are considered. This has been established to determine and publish the Department's Senior Civil Service (SCS) pay strategy; and assess the relative contribution of its SCS members; authorise decisions on individual pay decisions; ensure the average cost increases are within centrally determined budgets and monitor pay outcomes.
- The Secretariat, **who proactively manage the governance Board and Committee agendas and provide strategic input**, take minutes, and record follow up on decisions and action points.

I work with Ministers and the Department's top management through the Management Board, other meetings and correspondence. I involve Ministers in the management of risk at a strategic level, considering major factors that could prevent Departmental Objectives being achieved.

The precise longer-term governance arrangements for the Department will be agreed with Ministers during 2009-10. Work is currently underway to determine the most appropriate governance structure going forward and appoint appropriate Non-Executives to roles where they will add value to the work of the Department.

The purpose of the system of internal control

3. **The system of internal control is designed to manage risk to a reasonable level, rather than to eliminate all risk of failure, to achieve policies, aims objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and**

prioritise the risks to the achievement of departmental policies, aims and objectives to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Department of Energy and Climate Change for the year ended 31 March 2009 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

4. DECC is aware of the key risks to achieving its objectives and the importance of having a consistent approach to managing them across the organisation with regular monitoring reviews in place. Since the Department was established, risks have been managed through the structure and processes of the legacy departments that formed DECC. Work has now begun to develop a risk management framework for DECC that best fits the needs of the organisation. A Management Board risk register is being prepared as well as registers for each of the Groups. The Department will also maintain a long-term risk register highlighting those risks that need to be maintained in the Department's corporate memory but pose no immediate threat to the organisation.

During 2009-10, DECC will finalise its risk management framework and embed it throughout the organisation. A risk management policy will be prepared outlining the new arrangements to staff and endorsement sought from the Audit Committee once it is in place.

Guidance is available to all staff on risk management through the Risk Management Intranet sites that the legacy Departments operate and which are revised and updated on a regular basis, this being a transitional arrangement pending the full development of Department's own website which will then provide these facilities. Risk management workshops are available to staff and, during 2009-10 training, will be developed to cover all ranges of staff in the Department appropriate to their authority and duties.

The risk and control framework

5. The risk management framework for the Department operates through the initial identification of risks which threatens the achievement of the Department's objectives. These risks are then evaluated for impact and probability. Consideration is then given to the actions required to effectively manage each risk. This process establishes the level of residual risk against which the Department is exposed and which is monitored over time as part of performance management. Ownership for each risk is assigned to a named individual. Assurance that risk mitigation activities are appropriate is obtained through regular management reviews and Internal Audits of the key activities undertaken in the Department.

During 2009-10 the Department will embed risk identification and assessment into the early stages of key decision making processes such as business planning and performance management, policy-making and project management.

Review of effectiveness

6. As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Department who have responsibility for the development and maintenance of the internal control framework; and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the results of my review of the effectiveness of internal control by the Management Board and plans to address weaknesses and ensure continuous improvement of the system are in place.

The effectiveness of the system of internal control is reviewed by my Directors General who each provide me with a Statement on Risk Management, Internal Control and Corporate Governance for their Group, informed by returns or opinions they themselves received from their Heads of Management Units. The Head of Internal Audit reviews each Statement & Representation with the relevant Director General and discusses the key findings with me.

The Department's Delivery Partners also conduct a review of the effectiveness of internal control in preparing a Statement on Internal Control for the Annual Accounts. A similar process is applied to that in the Department and the signed statements from each Chief Executive form part of the Department's overall assurance on internal control.

The Department also has arrangements, tailored to each particular situation, for monitoring those sponsored bodies which are not consolidated into the Departmental Resource Accounts but where these bodies participate in the delivery of Departmental objectives. Monitoring arrangements are in place as needed for other bodies where the Department has policy lead within Government.

Internal Audit operates to requirements defined in the Government Internal Audit Standards. The audit programme is focused around the Department's key risks and regular reports are submitted on the adequacy and effectiveness of internal control together with recommendations for improvement. Where weaknesses in the control environment were identified, action to strengthen control has been taken or is planned.

The Head of Internal Audit has provided me with an Annual Report which records his opinion that during 2008-09 the system of internal control that operated within DECC has been satisfactory. The assessment is based on audit work carried out in the energy policy and climate change mitigation and international adaptation policy areas by legacy Departments' Internal Audit functions during the course of 2008-09 and a review of the transitional arrangements for establishing the new Department.

Other matters relevant to my statement

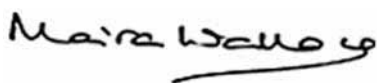
7. Following the Cabinet Office's review of data handling and security, DECC have used the legacy Departments' systems and associated data handling and security arrangements whilst transitioning to specific arrangements for DECC. As a result, DECC have benefited from the good progress that the legacy Departments made implementing the requirements now expected of them. During 2009-10, DECC will be establishing suitable Governance structures for ensuring Information Assurance policy and data handling rules are met within the core Department and by our delivery partners across the DECC family.

DECC has appointed a Senior Information Risk Owner (SIRO) and Departmental Security Officer. During 2008-09, the department has introduced mandatory training for data users using the Cabinet Office sponsored e-learning packages from the National School of Government.

DECC's security, information management and communications teams will work together to ensure the requirements and associated guidance issued by Cabinet Office are clearly understood and digestible by users and key stakeholders

During 2009-10, the Department will be implementing a number of key corporate systems that will significantly test the robustness of the internal control system within the organisation. The Department is aware of the risks involved and will take all necessary steps to ensure these systems are effectively introduced into the Department without any significant loss of control.

There are no significant internal control problems in the Department's Agencies and Delivery Partners that impact on the Department's Resource Accounts.



Moira Wallace
Principal Accounting Officer and Permanent Secretary

14 July 2009

The Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of the Department of Energy and Climate Change for the year ended 31 March 2009 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the Statement of Net Operating Costs by Departmental Strategic Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

The Accounting Officer is responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, the information which comprises chapter 3, sections 4.7, 4.8, 5.4, 5.5, Annex 2 and Annex 3, included in the Annual Report, is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Department has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Department's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the remaining sections of the Annual Report and the unaudited part of the Remuneration Report. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Department's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Department's affairs as at 31 March 2009 and the net cash requirement, net resource outturn, net operating cost, net operating costs applied to departmental strategic objectives, recognised gains and losses and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- information which comprises chapter 3, sections 4.7, 4.8, 5.4, 5.5, Annex 2 and Annex 3, included within the Annual Report, is consistent with the financial statements.

Opinion on Regularity

In my opinion, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Report

I have no observations to make on these financial statements.

Amyas C E Morse

Comptroller and Auditor General
National Audit Office
151 Buckingham Palace Road
Victoria
London
SW1W 9SS
17 July 2009

Statement of Parliamentary Supply

Summary of Resource Outturn 2008–09

Request for Resources	Note	Estimate			Outturn			2008–09 £'000	2007–08 £'000
		Gross Expenditure	A in A	Net Total	Gross Expenditure	A in A	Net Total	Net Total Outturn compared with Estimate: saving/ (excess)	Outturn
RfR 1	2	4,154,402	(1,345,031)	2,809,371	4,084,687	(1,345,031)	2,739,656	69,715	2,451,058
Total resources	3	4,154,402	(1,345,031)	2,809,371	4,084,687	(1,345,031)	2,739,656	69,715	2,451,058

Net cash requirement 2008–09

	Note	Estimate		Outturn	2008–09 £'000	2007–08 £'000
		Estimate	Outturn	Estimate: saving/ (excess)	Outturn	
Net cash requirement	4	3,077,510	2,865,982	211,528	3,413,377	

Summary of income payable to the Consolidated Fund

In addition to Appropriations in Aid (A in A), the following income relates to the Department and is payable to the Consolidated Fund (cash receipts being shown in italics).

	Note	2008–09 £'000		2008–09 £'000	
		Forecast	Outturn	Forecast	Outturn
		Income	Receipts	Income	Receipts
Total	5	543,479	543,479	1,083,695	982,263

Further details and explanations of the variation between Estimate and Outturn are given in Note 2 and in the Financial Review.

The Notes on pages 127 to 169 form part of these Accounts.

Operating Cost Statement

for the year ended 31 March 2009

				2008-09 £'000	2007-08 £'000
	Note	Staff costs	Other costs	Income	Total
Administration costs					
Staff costs	9	50,237			46,757
Other administration costs	10		39,501		32,219
Operating income	3.2, 13			(1,636)	(1,814)
Programme costs					
Staff costs	9	1,390			263
Programme costs	11		3,993,559		3,928,117
Income	13			(1,987,781)	(1,556,877)
Totals		51,627	4,033,060	(1,989,417)	2,448,665
Net Operating cost	3.1			2,095,270	2,448,665

All income and expenditure is derived from continuing operations.

Statement of Recognised Gains and Losses

for the year ended 31 March 2009

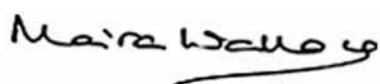
	Note	2008-09 £'000	2007-08 £'000
Net loss on revaluation of financial assets	22	(2,085,807)	(705,383)
Recognised losses for the financial year		(2,085,807)	(705,383)

The Notes on pages 127 to 169 form part of these Accounts.

Balance Sheet

as at 31 March 2009

	Note	2008–09 £'000	2007–08 £'000
Fixed assets			
Tangible assets	14	4,711	5,893
Financial assets	15	<u>469,580</u>	<u>2,972,927</u>
		474,291	2,978,820
Current assets			
Debtors	16	153,885	130,913
Financial assets	15	417,540	279,000
Cash at bank and in hand	17	<u>702,326</u>	<u>262,291</u>
		1,273,751	672,204
Creditors: amounts falling due within one year	18	<u>(982,341)</u>	<u>(343,192)</u>
Net Current assets		291,410	329,012
Total Assets less Current liabilities		<u>765,701</u>	<u>3,307,832</u>
Provisions for liabilities and charges			
Coal	19	(725,663)	(827,954)
Nuclear	20	<u>(2,153,166)</u>	<u>(2,320,484)</u>
		(2,878,829)	(3,148,438)
		<u>(2,113,128)</u>	<u>159,394</u>
Taxpayers' equity			
General fund	21	(3,000,248)	(3,031,849)
Revaluation reserve	22	<u>887,120</u>	<u>3,191,243</u>
		<u>(2,113,128)</u>	<u>159,394</u>



Moira Wallace
Principal Accounting Officer and Permanent Secretary

14 July 2009

The Notes on pages 127 to 169 form part of these Accounts.

Cash Flow Statement

for the year ended 31 March 2009

	Note	2008-09 £'000	2007-08 £'000
Net cash outflow from operating activities	23.1	(2,221,596)	(3,410,981)
Capital expenditure and financial investment	23.2	–	(3)
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities	5	337,877	475,323
Payments of amounts due to the Consolidated Fund		(576,264)	(574,635)
Financing	23.4	2,900,000	3,761,919
Increase in cash in the year	17, 23.5	440,017	251,623

The increase in cash comprises the movement in the cash balance and the movement in the overdraft as disclosed in Note 17.

The Notes on pages 127 to 169 form part of these Accounts.

Statement of Net Operating Costs by Departmental Strategic Objectives

for the year ended 31 March 2009

The Department was created in October 2008 to bring together energy policy with climate change mitigation policy and tackle unprecedented challenges to the environment, the economy and the future security of energy supplies as detailed in Note 24.

The Department has the following strategic objectives:

Objective:	2008-09 £'000			2007-08 £'000		
	Gross	Income	Net	Gross	Income	Net
Tackling climate change	712,356	(1,897)	710,459	583,545	(1,565)	581,980
Ensuring clean safe competitive energy	174,686	(4,463)	170,223	155,771	(4,594)	151,177
Managing energy liabilities	3,197,645	(1,983,057)	1,214,588	3,268,040	(1,552,532)	1,715,508
Net operating costs	4,084,687	(1,989,417)	2,095,270	4,007,356	(1,558,691)	2,448,665

The Notes on pages 127 to 169 form part of these Accounts.

Notes

1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2008–09 *Government Financial Reporting Manual* (FReM) issued by HM Treasury. The accounting policies contained in the FReM follow UK Generally Accepted Accounting Practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

In addition to the primary statements prepared under UK GAAP, the FReM also requires the Department to prepare two additional primary statements. The *Statement of Parliamentary Supply* and supporting notes show Outturn against Estimate in terms of the Net Resource Requirement and the Net Cash Requirement. The *Statement of Net Operating Costs by Departmental Strategic Objectives* and supporting notes analyse the Department's income and expenditure by the objectives agreed with Ministers.

Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the Department for the purpose of giving a true and fair view has been selected. The Department's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets and current financial assets, as described in paragraphs 1.2, 1.3 and 1.4.

1.2 Tangible fixed assets

Assets are capitalised as tangible fixed assets if they are intended for use on a continuing basis and their original purchase cost, on an individual or group basis, is £2,000 or more.

In accordance with the FReM, the Department has opted to value all other tangible fixed assets on a depreciated historical cost basis, as a proxy for current cost. Therefore, with effect from 1 April 2008, the Department ceased to use indices to restate tangible fixed assets to current cost and the brought forward balances as at 1 April 2008 are used as a proxy for historic cost.

Internally developed tangible fixed assets are recognised as assets under construction (AUC) and treated as capital expenditure but not depreciated until the completed asset is brought into service. AUC are not revalued. AUC which relate to internally-developed computer software and systems include capitalisation of internal IT staff on projects costing in excess of £50,000.

1.3 Depreciation

Tangible fixed assets are depreciated at rates calculated to write them down to their estimated residual value on a straight line basis over their estimated useful lives. Assets are normally depreciated over the following periods:

Scientific equipment	5 to 15 years
Computer equipment	2 to 12 years
Office machinery and equipment	5 to 11 years

Further details are provided in Note 14.

1.4 Financial assets and liabilities

Financial assets and liabilities are initially measured at fair value plus transaction costs unless they are carried at fair value through profit and loss in which case transaction costs are charged to operating costs.

Financial assets are derecognised when the rights to receive future cash flows has expired or been transferred and the Department has transferred substantially all the risks and rewards of ownership.

The fair value of financial instruments is determined by reference to quoted market prices where an active market exists for the trade of these instruments.

The fair value of financial instruments which are not traded in an active market is determined using generally accepted valuation techniques including estimated discounted cash flows.

Financial assets

The Department classifies financial assets into the following four categories:

- Financial assets at fair value through profit or loss;
- Held-to-maturity investments;
- Loans and receivables; and
- Available-for-sale assets

The categorisation depends on the purpose for which the financial asset is held or acquired. Management determines the categorisation of financial assets at initial recognition and re-evaluates this designation at each reporting date.

The Department holds financial assets in the following categories:

- Loans and receivables

These are non derivative financial assets with fixed or determinable payments that are not traded in an active market.

Loans and receivables comprise Cash at bank and in hand and Debtors on the balance sheet.

CFER debtors are carried at historical cost in accordance with the FReM. All other loans and receivables are measured at amortised cost after initial recognition. Since these balances are expected to be realised within twelve months of the reporting date there is no material difference between fair value, amortised cost and historical cost. Gains or losses when the asset is impaired or derecognised are recognised in the operating cost statement.

- Available-for-sale assets

These are non derivative financial assets designated as such or not classified in any of the other categories above.

Available-for-sale assets comprise the Coal Pensions Investments and after initial recognition are measured at fair value.

Gains and losses are recognised directly to equity except for impairment losses. Impairment losses are recognised in the operating cost statement along with any cumulative losses previously recognised in equity.

On derecognition the cumulative gain or loss previously recognised in equity is recognised in the operating cost statement.

The Department holds a number of special and ordinary shares which are required to be treated in accordance with the FReM. Special shares are to be held off balance sheet and ordinary shares which are interests in public bodies outside the departmental boundary are to be valued at historical cost.

Financial liabilities

The Department classifies financial liabilities into the following two categories:

- Financial liabilities at fair value through profit or loss; and
- Other financial liabilities.

The categorisation depends on the purpose for which the financial liability is held or acquired. Management determines the categorisation of financial liabilities at initial recognition and re-evaluates this designation at each reporting date.

The Department holds financial liabilities in the following category:

- Other financial liabilities

Other financial liabilities comprise Creditors on the balance sheet.

CFER creditors and amounts issued from the Consolidated Fund for Supply but not spent at year end are carried at historical cost in accordance with the FReM. All other financial liabilities are measured at amortised cost after initial recognition. Since these balances are expected to be settled within twelve months of the reporting date there is no material difference between fair value, amortised cost and historical cost.

1.5 Provisions

In accordance with FRS12: Provisions, contingent liabilities and contingent assets, the Department makes provision for liabilities and charges where, at the Balance Sheet date, a legal or constructive liability exists (i.e. a present obligation arising from past events exists), where the transfer of economic benefits is probable and a reasonable estimate can be made.

Where the time value of money is material, the Department discounts the provision to its present value using a discount rate of 2.2%, the Government's standard rate. Each year

the financing charges in the Operating Cost Statement include the adjustments to unwind one year's discount so that liabilities are shown at current price levels.

1.6 Research and development

Expenditure on research and development is charged to the Operating Cost Statement in the year in which it is incurred. Fixed assets acquired for use in research and development are depreciated over the life of the associated research project, or according to the asset category if the asset is to be used for subsequent production work.

1.7 Operating income

Operating income is income that relates directly to the operating activities of the Department. It comprises, principally, fees and charges for services provided, on a full cost basis, to external customers and public sector repayment work, dividends and special dividends. It also includes other income such as that from investments. It includes both income Appropriated-in-Aid and income collected by the Department on behalf of HM Treasury on an agency basis and payable to the Consolidated Fund. This income is known as Consolidated Fund Extra Receipts (CFERs).

The Department is required to identify those CFERs that are negative public expenditure (amounts used to reduce the amount of expenditure the Department would otherwise have to spend) and those revenue CFERs that relate to the recovery of costs recorded in the Operating Cost Statement, or to returns on investments. These types of CFERs are credited to the Operating Cost Statement as income to the Department. The remaining CFERs are not included in the Department's Operating Cost Statement and are accounted for through the Balance Sheet accounts of cash and creditors.

1.8 Administration and programme expenditure and income

The Operating Cost Statement is analysed between Administration and Programme income and expenditure. Administration costs reflect the costs of running the Department, as defined under the Administration Cost-Control Regime, together with the associated operating income. Income is analysed in the notes between that which, under the Regime, is allowed to be offset against gross Administrative costs in determining the Outturn against the Administration cost limit, and that operating income which is not. Programme costs reflect Non-Administration costs, including payments of grants and other disbursements by the Department.

1.9 Grants payable

Grants payable are recognised in the period in which the grant recipient carries out the activity that creates an entitlement to the grant. Recognition of entitlement varies according to the details of individual schemes and the terms of the offers made. Unpaid and unclaimed grants are charged to the Operating Cost Statement on the basis of estimates of claims not received and are included in accruals on the Balance Sheet.

In certain cases, grant contributions to international organisations are made in the form of promissory notes. The full amount of the promissory note is recognised as an expense in the period in which the note is deposited. Amounts not drawn down in cash from promissory notes at the balance sheet date are included in creditors.

1.10 Capital charge

A charge, reflecting the cost of capital utilised by the Department, is included in operating costs. The charge is calculated at the real rate set by HM Treasury, currently 3.5%, on the average carrying amount of all assets less liabilities, except for:

- tangible and intangible fixed assets where the cost of capital charge is based on opening values, adjusted pro-rata for in-year movements;
- cash balances with the Office of the Paymaster General (OPG), where the charge is nil; and
- amounts due from, or due to be surrendered to, the Consolidated Fund, where the charge or credit will be at a nil rate.

1.11 Foreign exchange

Transactions that are denominated in a foreign currency are translated into sterling at the rate of exchange ruling on the date of each transaction, except where rates do not fluctuate significantly in which case an average rate for a period is used. Monetary assets and liabilities denominated in foreign currency at the balance sheet date are translated at the rates ruling at that date. These translation differences are posted to the Operating Cost Statement.

1.12 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) as described at Note 9. The defined benefit schemes are unfunded and are non-contributory except in respect of dependants' benefits. The Department recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution elements of the schemes, the Department recognises the contributions payable for the year.

1.13 Taxation

The Department is exempt from income and corporation tax by way of its Crown exemption.

Value Added Tax (VAT) is accounted for by amounts being shown net of VAT except:

- irrecoverable VAT being charged to the Operating Cost Statement and included under the heading relevant to the type of expenditure; or
- irrecoverable VAT on the purchase of an asset being included in the capitalised purchase cost of the asset.

The net amount due to, or from, HM Revenue and Customs in respect of VAT is included within debtors and creditors on the Balance Sheet.

1.14 Statement of Parliamentary Supply and the Statement of Net Operating Costs by Departmental Strategic Objectives

The information contained in the Statement of Parliamentary Supply and associated Notes are based on the Request for Resources information that forms part of the Parliamentary approval processes.

The Statement of Net Operating Costs by Departmental Strategic Objectives reports expenditure and income for each of the Department's objectives. The differences between the Net Resource Outturn, as disclosed in the Statement of Parliamentary Supply and the Net Operating Costs, as disclosed in the Operating Cost Statement and the Statement of Net Operating Costs by Departmental Strategic Objectives, are disclosed in Note 3 to the accounts.

1.15 Operating leases

Rentals due under operating leases are charged to the Operating Cost Statement over the lease term on a straight-line basis, or on the basis of actual rentals payable where this fairly reflects the usage. Future payments, disclosed in Note 26, are not discounted.

1.16 Comparatives and Merger Accounting

The Department was created on 3 October 2008 bringing together the functions of the Energy Group from the Department for Business, Enterprise and Regulatory Reform (BERR) and most of the Climate Change Group from the Department for Environment, Food and Rural Affairs (Defra).

In accordance with the FReM, where functions are transferred between Government Departments in this way, the results and cash flows of the combining entities are brought to account from the start of the financial year in which the transfer occurs. This transfer has been classified as a Machinery of Government change and is, therefore, required to be accounted for as a merger applying FRS 6 Acquisitions and Mergers.

Prior-year comparative figures are also re-stated to show the effect as if the transfer had occurred one year earlier. Therefore, as required by FRS 6, the 2007-08 comparative amounts contained in these accounts are the restated results and cash flows of the Energy Group and most of the Climate Change Group previously brought to account in the 2007-08 financial year by BERR and Defra respectively.

Further details are contained in Note 35.

1.17 Financial Instruments

As the cash requirements of the department are met through the Estimates process, financial instruments play a more limited role in managing risk than would apply to a non-public sector body of a similar size. The majority of financial instruments relate to contracts to buy non-financial items in line with the Department's expected purchase and usage requirements and the Department is, therefore, exposed to minimal credit, liquidity or market risk.

1.18 Contingent Assets and Liabilities

In addition to contingent liabilities or assets disclosed in accordance with FRS 12 Provisions, Contingent Liabilities and Contingent Assets, the Department discloses for parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote. These comprise:

- items over £250,000 (or lower, where required by specific statute) that do not arise in the normal course of business and which are reported to Parliament by Departmental Minute prior to the Department entering into the arrangement; and
- all items (whether or not they arise in the normal course of business) over £250,000 (or lower, where required by specific statute or where material in the context of the Accounts), which are required by the FReM to be noted in the Accounts.

Where the time value of money is material, contingent liabilities which are required to be disclosed under FRS 12 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by FRS 12 are stated at the amounts reported to Parliament.

In accordance with the FReM, the Department does not disclose any contingent liabilities of its Delivery Partners that arise in the normal course of business.

1.19 Third-party assets

The Department holds, as custodian or trustee, certain cash balances at commercial banks belonging to third parties. These are not recognised in the accounts since neither the Department, nor Government more generally, has a direct beneficial interest in them.

The Department also receives proceeds from auctions of carbon allowances from the EU ETS as agreed under the Phase II National Allocation Plan. All proceeds are wholly paid to the Consolidated Fund as they are received. The proceeds are accounted for, as they are received, as “Other amounts collectable on behalf of the Consolidated Fund” and shown in Note 5. The auctionable carbon allowances are not recognised as assets as the Department does not have access to the future economic benefits of the carbon allowances and a reliable fair value cannot be determined.

2. Analysis of net resource outturn by section

	2008-09				2007-08				
	£'000				£'000				
	Estimate				Estimate				
	Outturn				Estimate				
	Gross Resource			Net Total	Net Total	Prior year Outturn			
	Administration	Other Current	Grants				Expenditure	A in A	
Request for Resources 1 (RfR 1)	Spending in Departmental Expenditure Limits (DEL)								
Central Government spending									
A	Supporting affordable, secure and sustainable energy	-	33,721	88,439	122,160	(1,963)	120,197	900	108,645
B	Managing historic energy liabilities effectively and responsibly	-	123,853	-	123,853	(1,343,068)	(1,219,215)	(22,353)	(1,435,934)
C	Bringing about a low-carbon UK	-	99,531	455,621	555,152	-	555,152	18,380	510,385
D	Developing an international agreement on climate change	-	21,267	27,397	48,664	-	48,664	(1,628)	30,255
E	Promoting low carbon technologies in developing countries	-	23,222	50,191	73,413	-	73,413	(5,075)	8,712
F	Professional support and infrastructure	89,738	-	-	89,738	-	89,738	8,582	77,162
Spending in Annually Managed Expenditure (AME)									
Central Government spending									
G	Managing historic energy liabilities effectively and responsibly	-	181,893	-	181,893	-	181,893	21,372	26,084
Non-Budget									
H	Managing historic energy liabilities effectively and responsibly	-	85	2,889,729	2,889,814	-	2,889,814	49,537	3,125,749
Resource Outturn									
		89,738	483,572	3,511,377	4,084,687	(1,345,031)	2,739,656	69,715	2,451,058

3. Reconciliation of outturn to net operating cost and against administration budget

3.1 Reconciliation of net resource outturn to net operating cost

				2008–09 £'000	2007–08 £'000
	Note	Outturn	Supply Estimate	Outturn compared with Estimate	Outturn
Net Resource Outturn	2, 4	2,739,656	2,809,371	69,715	2,451,058
Non-supply income (CFERs)	6	(644,386)	–	644,386	(2,393)
Net Operating Cost		2,095,270	2,809,371	714,101	2,448,665

3.2 Outturn against final administration budget

			2008–09 £'000	2007–08 £'000
	Note	Budget	Outturn	Outturn
Gross administration budget	2	98,320	89,738	78,976
Income allowable against the administration budget	13	–	(1,636)	(1,814)
Net outturn against final administration budget		98,320	88,102	77,162

4. Reconciliation of resources to Net Cash Requirement

	Note	Estimate £'000	Outturn £'000	2008-09 Net Total Outturn compared with Estimate: saving/ (excess) £'000
Resource Outturn	2	2,809,371	2,739,656	69,715
Capital				
Investments		1,944	–	1,944
Accruals adjustments				
Non-cash items	12	(308,049)	(289,256)	(18,793)
Changes in working capital other than cash		–	(176,089)	176,089
Use of provisions	19, 20, 23.1	574,244	591,671	(17,427)
Net cash requirement		3,077,510	2,865,982	211,528

5. Analysis of income payable to the Consolidated Fund

In addition to Appropriations in Aid, the following income relates to the Department and is payable to the Consolidated Fund (cash receipts being shown in italics):

	Note	Income	2008-09 £'000 Forecast <i>Receipts</i>	Income	2008-09 £'000 Outturn <i>Receipts</i>
Operating income and receipts – excess A in A		–	–	613,111	<i>613,111</i>
Other operating income and receipts not classified as A in A	13	–	–	31,275	<i>31,275</i>
		–	–	644,386	<i>644,386</i>
Non-operating income and receipts – excess A in A		–	–	–	–
Other Non-operating income and receipts not classified as A in A	8	419,000	<i>419,000</i>	279,000	<i>179,000</i>
Other amounts collectable on behalf of the Consolidated Fund		124,479	<i>124,479</i>	160,309	<i>158,877</i>
Total income payable to the Consolidated Fund		543,479	<i>543,479</i>	1,083,695	<i>982,263</i>

The forecast is an estimate of the CFERs the Department expected to collect in 2008-09. However, CFERs do not form part of the departmental Supply Estimate and are not disclosed in the Statement of Parliamentary Supply.

A breakdown of other amounts payable to the Consolidated Fund is as follows:

	2008-09 £'000	2007-08 £'000
EU Emissions Trading Scheme	94,552	–
Receipt from the Coal Authority	1,156	271
Petroleum licences	64,583	54,959
Other	18	33
Total	160,309	55,263

The income from the EU ETS arose from two auctions held in November 2008 and March 2009 of 4m carbon allowances each as part of the EU ETS. When proceeds are received by the Department they are paid to the Consolidated Fund.

Under the Phase II National Allocation Plan, 7% of the total allowances are auctioned as agreed by the UK Government after public consultation. Phase II has agreed for the further auctions of a total of 77m carbon allowances up to 2012; due to the volatility of the market an assessment cannot be made at this stage of the proceeds of these auctions. The proceeds will be paid to the Consolidated Fund when received.

6. Reconciliation of income recorded within the Operating Cost Statement to operating income payable to the Consolidated Fund

	Note	2008-09 £'000	2007-08 £'000
Operating income	13	(1,989,417)	(1,558,691)
Income outside of the supply process		–	–
Gross income		(1,989,417)	(1,558,691)
Less: Income authorised to be Appropriated in Aid	13	(1,345,031)	(1,556,298)
Operating income payable to the Consolidated Fund	3, 21	(644,386)	(2,393)

7. Non-operating income – excess Appropriations in Aid

There is no non-operating income excess Appropriations in Aid for 2008-09, nor was there any for 2007-08.

8. Non-operating income not classified as Appropriations in Aid

	2008-09 £'000 <u>Income</u>	2008-09 £'000 <u>Receipts</u>
Coal pensions investments surplus releases	279,000	179,000

In accordance with Government's Guarantee arrangements with the Mineworker's Pension Scheme (MPS) and the British Coal Staff Superannuation Scheme (BCSSS) the Department received £133m (2007-08: £133m) from the Investments Reserves and £146m (2007-08: £286m) from the Guarantor's Funds of these Schemes of which £100m was received after year end. These amounts are not treated as income by the Department and are surrendered to the Consolidated Fund. Further details are contained in note 15.1.

9. Staff numbers and related costs

Staff costs comprise:

					2008-09 £'000	2007-08 £'000
	Permanently employed staff	Others	Ministers	Special advisers	Total	Total
Wages and salaries	37,998	3,014	62	1	41,075	37,393
Social security costs	3,088	43	–	–	3,131	2,876
Other pension costs	7,559	–	–	–	7,559	6,928
Total	48,645	3,057	62	1	51,765	47,197
Less recoveries in respect of outward secondments	–	(138)	–	–	(138)	(177)
Total net costs	48,645	2,919	62	1	51,627	47,020

Included above are £211,000 of wages and salaries for Ministers and others that have been recharged by other Government Departments.

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme, but the Department of Energy and Climate Change is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2007. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2008-09, employer contributions of £7,191,976 (2007-08: £5,703,498) were payable to the PCSPS at one of four rates in the range 17.1 to 25.5% of pensionable pay, based on salary bands. The Scheme's Actuary reviews employer contributions usually every four years following a full Scheme valuation. From 2009-10, the rates will be in the range 16.7% to 24.3%. The contribution rates are set to meet the cost of the benefits accruing during 2008-09 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer's contributions of £36,827 (2007-08: £19,421) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% (the rates in 2007-08 also ranged from 3% to 12.5%) of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of 0.8% (2007-08: 0.8%) of pensionable pay were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees. There were no contributions due to the partnership pension providers at the Balance Sheet date, there were no contributions prepaid at that date.

In 2008-09, nil persons (2007-08: nil persons) retired early on ill-health grounds.

Average number of persons employed

The average number of whole-time equivalent persons employed during the year was as follows:

Objective	Permanent staff	Others	Ministers	Special advisers	2008-09 Number	2007-08 Number
					Total	Total
Tackling climate change	304.4	41.3	2.0	0.3	348.0	318.0
Ensuring clean safe competitive energy	410.6	64.6	0.4	0.3	475.9	420.9
Managing energy Liabilities	53.1	12.9	0.4	0.3	66.7	85.9
Total	768.1	118.8	2.8	0.9	890.6	824.8

Staff debtors

At 31 March 2009, 208 employees (31 March 2008: 116 employees) of the Department were in receipt of advances of travel and housing loans, repayable to the employer. The staff debtor amount is disclosed in Note 16.

10. Other administration costs

	Note	2008-09 £'000	2007-08 £'000
Rentals under operating leases: plant and machinery		135	77
Travel and subsistence		2,979	2,851
IT support		5,872	3,905
Training and other staff costs		3,357	2,223
Professional services		10,909	11,126
Accommodation		7,914	7,196
Conference facilities		2,904	320
Other		3,813	1,161
Non-cash items:			
Cost of capital		185	(1,463)
Depreciation	14	1,182	2,344
(Revaluation)/impairment		–	2,479
Auditors' remuneration		200	–
Specific bad debt write off		51	–
Total non-cash		1,618	3,360
Total other administration costs		39,501	32,219

The auditors' remuneration represents the cost for the audit of the financial statements carried out by the Comptroller and Auditor General. There were no fees in respect of non-audit work. As a result of the Machinery of Government change, there is no audit fee in the previous year.

11. Programme costs

	Note	2008–09 £'000	2007–08 £'000
Grant in Aid		2,889,729	3,125,087
Other grants		574,440	452,678
Net loss on foreign exchange		1,946	98
Rentals under operating leases: plant and machinery		1	4
Research and development		37,761	34,136
International subscriptions		24,818	15,947
Other		177,226	159,151
Non-cash items			
Movement in provisions	19, 20	252,798	33,781
Unwinding of discount on provisions	19, 20	69,264	88,158
Cost of capital		(34,426)	19,077
Specific bad debt write off	2	–	–
Total non-cash		287,638	141,016
Total programme expenditure		3,993,559	3,928,117

The programme costs above, other than Grant in Aid and Non-cash items, include expenditure on the following major schemes:

	2008–09 £'000	2007–08 £'000
Fuel Poverty	399,894	361,795
Carbon Trust (including ETF in 2008–09 and BREW in 2007–08)	89,734	87,866
Energy Saving Trust	35,882	28,633
International Window of the Environmental Transformation Fund	50,000	–
Climate Change research	16,064	19,033
Global Threat Reduction Programme	35,943	40,601
Environmental Transformation Fund	39,067	33,892

12. Administration and Programme non-cash costs summary

The total for non-cash costs in Note 10 (Other administration costs) and Note 11 (Programme costs) is as follows:

	Note	2008-09 £'000	2007-08 £'000
Movement in provisions	11	252,798	33,781
Unwinding of discount on provisions	11	69,264	88,158
Cost of capital	10, 11, 21	(34,241)	17,614
Depreciation	10	1,182	2,344
(Revaluation)/impairment	10	–	2,479
Auditors' remuneration	10, 21	200	–
Specific bad debt write off	10, 11	53	–
Total	4, 23.1	289,256	144,376

13. Income

	Note	2008-09 £'000	2007-08 £'000
Administration income:			
Fees and charges received from external customers		344	737
Fees and charges from other departments		1,287	1,072
Other allowable within the Administration cost limit		5	5
Total Administration income (A in A)	3.2	1,636	1,814
Programme income:			
Nuclear Decommissioning Authority		1,951,779	1,452,036
Other		4,727	104,841
Programme income (A in A)		1,956,506	1,556,877
Programme income outside of the supply process			
Urenco dividend		31,275	–
Total Programme income		1,987,781	1,556,877
Total operating income	6	1,989,417	1,558,691

Total income allowable against the Estimate, as shown in the Statement of Parliamentary Supply, amounted to £1,345,031,000 (2007-08: £1,556,298,000).

14. Tangible fixed assets

	Scientific equipment £'000	Computer equipment £'000	Office machinery and equipment £'000	Total £'000
Cost or valuation				
At 1 April 2008	12,858	10,581	57	23,496
Additions	–	–	–	–
Disposals	–	(5)	–	(5)
At 31 March 2009	12,858	10,576	57	23,491
Depreciation				
At 1 April 2008	12,415	5,150	38	17,603
Charged in year	313	859	10	1,182
Disposals	–	(5)	–	(5)
At 31 March 2009	12,728	6,004	48	18,780
Net book value at 31 March 2009	130	4,572	9	4,711
Net book value at 31 March 2008	443	5,431	19	5,893

All tangible fixed assets are owned by the Department.

15. Financial assets

	Note	Value at 1 April 2008 £'000	Revaluation £'000	Release of previous revaluation gains £'000	Value at 31 March 2009 £'000
Coal Pensions Investments	15.1	3,251,927	(2,085,807)	(279,000)	887,120
Ordinary shares	15.3	–	–	–	–
Total		3,251,927	(2,085,807)	(279,000)	887,120

The above financial assets are disclosed on the balance sheet as follows:

	2008–09 £'000	2007–08 £'000
Fixed assets	469,580	2,972,927
Current assets	417,540	279,000
Total	887,120	3,251,927

15.1 Coal Pensions Investments

	Value at 1 April 2008 £'000	Revaluation £'000	Release of previous revaluation gains £'000	Value at 31 March 2009 £'000
BCSSS Investments				
Investment Reserve	1,292,499	(1,073,869)	(100,000)	118,630
Guarantor's Fund	395,786	(15,774)	–	380,012
MPS Investments				
Investment Reserve	1,060,688	(947,283)	(33,000)	80,405
Guarantor's Fund	502,954	(48,881)	(146,000)	308,073
Total	3,251,927	(2,085,807)	(279,000)	887,120

Coal Pensions Investments are categorised as 'available-for-sale' financial assets, as defined in Note 1.4 and measured at fair value through taxpayers' equity, however they represent expected or potential cash flows arising from the Government's residual interest in a portion of the net assets of the British Coal Staff Superannuation Scheme (BCSSS) and the Mineworkers' Pension Scheme (MPS). This residual interest is represented by the Investment Reserves and the Guarantor's Funds which have been established as notional sub-funds within each Scheme.

The periods over which these cash flows are expected to be received are as follows:

	Within 1 year £'000	Within 1 to 5 years £'000	Within 6 to 10 years £'000	After 10 years £'000	Total £'000
2008-09					
BCSSS Investments					
Investment Reserve	100,000	8,228	8,814	1,588	118,630
Guarantor's Fund	140,000	150,872	84,123	5,017	380,012
MPS Investments					
Investment Reserve	33,000	20,937	22,427	4,041	80,405
Guarantor's Fund	144,540	112,727	50,806	–	308,073
Total	417,540	292,764	166,170	10,646	887,120
2007-08					
BCSSS Investments					
Investment Reserve	100,000	465,790	536,610	190,099	1,292,499
Guarantor's Fund	–	247,397	138,040	10,349	395,786
MPS Investments					
Investment Reserve	33,000	367,344	487,608	172,736	1,060,688
Guarantor's Fund	146,000	243,941	103,251	9,762	502,954
Total	279,000	1,324,472	1,265,509	382,946	3,251,927

On 31 October 1994 the Government gave a guarantee in relation to the benefits payable to members and beneficiaries of the BCSSS and MPS. As part of this agreement a portion of the net assets of each Scheme were earmarked as Investment Reserves within each Scheme.

Investments Reserves

The Department's BCSSS and MPS Investment Reserve financial assets are derived from the unallocated share of the surpluses attributable to British Coal at the time of privatisation of the industry in 1994. The Investment Reserves were established at the guarantee date and in accordance with the rules¹¹⁰ of each Scheme continue to exist as notional sub-funds¹¹¹ within each scheme. These Investment Reserves are intended to act as a buffer against adverse experience over the period during which a substantial portion of each Scheme's liabilities will be paid. To the extent that the Investment Reserves are not required to meet a Scheme's liabilities they are to be repaid to the Department on behalf of the Government as the Guarantor of each Scheme. The expectation is that the Investment Reserves would be distributed by means of a phased release, weighted towards the second half of the 25 year period following the guarantee date.

Guarantor's Funds

The rules of each Scheme provide for a number of other notional sub-funds in addition to the Investment Reserves to be established, including the Guarantor's Funds. Under the provisions of each Scheme any (post guarantee date) surpluses arising are to be shared equally between the members and the Government, as the Guarantor to each scheme. Surpluses are determined on the basis of triennial actuarial valuations by each Scheme's actuary, the Government Actuary's Department (GAD). The Guarantor's Funds record the Government's share of any surpluses arising from these valuations.

Scheme valuations

The BCSSS and the MPS are currently undergoing triennial actuarial valuations; the last completed ones being carried out as at 31 March 2006 and 30 September 2005 respectively. Actuarial valuations are carried out by GAD after consultation on the actuarial assumptions to be used with both the Trustees and the Government. GAD assesses both the market value and the actuarial value of each Scheme's assets¹¹² and liabilities. This information is used by management to inform the calculation of fair value. In the absence of this information management will use information which exists for an analogous asset within the Coal Pensions Investments class to inform the calculation of fair value.

Fair value

The balances disclosed in these accounts are fair values. Fair value is the amount financial assets could be exchanged between knowledgeable and willing parties in an arms length transaction. This would generally be market value if an active market

¹¹⁰ Clauses 6 and 6A of the Rules of the BCSSS and clauses 18A and 18B of the Rules of the MPS.

¹¹¹ The notional sub-funds established within each Scheme are: the Guaranteed Fund which meets the costs of all benefits payable to members (subject to the Government guarantee); the Bonus Augmentation Fund which records the members' share of any surpluses (post guarantee date); the Investment Reserve; and the Guarantor's Fund.

¹¹² The assets of each Scheme are not segregated between the separate notional sub-funds. These sub-funds, including the Investment Reserves and Guarantor's Funds, are established as notional sub-funds for each Scheme's administrative and accounting purposes only.

exists, however no active market exists for the exchange of these financial assets. Management has therefore used a generally accepted estimation technique and discounted these cash flows over the period to 2019 at a rate of 3.5% (the Treasury's real discount rate for assessing investments) to determine fair value.

Changes in the value of the investments since the last actuarial valuation dates are management estimates of the current fair value taking into account any payment made to the Department on behalf of the Government as Guarantor to the Schemes. The value of the investments is adjusted by the interim valuations undertaken by each Scheme's Actuary, when these are completed.

Risk

The Department, in representing the Government as Guarantor to these Schemes, does not hold these financial instruments to manage or change the risks it faces. In contrast to each Scheme the Department is not directly exposed to the various component elements of market risk, although future cash flows from the Coal Pensions Investments are linked to the future financial performance and position of each Scheme.

Additionally, since all future cash flows from these financial assets are payable by the Department directly to the Consolidated Fund, the risk that future cash flows will not be realised, particularly because adverse market conditions result in reduction to the net assets of the schemes, do not put at risk the achievement of the Department's objectives.

The Department manages its exposure to any risks associated with these financial assets in accordance with its risk management objectives, policies and procedures. The details of which can be found in section 5.5 of this report. In addition the Department takes professional actuarial advice when necessary.

Each Scheme's Trustees must act at all times in the best interests of the beneficiaries. The Department is not a beneficiary and is not treated as such.

Each Scheme's Trustees are responsible for the investment strategy employed to manage the Scheme's assets and these strategies see both Schemes holding financial assets which are linked to interest rates and also those that are traded in active markets.

Details of these financial assets, their significance to each Scheme's financial position and performance, the investment strategy and the Scheme's objectives, policies and procedures for monitoring and measuring the risks associated with these financial assets can be found in the Report and Accounts for each Scheme. These reports can be obtained from the Coal Pension Trustee Services, 1 Hussar Court, Hillsborough Barracks, Penistone, Sheffield, South Yorkshire, S6 2GZ.

15.2 Share of net assets and results of bodies outside the consolidation boundary

The Department is required to disclose, for each investment which represents an interest in a subsidiary undertaking, an associate or joint venture which falls outside the Departmental consolidation boundary, the Department's share of the net assets and results of those bodies. This information is summarised below.

	Nuclear Liabilities Fund	Enrichment Holdings Limited
	£m	£m
Assets	8,303	446
Liabilities	(8,303)	–
Net assets	–	446
Turnover	190	–
Surplus/profit for the year	91	289

Notes:

- Nuclear Liabilities Fund (NLF) information is extracted from their unaudited annual accounts for the year to 31 March 2009; the accounts were prepared in accordance with UK GAAP.
- The Department owns two shares of £1 each in Enrichment Holdings Limited, a holding company established for the purposes of transferring 100% interest in BNFL Enrichment Limited from BNFL plc to the Department under a transfer scheme pursuant to the Energy Act 2004, for nil consideration on 1 April 2008. The 2008-09 accounts are not available for Enrichment Holdings Limited (which will be its first reporting year) or BNFL Enrichment Limited. The share of net assets and results disclosed is thus extracted from the 2007-08 audited annual accounts of BNFL Enrichment Limited, prepared under the historical cost convention and in accordance with UK accounting standards. BNFL Enrichment Limited is the holding company for a 33% share in Urenco Limited. Consequently, the results and assets of BNFL Enrichment Limited shown above represent 33% of the results and net assets of Urenco Limited which BNFL Enrichment Limited account for using the equity method of accounting as defined in FRS2 Accounting for subsidiary undertakings. The Department receives dividends from Urenco via Enrichment Holdings Limited and BNFL Enrichment Limited as disclosed in Note 13.
- In January 2009, the NLF converted its remaining 36% stake in British Energy to shares and sold these shares to EDF Energy, the acquiring company, raising £4.4bn. These proceeds of sale will be invested to fund the long term decommissioning costs of BE's eight nuclear sites, plus certain other uncontracted nuclear liabilities of BE, as they arise. As a result of the sale, the NLF is no longer entitled to receive any of BE's free cash flows and as such no longer has sufficient control over the financial rewards of BE for BE to be considered a quasi-subsidiary of the NLF and hence the Department. The share of net assets and results of British Energy (BE) are thus not disclosed within these accounts.

15.3 Ordinary shares

These shares are valued at historical cost as required by the FReM.

The Department owns two shares of £1 each in Enrichment Holdings Limited which has been set up as the holding company, via BNFL Enrichment Limited, for a 33% share of Urenco Limited as detailed in note 15.2 above.

The Department owns the founding share of £1 in Africarbon Limited which was incorporated in July 2008. Its objective with other UK partners is to catalyse Clean Development Mechanism projects in sub-Saharan African countries that have so far benefited little from carbon market investment.

15.4 Special shares

The Secretary of State holds one Special Share in each of the entities listed below. The list is a summary and does not purport to be a comprehensive record of the terms of each respective shareholding.

In accordance with the FReM these shares are required to be held off balance sheet. Further details can be obtained from the annual report and financial statements of each body.

Body in which the share is held and type and value of share	Terms of shareholding
<i>British Energy Group plc £1 Special Share,</i> <i>British Energy Holdings plc £1 Special Share,</i> <i>British Energy Generation Ltd £1 Special Share, and</i> <i>British Energy Ltd £1 Special Share</i>	● British Energy Group plc Special Share created on 13 January 2005 and held jointly by the Secretary of State for Energy and Climate Change and the Secretary of State for Scotland. ● The consent of the Special Shareholder, which can only be refused on grounds of national security (except in relation to an amendment to the company's Articles of Association), is required in respect of : – various amendments to the company's Articles of Association; – any purchase of more than 15% of the company's shares; – the issue of shares carrying voting rights of 15% or more in the company; – variations to the voting rights attaching to the company's shares; and – the giving of consent in respect of the issue of shares by, the sale of shares in or amendments to the Articles of Association of various subsidiaries in certain cases. ● British Energy Holdings plc Special Share created on 13 January 2005 and held jointly by the Secretary of State for Energy and Climate Change and the Secretary of State for Scotland. ● The consent of the Special Shareholder, which can only be refused on grounds of national security (except in relation to an amendment to the company's Articles of Association), is required in respect of: – various amendments to the company's Articles of Association; and – the giving of consent in respect of the issue of shares by, the sale of shares in or amendments to the Articles of Association of various subsidiaries in certain cases. ● British Energy Generation Ltd Special Share created in 1996 is held solely by the Secretary of State for Energy and Climate Change. ● The consent of the Special Shareholder, which can only be refused on grounds of national security (except in relation to an amendment to the company's Articles of Association), is required in respect of: – various amendments to the company's Articles of Association; – the disposal of any of the nuclear power stations owned by the company; and – prior to the permanent closure of such a station, the disposal of any asset which is necessary for the station to generate electricity. ● British Energy Limited (formerly British Energy plc) Special Share created in 1996 is held solely by the Secretary of State for Energy and Climate Change. ● The consent of the Special Shareholder, which can only be refused on grounds of national security (except in relation to an amendment to the company's Articles of Association), is required in respect of: – various amendments to the company's Articles of Association; and – the giving of consent in respect of the issue of shares by, the sale of shares in or amendments to the Articles of Association of various subsidiaries in certain cases. ● The company has no significant assets or liabilities as a result of the restructuring scheme, which came into effect on 14 January 2005.

Body in which the share is held and type and value of share	Terms of shareholding
<i>Nuclear Liabilities Fund Ltd</i> <i>£1 Special Rights Redeemable Preference Share</i>	- Created in 1996. - The Secretary of State for Energy and Climate Change has a Special 'A' Share (there is also a 'B' Share held by British Energy). - The consent of the Special Shareholder is required for any of the following: - to change any of the provisions in the Memorandum of Association or Articles of Association; - to alter the share capital or the rights attached thereto be altered; - the company to create or issue share options; - the 'B' Special Shareholder or any of the Ordinary shareholders to dispose or transfer any of their rights in their shares; - the company to pass a members voluntary winding-up resolution; - the company to recommend, declare or pay a dividend; - the company to create, issue or commit to give any loan capital; - the company to issue a debenture; or - the company to change its accounting reference date.

16. Debtors

16.1 Analysis by type

	2008-09 £'000	2007-08 £'000
Amounts falling due within one year		
Trade debtors	10,426	3,350
Other debtors	6,027	7,500
HM Revenue & Customs (VAT)	3,572	18
CFER debtors	104,838	3,406
Staff debtors	164	131
Prepayments and accrued income	28,858	116,508
Total debtors at 31 March	153,885	130,913

16.2 Intra-Government balances

	Amounts falling due within one year	
	2008-09 £'000	2007-08 £'000
Balances with		
Other Central Government bodies	8,609	304
Local Authorities	67	–
NHS Trusts	–	–
Public Corporations and Trading Funds	–	1,334
Subtotal: Intra-Government balances	8,676	1,638
Bodies external to Government	145,209	129,275
Total debtors at 31 March	153,885	130,913

17. Cash at bank and in hand

	2008–09 £'000	2007–08 £'000
Balance as at 1 April	262,291	10,668
Net change in cash balances	440,017	251,623
Balance as at 31 March	702,308	262,291
The following balances at 31 March were held at:		
Offices of HM Paymaster General	701,798	260,903
Cash in hand and commercial banks	528	1,388
Balance as at 31 March	702,326	262,291
Overdraft	(18)	–
Total	702,308	262,291

18. Creditors

18.1 Analysis by type

	Note	2008–09 £'000	2007–08 £'000
Amounts falling due within one year			
Other taxation and social security		6	3
Trade creditors		17,713	16,166
Commercial bank overdraft		18	–
Other creditors		21,014	10,722
Accruals and deferred income		136,445	50,605
Amounts issued from the Consolidated Fund for Supply but not spent at year end	21	44,563	10,545
Consolidated Fund Extra Receipts due to be paid to the Consolidated Fund:			
Received	23.5	657,744	251,745
Receivable		104,838	3,406
Total creditors at 31 March		982,341	343,192

18.2 Intra-Government balances

	Amounts falling due within one year	
	2008-09 £'000	2007-08 £'000
Balances with:		
Other Central Government bodies	900,329	267,891
Local Authorities	9	1,044
NHS Trusts	1	–
Public Corporations and Trading Funds	5,646	2,415
Subtotal: Intra-Government balances	905,985	271,350
Bodies external to Government	76,356	71,842
Total creditors at 31 March	982,341	343,192

19. Provisions for liabilities and charges: Coal

	Health-related provisions			Non health-related provisions		
	COPD £'000	VWF £'000	Other £'000	Concessionary fuel £'000	Other £'000	Total £'000
At 1 April 2008	232,007	56,825	105,656	385,609	47,857	827,954
Unwinding of one year's discount	5,104	1,250	2,324	8,483	1,053	18,214
Increase/(decrease) in provision	11,590	2,781	77,573	114,896	53,746	260,586
Expenditure in year	(180,086)	(57,640)	(61,684)	(47,620)	(34,061)	(381,091)
At 31 March 2009	68,615	3,216	123,869	461,368	68,595	725,663

The time scale, over which it is estimated the discounted costs will need to be incurred, is as follows:

	2008-09 £m	2007-08 £m
Within 1 year	191	361
Between 2 and 5 years	265	247
Beyond 5 years	270	220
Total	726	828

19.1 Health-related provisions

Responsibility for the compensation claims relating to personal injuries suffered by former British Coal mineworkers transferred to the Department on 1 January 1998 by a restructuring scheme under the Coal Industry Act 1994.

Based on the current position, 97% of the total expected liability has already been paid. The majority of the estimated outstanding liability is envisaged to be paid at the point of Scheme completion for COPD and VWF, during 2009–10. At that point the remaining liability will comprise mainly miscellaneous diseases and minor schemes.

Chronic Obstructive Pulmonary Disease (COPD)

These liabilities arise from claims relating to respiratory diseases such as emphysema and chronic bronchitis, caused by exposure to mine dust and fumes. The undiscounted amount of this provision has currently been calculated at £70m (31 March 2008: £236m). This Scheme closed on 31 March 2004 and no further claims are being accepted.

Vibration White Finger (VWF)

These liabilities arise from claims relating to damage caused by the prolonged use of vibratory tools. The claims are expected to be disbursed during 2009–10. This Scheme is closed to new claims.

Other health related provisions

These incorporate other injury-related compensation claims such as Noise Induced Hearing Loss (NIHL), accidents and miscellaneous diseases including asbestos related conditions, dermatitis, cancer and rheumatic diseases. It also covers payments under British Coal's Pneumoconiosis Compensation Scheme, Minor Benefits Schemes and associated administration costs of managing the health claims. Increases to the provision arise from revised estimates for the settlements of claims along with the associated legal and administrative costs. The undiscounted amount of these provisions has currently been calculated at £136m (31 March 2008: £113m) with an estimated end date of 2048.

19.2 Non health related provisions

Concessionary fuel

The Department has a responsibility to provide either solid fuel or a cash alternative to over 90,000 beneficiaries. Around 18,000 of these have opted for the cash alternative at an average of around £430 per annum; for the remainder, the average solid fuel cost to the Department is around £1,300 per annum. The number of beneficiaries is currently decreasing at around 7% per year. The provision is based on standard female mortality rates and includes an assumption of beneficiaries continuing to switch their entitlement from solid fuel to cash at a constant rate of 9% for National Concessionary Fuel Association beneficiaries and 11% for British Association of Colliery Miners beneficiaries. The significant in-year increase is due to the impact of increases in fuel prices. This is partly as a result of the re-retendering of fuel supply and distribution contracts during the year, where the new contracts now reflect the significant increase in fuel costs of recent years that had not been reflected in the previous contracts; and partly from the impact on the cash alternative, which is linked to fuel prices.

Other, including Site Restoration

Avenue Cokeworks and Grassmoor Lagoons, both near Chesterfield, are former British Coal Corporation sites no longer utilised for coal-related purposes. The Department has inherited British Coal's liability to reimburse the Homes and Communities Agency (in respect of Avenue) and Derbyshire County Council (in respect of Grassmoor) the costs involved in meeting minimum statutory environmental standards for site restoration. The expected discounted liability over the next 4 years is £59m (31 March 2008: £35m). It is highly unlikely that new liabilities of this nature will arise in the future, however, existing liabilities may in some circumstances increase in value.

Also included under this heading are provisions relating to costs for the administration of non-health related liabilities and indemnities issued at privatisation.

20. Provisions for liabilities and charges: Nuclear

	British Energy £'000
At 1 April 2008	2,320,484
Unwinding of one year's discount	51,050
Increase/(decrease) in provision	(7,788)
Expenditure in year	(210,580)
At 31 March 2009	2,153,166

As a result of the restructuring of British Energy (BE) in January 2005, the Government assists BE in meeting its contractual historic fuel liabilities. The provision is based on the forecast payment schedule up to 2029 which is set out in the waste processing contracts agreed between BE, BNFL and the Department. The costs are estimated to be £207m (undiscounted at March 2009 prices) for each of the next 5 years. Amounts are then expected to fall each year thereafter.

The time scale, over which it is estimated the discounted costs will need to be incurred, is as follows:

	2008-09 £m	2007-08 £m
Within 1 year	205	206
Between 2 to 5 years	776	779
Beyond 5 years	1,172	1,335
Total	2,153	2,320

21. General fund

The General fund represents the total assets less liabilities of the Department, to the extent that the total is not represented by other reserves.

	Note	2008–09 £'000	2007–08 £'000
Balance at 1 April		(3,031,849)	(4,349,779)
Net parliamentary funding			
Drawn down		2,900,000	3,761,919
Deemed		10,545	–
Year end adjustment			
Supply creditor – current year	18.1	(44,563)	(10,545)
Net transfer from operating activities			
Net operating cost	3.1	(2,095,270)	(2,448,665)
CFERs repayable to Consolidated Fund	5, 6	(644,386)	(2,393)
Non cash charges			
Cost of capital	12	(34,241)	17,614
Auditors' remuneration	12	200	–
Transfer to the revaluation reserve in respect of revaluation amounts previously expensed	22	(60,684)	–
Balance at 31 March		(3,000,248)	(3,031,849)

22. Revaluation reserve

	Note	2008–09 £'000	2007–08 £'000
Balance at 1 April		3,191,243	4,315,626
Arising on revaluation during the year	15.1	(2,085,807)	(705,383)
Transfer from the general fund in respect of revaluation amounts previously expensed	21	60,684	–
Coal Pensions Investments: release of previous revaluation gains	15.1	(279,000)	(419,000)
Balance at 31 March		887,120	3,191,243

The revaluation reserve reflects the cumulative balance of revaluation adjustments of the Coal Pensions Investments financial assets (see Note 15.1).

23. Notes to the cash flow statement

23.1 Reconciliation of operating cost to operating cash flows

	Note	2008-09 £'000	2007-08 £'000
Net Operating Costs	3.1	(2,095,270)	(2,448,665)
Adjustment for non-cash transactions	12	289,256	144,376
(Increase) in debtors	16	(22,972)	(83,743)
Movements in debtors relating to items not passing through the Operating Cost Statement		101,379	(1,060)
Increase/(decrease) in creditors	18	639,149	(128,645)
Movements in creditors relating to items not passing through the Operating Cost Statement		(541,467)	87,435
Use of provisions	4	(591,671)	(980,679)
Net Cash (outflow) from Operating Activities		(2,221,596)	(3,410,981)

23.2 Analysis of capital expenditure and financial investment

	Note	2008-09 £'000	2007-08 £'000
Tangible fixed asset additions	14	–	(3)
Net Cash (outflow) from investing activities		–	(3)

23.3 Analysis of capital expenditure and financial investment by Request for Resources

	Capital expenditure £'000	A in A £'000	Net total £'000
Request for Resources 1: 2008-09	–	–	–
Request for Resources 1: 2007-08	(3)	–	(3)

23.4 Analysis of financing

	Note	2008-09 £'000	2007-08 £'000
From the Consolidated Fund (Supply) – current year	21	2,900,000	3,761,919
Net financing		2,900,000	3,761,919

23.5 Reconciliation of Net Cash Requirement to increase/(decrease) in cash

	Note	2008–09 £'000	2007–08 £'000
Net Cash Requirement	4	(2,865,982)	(3,413,377)
From the Consolidated Fund (Supply) – current year	21	2,900,000	3,761,919
Amounts due to the Consolidated Fund – received in a prior year and paid over		(251,745)	(348,664)
Amounts due to the Consolidated Fund – received and not paid over	18.1	657,744	251,745
Increase in cash		440,017	251,623

24. Notes to the Statement of Net Operating Costs by Departmental Strategic Objectives

Following the Machinery of Government change announced by the Prime Minister on 3 October 2008, the Department of Energy and Climate Change (DECC) was created. This brought together energy policy, formerly with the Department for Business, Enterprise and Regulatory Reform (BERR), and climate change, mitigation and international adaptation policy, formerly a responsibility of the Department for Environment, Food and Rural Affairs (Defra).

As a consequence of this change two Departmental Strategic Objectives: ensuring clean, safe competitive energy; and managing energy liabilities; were transferred from BERR to DECC. A new Departmental Strategic Objective was created for DECC: tackling climate change.

24.1 Programme grants and other current expenditures have been allocated as follows:

Objective	2008–09 £'000	2007–08 £'000
Tackling climate change	677,229	549,340
Ensuring clean safe competitive energy	122,160	112,929
Managing energy liabilities	3,195,560	3,266,111
Total	3,994,949	3,928,380

24.2 Capital employed by Departmental Strategic Objectives at 31 March 2009

Objective	2008–09 £'000	2007–08 £'000
Tackling climate change	(107,351)	(22,027)
Ensuring clean safe competitive energy	(742,137)	84,723
Managing energy liabilities	(1,263,640)	96,698
Total	(2,113,128)	159,394

Where assets and liabilities relate to specific Objectives, they are attributed directly to that Objective. The Department's administrative net liabilities are attributed to Objectives in proportion to the gross expenditure for those Objectives.

25. Capital commitments

There were no capital commitments as at 31 March 2009 or 31 March 2008.

26. Commitments under leases

Operating leases

Commitments under operating leases to pay rentals during the 2009-10 financial year are given in the table below, analysed according to the period in which the lease expires.

	2008-09 £'000	2007-08 £'000
Obligations under operating leases comprise		
Land and buildings		
Expiry within 1 year	35	20
Expiry after 1 year but not more than 5 years	–	–
Expiry thereafter	–	–
	35	20
Other		
Expiry within one year	–	–
Expiry after 1 year but not more than 5 years	28	28
Expiry thereafter	–	–
	28	28

27. Other financial commitments

The Department has entered into non-cancellable contracts (which are not leases or PFI contracts), for subscriptions to international bodies. The payments to which the Department is committed during 2009-10, analysed by the period during which the commitments expire are given in the table below.

	2008-09 £'000	2007-08 £'000
Expiry within 1 year	–	–
Expiry within 2 to 5 years	–	–
Expiry thereafter	28,981	19,367
	28,981	19,367

27.1 The amounts disclosed above are for subscriptions paid as follows.

Organisation	Note	Expiry within 1 Year £'000	Expiry within 2 to 5 Years £'000	Expiry over 5 years £'000	Total £'000
United Nations Framework Convention on Climate Change	a	–	–	1,162	1,162
International Atomic Energy Agency	b	–	–	20,719	20,719
Organisation for the Prohibition of Chemical Weapons	c	–	–	4,248	4,248
International Energy Agency	d	–	–	1,538	1,538
Nuclear Energy Agency	e	–	–	731	731
European Energy Charter	f	–	–	508	508
International Energy Forum Secretariat	g	–	–	75	75
Total		–	–	28,981	28,981

Notes:

- a) The UN Framework Convention on Climate Change (UNFCCC) which entered into force on 21 March 1994 sets an overall framework for intergovernmental efforts to tackle the challenge posed by climate change. It enjoys near universal membership, with 192 countries having ratified. The Kyoto Protocol is an international agreement linked to the UNFCCC that sets binding targets for 37 industrialized countries and the European community for reducing greenhouse gas (GHG) emissions. The Protocol was adopted on 11 December 1997 and entered into force on 16 February 2005. 184 Parties of the Convention have ratified its Protocol to date. The UK contributes to the UNFCCC Core Budget and the Protocol to help fund the Secretariat, including an annual Conference of the Parties (COP) attended by Ministers, meetings of the Convention Subsidiary Bodies and activities and initiatives mandated by the Parties.
- b) The International Atomic Energy Agency (IAEA) is the world's centre of co-operation in the nuclear field. It was established in 1957 as an independent international organisation under the United Nations (UN) and as of 1 January 2008 it has a membership of 144 Nation States. It is the UN's nuclear watchdog and is the verification authority for the Treaty on the Non-Proliferation of Nuclear Weapons (NPT). In this capacity it is responsible for promoting and agreeing international nuclear safeguards with States, and for verifying that non-proliferation commitments are met. It is also charged with fostering safety and security in nuclear related activities and with contributing to goals of sustainable development in key areas of the peaceful application of nuclear science and technology.

- c) The Chemical Weapons Convention (CWC), which came into force on 29 April 1997, is the first arms control treaty which seeks to introduce a verifiable ban on an entire class of weapons of mass destruction. It is administered by the Organisation for the Prohibition of Chemical Weapons (OPCW), which is based in The Hague. As of 1 January 2008 the OPCW had 183 States Party. As part of its verification responsibilities, the OPCW undertakes inspections in States Party and the UK has received 96 inspections since 1997. DECC, as the UK National Authority, is responsible for the implementation of the CWC in the UK. The powers to implement the declaration and verification provisions in the CWC are contained in the Chemical Weapons Act 1996.
- d) The International Energy Agency (IEA) is the energy adviser arm of the Organisation for Economic Co-Operation and Development (OECD). It is an internationally recognised centre of excellence. As energy has risen up the political agenda so has the profile of the IEA. The Agency is one of the most important global energy organizations. It is key to overseeing, and analysing, global security of supply and is increasingly influencing the climate change agenda, playing an integral part in the Gleneagles dialogue and in delivering the G8 agenda. It also prepares member countries to take action in emergency situations, such as Hurricanes Katrina and Rita, and encourages good practice in energy policy worldwide. The UK's subscription supports these objectives.
- e) DECC pays the UK's annual contribution to the Nuclear Energy Agency (NEA) on behalf of a number of Departments and Agencies that participate in the NEA's work. The NEA is an internationally recognised non-promotional organisation providing a forum for addressing and disseminating information on technical scientific and economic issues affecting nuclear energy globally.
- f) DECC is responsible for the UK's subscription to the European Energy Charter Treaty, which strives towards open, efficient, sustainable and secure energy markets and promotes a constructive climate conducive to energy interdependence on the basis of trust between nations. The main aim of the Treaty is to liberalise energy trade, transit and investment within and between its (mainly Eurasian) signatory countries. This is an aim which the UK strongly supports.
- g) DECC is responsible for paying the UK's contribution to the International Energy Forum Secretariat (IEFS). The IEFS's role is to enhance and support the global dialogue between energy producers and consumers. The UK became a member of the Executive Board of the Secretariat in 2006 and has been active raising the profile of the IEF and encouraging a more strategic approach to its planning and working practices. The UK was re-elected to the Board in April 2008 for a further 2 years. Payment of the subscription is a requirement of all Board Members. The UK delegation, led by the then Energy Minister, Malcolm Wicks, made a significant contribution to 11th IEF Ministerial Forum held in Rome from 19-22 April 2008. IEF is now playing an important role in developing the work agreed at the London Energy Meeting in December 2008.

28. Financial instruments

28.1 Classification and categorisation of financial instruments

	Note	2008-09 £'000	2007-08 £'000
Financial assets			
Loans and receivables:			
Trade debtors and other receivables	16	153,885	130,913
Cash at bank and in hand	17	702,326	262,291
Total loans and receivables		856,211	393,204
Available-for-sale assets:			
Coal Pensions Investments	15	887,120	3,251,927
Ordinary shares	15	-	-
Total Available-for-sale assets		887,120	3,251,927
Financial liabilities			
Other financial liabilities:			
Trade creditors and other payables	18	982,341	343,192
Total other financial liabilities		982,341	343,192

28.2 Fair value of financial instruments

Financial instruments are carried on the balance sheet at their fair value or at amortised cost. Fair value is the amount for which a financial asset could be exchanged or a financial liability settled between knowledgeable, willing parties in an arms-length transaction. This is market value where an active market exists. Where an active market does not exist, which is the case for a number of financial assets and liabilities, generally accepted estimation and valuation techniques are used, including the discounted cash flow method.

The carrying values of financial assets and financial liabilities do not differ from fair values in these accounts at either 31 March 2009 or 31 March 2008.

28.3 Significance of financial instruments to financial performance and position

FRS 29 Financial Instruments: Disclosure requires the Department to disclose information which will allow users of these financial statements to evaluate the significance of financial instruments on the Department's financial performance and position and the nature and extent of the Department's exposure to risks arising from financial instruments.

Given its largely non-trading nature and that the Department is financed through the Estimates process, financial instruments play a much more limited role in creating or changing risk than would apply to a non-public sector body of a similar size.

Information about the Department's objectives, policies and processes for managing and measuring risk can be found in section 5.5 of this report

28.4 Risk exposure from financial instruments

The majority of financial instruments relate to contracts to buy non-financial items in line with the Department's expected purchase and usage requirements and the Department is therefore not directly exposed to significant market, credit or liquidity risk.

In general, financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the Department in undertaking its activities.

Further information about the risks associated with the Coal Pension Investments financial assets is in note 15.1 to these accounts.

Market Risk

Market Risk is the risk that fair values and future cash flows will fluctuate due to changes in market prices. Market risk generally comprises of currency risk, interest rate risk and other price risk.

Foreign currency risk

The Department's exposure to foreign currency risk during the year was minimal. Foreign currency income and expenditure was a small percentage of their respective totals. EU ETS amounts, collectable on behalf of the Consolidated Fund, shown in Note 5, was received and paid in sterling, the effect on the Department being immaterial.

Interest rate risk

The Department does not invest or access funds from commercial sources and so is not exposed to significant interest rate risks.

Other price risk

The Department does not have any significant holding of financial instruments that are traded in an active market and as such is not directly exposed to other price risks.

Credit risk

The Department does not have any significant credit risk exposure given the nature and characteristics of the Department's assets.

Liquidity risk

Resources are voted annually by Parliament to finance the Department's net revenue resource requirements and its capital expenditure. The Department is therefore not exposed to significant liquidity risks.

29. Contingent liabilities and assets disclosed under FRS 12 Provisions, contingent liabilities and contingent assets

Basis of recognition	Description
<i>Coal Industry Act 1994</i>	Any liabilities of British Coal in respect of industrial injury to its former employees between 1947 and 31 December 1997 and any disability or disease arising from employment in that period, the timing and amounts of which are uncertain at this time. The liabilities arise through the various health claims that have been made by former and current employees of British Coal. The uncertainty is due to two factors: a) the nature of any injury; and b) whether the courts decide that compensation is due. Given recent history, the fact that the burden of proof rests with the plaintiff and that the compensation level is determined on a case-by-case basis, there is a high level of uncertainty relating to either the amount of the payments due or whether they are likely to be paid. This uncertainty is also referred to in the Coal Provisions Note (Note 19). Over time, it is likely that a more accurate estimate of the expected costs to be borne by the Department will become available.
<i>Nuclear Liabilities Fund (British Energy)</i>	The then Secretary of State created a constructive obligation due to her announcement in 2002 to the House regarding British Energy (BE), restructuring, stating that the Government would underwrite the Nuclear Liabilities Fund (NLF) in respect of BE's uncontracted and decommissioning liabilities to the extent that the assets of the Fund fall short. The restructuring was successfully completed on 14 January 2005, and as such the Department has assumed responsibility for these liabilities to the extent that the NLF is insufficient to meet liabilities as they fall due. There is a high level of uncertainty relating to possible future cash flows which the Department might need to make for an indefinite period of time. This is dependent on BE's estimates for the costs of meeting their decommissioning and uncontracted liabilities which may be revised year-on-year and on the contributions from BE. As such, it is hard to quantify whether this represents a contingent liability or asset. On the basis of the Department's current estimate of the assets available to the NLF to meet its liabilities, £8.6 billion (2008: £7.8 billion), and BE's unaudited estimate for decommissioning and uncontracted liabilities, £4.5 billion (2008: £4.4 billion), there is a contingent asset of £4.1 billion (2008: £3.4 billion). The liabilities figure is subject to review by the Nuclear Decommissioning Authority, the results of which had not been received by the time of finalising these accounts.

Basis of recognition	Description
<i>Nuclear Liabilities Fund (Indemnities)</i>	Nuclear Liabilities Fund – Secretary of State Trustee Indemnities: Indemnities have been given to the three Trustees of the NLF appointed by the Secretary of State. These indemnities are against personal liability following any legal action against the Fund. Nuclear Liabilities Fund – British Energy Trustee Back Up Indemnities: Given to the two BE appointed Trustees of the Nuclear Liabilities Fund. These indemnities are against personal liability following any legal action against the Fund. These indemnities can only be used following failed recourse to an indemnity given by British Energy.
Deed Relating to the British Coal Staff Superannuation Scheme under Paragraph 2(9) of Schedule 5 to the Coal Industry Act 1994 Deed Relating to the Mineworkers' Pension Scheme under Paragraph 2(9) of Schedule 5 to the Coal Industry Act 1994	Government Guarantees were put in place on 31 October 1994, the day the Schemes were changed to reflect the impact of the privatisation of the coal industry. They are legally binding contracts between the Trustees and the Secretary of State for Energy and Climate Change. The Guarantees ensure that the benefits earned by Scheme members during their employment with British Coal, and any benefit improvements from surpluses which were awarded prior to 31 October 1994, will always be paid and will be increased each year in line with the Retail Prices Index. The 1994 arrangements provided for the following notional sub-funds to be established within each overall fund: ● Guaranteed Fund; ● Bonus Augmentation Fund; ● Guarantor's Fund; and ● Investment Reserve. Further details regarding the Schemes and the notional sub-funds can be found in Note 15.1, particularly the Guarantor's Fund and the Investment Reserves which have been recognised as financial assets in these accounts. If at any periodic valuation the assets of the Guaranteed Fund were to be insufficient to meet its liabilities, the assets must be increased to bring the Fund back into balance. This might necessitate one or more of the following steps: ● transfer of assets from the Investment Reserve; ● equal transfers from the Guarantor's Fund and the Bonus Augmentation Fund; ● payments from the Government under the terms of the Guarantees. A future liability may arise in circumstances where action is required. At the year end management is unable to reliably determine both the timing and the amount of any potential liability as it will arise as a direct result of the overall performance of the Schemes which are controlled and managed independently of the Department.

30. Contingent liabilities not required to be disclosed under FRS 12 but included for parliamentary reporting and accountability purposes

30.1 Quantifiable

The Department has entered into the following quantifiable contingent liabilities by offering guarantees or indemnities. None of these is a contingent liability within the meaning of FRS 12 since the likelihood of a transfer of economic benefit in settlement is too remote.

	1 April 2008 £'000	(Decrease) in year £'000	Liabilities crystallised in year £'000	Obligations expired in year £'000	31 March 2009 £'000
Statutory Guarantees					
– Guarantee for Carbon Trust Directors – prevent Director liabilities	20,992	(1,178)	–	–	19,814
– Guarantee for Energy Trust Directors – prevent Director liabilities	7,604	(504)	–	–	7,100
Statutory Indemnities					
– Quality Assurance for Combined Heat and Power contractors wrongly assessing a scheme	100	–	–	–	100
Other					
– High Activity Sealed Sources (HASS) Directive ¹¹³	6,000	–	–	–	6,000
Total	34,696	(1,682)	–	–	33,014

30.2 Unquantifiable

The Department has entered into the following unquantifiable contingent liabilities by offering guarantees, indemnities or by giving letters of comfort. None of these is a contingent liability within the meaning of FRS 12 since the possibility of a transfer of economic benefit in settlement is too remote.

Statutory Indemnities

- Indemnity in respect of National Grid Company's liabilities re: the interconnector linking the UK and France;

Letters of Comfort

- Letter of comfort to AEA Technology re: joint European project for the underground gasification of coal.

Other

- Statutory liability for third party claims in excess of the operator's liability in the event of a nuclear accident in the UK.

These liabilities are unquantifiable due to the nature of the liability and the uncertainties surrounding them.

¹¹³ A possible obligation under the High Activity Sealed Sources (HASS) Directive, to meet the costs of retrieving and disposing of sealed radioactive sources in the event that a company keeping such sources becomes insolvent.

31. Losses and special payments

The disclosures in this note are in accordance with Managing Public Money; the purpose is to report on losses and special payments of particular interest to Parliament.

31.1 Losses statement

	2008-09 £'000	2007-08 £'000
Total	283	84
	591 cases	694 cases

There were no cases over £250,000.

31.2 Special payments

There were no special payments, which include extra-contractual, ex gratia and compensation payments, during the financial year.

32. Related-party transactions

The Department is the sponsor of the Non-Departmental Public Bodies shown in Annex 3 to this report. These bodies are regarded as related parties with which the Department has had various material transactions during the year.

In addition, the Department acts as guarantor for the Mineworkers' Pension Scheme (MPS) and the British Coal Staff Superannuation Scheme (BCSSS). These Schemes have been disclosed as financial assets in the accounts. The Government, through the Secretary of State, appoints five of the MPS's Committee of Management. Of these five, two are also members of the BCSSS Committee of Management. There were no transactions between the Department and Coal Pension Trustee Services Ltd, a jointly owned venture of the MPS and the BCSSS.

The Department also has had various material transactions with other Government Departments and Government bodies. The most significant of these transactions have been with Department for Business, Enterprise and Regulatory Reform (BERR), the Office of the Paymaster General and the Department for Environment Food and Rural Affairs (Defra).

Mike Blackburn has been the Interim Finance Director since 10 November 2008. He is a Director of Acadent Limited, a company which supplies consultants and interim managers. From 3 October 2008 to 31 March 2009 the Department used Acadent to provide the services of interim staff previously contracted by Defra, no new services have been provided by Acadent since the formation of the Department other than that for the Interim Finance Director. The total spend by the Department with Acadent for the year was £256,916 (including VAT).

No other DECC Ministers or Management Board members have undertaken any material transaction with the Department during the year.

33. Post balance sheet events

There were no significant post balance sheet events.

Date accounts authorised for issue

The Accounting Officer of the Department has authorised these accounts to be issued on 17 July 2009.

34. Third-party assets

The following are balances in accounts held in DECC's name at commercial banks but which are not DECC monies. They are held or controlled for the benefit of third parties. These are not departmental assets and are not included in these Resource Accounts. The assets held at the balance sheet date to which it was practicable to ascribe monetary values comprised monetary assets such as bank balances.

DECC holds contributions from other Government Departments to the Government Carbon Offsetting Fund, to offset emissions arising from official and ministerial air travel in the three years from April 2006. These funds will be used to purchase Certified Emissions Reductions (CERs) credits.

	Bank balances £'000
At 1 April 2008	741
Gross inflows	687
Gross outflows	-
At 31 March 2009	1,428

During the year the Department received proceeds of two auctions as part of the EU ETS as shown in Note 5; these amounts are paid to the Consolidated Fund. At the year end the proceeds, £40m, of the second of these auctions, held on 24 March 2009, were still held by the Department and were passed to the Consolidated Fund on 2 April 2009. The 77m carbon allowances held as at 31 March 2009 for future auctions, are not recognised as an asset on the Department's balance sheet as the Department does not have access to the future economic benefits of these.

35. Creation of the Department as a result of a Machinery of Government change

The Department was created on 3 October 2008 bringing together the functions of the Energy Group from the Department for Business Enterprise and Regulatory Reform (BERR) and most of the Climate Change Group from the Department for Environment, Food and Rural Affairs (Defra).

The FReM requires Machinery of Government changes which involve the transfer of the responsibility for functions from one part of the public sector to another be accounted for as a merger in accordance with FRS 6: Acquisitions and Mergers.

This requires the balance sheet, results and cash flows of the combining functions to be brought to account from the start of the financial year in which the transfer occurs.

Prior-year comparative figures are also restated to show the affect as if the transfer had occurred one year earlier.

The effects of this transfer on the 2007-08 results in these financial statements are as follows:

Operating Cost Statement

	Climate Change Group transfer £'000	Energy Group transfer £'000	Adjustments £'000	DECC year ended 31 March 2008 £'000
Administration costs				
Staff costs	17,033	29,724	–	46,757
Other administration costs	17,173	15,046	–	32,219
Operating income	(1,576)	(238)	–	(1,814)
Programme costs				
Staff costs	–	263	–	263
Programme costs	549,339	3,378,778	–	3,928,117
Income	12	(1,556,889)	–	(1,556,877)
Net Operating cost	581,981	1,866,684	–	2,448,665

Balance Sheet

	Climate Change Group transfer £'000	Energy Group transfer £'000	Adjustments £'000	DECC restated 31 March 2008 £'000
Fixed assets				
Tangible assets	5,873	20	–	5,893
Financial assets	–	2,869,099	103,828	2,972,927
Current assets				
Debtors	9,482	121,431	–	130,913
Financial assets	–	1,000,293	(721,293)	279,000
Cash at bank and in hand	–	262,291	–	262,291
Creditors: amounts falling due within one year	(37,382)	(305,810)	–	(343,192)
Provisions	–	(3,148,438)	–	(3,148,438)
	(22,027)	798,886	(617,465)	159,394
Taxpayers' equity				
General fund	(22,027)	(3,009,822)	–	(3,031,849)
Revaluation reserves	–	3,808,708	(617,465)	3,191,243
	(22,027)	798,886	(617,465)	159,394

As required by the FReM, DECC is applying FRS 26 Financial Instruments: recognition and measurement. The Balance Sheet adjustments above therefore restate to fair value the Coal Pensions Investments financial assets as at 1 April 2008. Departments were

not required to apply FRS 26 and measure assets at fair value as at 31 March 2008. These assets have also been reclassified between fixed assets and current assets.

36. Entities within the departmental boundary

A list of these bodies within the departmental boundary can be found in Annex 3 of this report. There are no bodies within the Department's accounting boundary that require consolidation into the Resource Accounts.

Annexes

Annex 1 – Quality of PSA and DSO data systems

1. Chapter 2 sets out the latest position on the delivery of DECC's PSA and three DSOs. This annex provides some commentary on the quality of the data systems used to measure progress.

PSA 27

2. **Indicator 1 (global CO₂ emissions)** The indicator data come from the International Energy Agency publication *Energy Technology perspectives: Scenarios and Strategies to 2050*. The indicator shows global CO₂ emissions (actual and forecast) from fossil fuel combustion. The graph shows the baseline projection made by the IEA in 2006, and its most recent forecast produced in 2008. Data on actual emissions are updated annually and revised forecasts are produced every two years.
3. **Indicator 2 (sustainable abstraction of water)** To achieve sustainable abstraction we must have a policy framework to ensure that abstraction is carried out in such a way that meets the needs of the public, industry and the environment. This is therefore representative of climate change adaptation because to achieve this balance, given current and predicted water availability, we need to take action in a number of areas including: reducing water wastage in homes and business; address abstraction where it is damaging the environment; rationalise water abstraction licences; and have long-term water resource management plans in place which take into account predicted changes in water availability due to climate change.
4. The indicator data come from the Environment Agency's Catchment Abstraction Management Systems (CAMS) which were introduced in 2002. The indicator is based on detailed monitoring and assessment which is repeated for each catchment on a six-year cycle and is therefore likely to change slowly. Although this indicator can be represented using movement of a single number, indication of movement towards sustainable abstraction requires all four numbers to be reported. Success is movement from red and orange on the map in Chapter 3 (over-abstracted and over-licensed) to yellow ('no water available' for further

licensing at low flows) and then to blue (more water available). The baseline is therefore all four numbers, but true success lies in areas that are only blue.

5. The baseline for this indicator has been completed and was published by the Environment Agency in June 2008 in *Managing Water Abstraction – Interim Update June 2008*.¹¹⁴ There are 927 measurement units (catchment and groundwater measurement units):
6. The current indicator status is:
 - Units under sustainable abstraction (blue): 297
 - No water available at low flows (yellow): 326
 - Over-licensed (orange): 166
 - Over-abstracted (red): 138
7. **Indicator 3 (global carbon markets)** This indicator reviews progress towards the development of an international carbon trading system which is an important component of tackling climate change. The data are drawn from the World Bank report *State and trends of the global Carbon market*, which is published annually.
8. **Indicator 4 (total UK greenhouse gas and CO₂ emissions)** The data for this indicator are drawn from the UK Greenhouse Gas Inventory (see below) with an allowance for the verified emissions for volumes traded in the EU ETS (data collated by the Environment Agency). DECC is responsible for the delivery of the UK Government's Greenhouse Gas Inventory¹¹⁵ (GHGI) to the UNFCCC. DECC has established a National System for inventory data provision, in accordance with Article 5 of the Kyoto protocol and European Commission Decision 280/2004/EC, to support compliance with the UK and EU's Kyoto Protocol commitments. To ensure the consistency and accuracy of data used within the GHGI, DECC is developing the UK's National System through the implementation of contracts and agreements with key data providers.
9. The GHGI draws on many datasets from official statistics provided by other UK Government Departments and regulatory bodies. To ensure consistency of the supply of these datasets and to formalise the requirements of Quality Assurance (QA) systems and Quality Control (QC) checks that these data suppliers adopt in the provision of data for the UK GHGI, DECC and its contractor, AEA, have undertaken to implement a series of agreements with these key sources. Agreements are being drafted with the key data providers in the form of a series of Memoranda of Understanding which incorporate statements as to the QA/QC requirements and the timeliness of provision of key datasets.
10. AEA Energy and Environment publishes an annual inventory on behalf of DECC of the historic greenhouse gas emissions in the UK, usually within 15 months of the end of the calendar year in question. Data are available on an annual basis back to 1990 and are subject to the requirements of national statistics. Analysis by AEA indicates uncertainties in carbon dioxide emissions estimates are $\pm 2\%$, and for

114 Page 6. See <http://publications.environment-agency.gov.uk/pdf/GEH00508BOAH-e-e.pdf?lang=e>

115 <http://www.ghgi.org.uk/index.html>

the 'basket' of six greenhouse gases they are about $\pm 15\%$. Provisional data on carbon dioxide emissions are estimated from energy data and published annually in 'Energy Trends' in March following the end of the calendar year in question.

11. **Indicator 5 (greenhouse gas and CO₂ intensity of UK economy)** This indicator is calculated from the level of the UK's greenhouse gas emissions (based on indicator 4 above) divided by the UK's Gross Domestic Product (data from the Office of National Statistics).
12. **Indicator 6 (emissions reductions below the Shadow Price of Carbon)** DECC examines all impact assessments produced by central government departments with information relevant to this indicator. A cumulative picture on emissions reductions and the costs of achieving them is then developed, with the costs compared to the Shadow Price of Carbon.¹¹⁶

DSO 1

13. **Indicator 1a (global CO₂ emissions)** See PSA 27 indicator 1.
14. **Indicator 1b (milestones towards a post-2012 agreement)** This is a process-based indicator subject to a qualitative assessment of progress.
15. **Indicator 2 (fuel poverty)** The purpose of the data system is to measure progress against the Government target to reduce fuel poverty. As a general definition, a household is judged to be in fuel poverty if it spends more than 10% of income after tax to attain an adequate standard of warmth. The indicator is calculated based on two data streams: These are the English Household Survey, which is undertaken by Communities and Local Government, and fuel prices, which are collected from individual fuel suppliers. Data streams are supplied by the Building Research Establishment (BRE) who develop calculations on a sample of 8,000 households (The English House Survey: 16,000 with the previous year's data incorporated) and calculate the proportion of households in fuel poverty. The Fuel Poverty Methodology Group has reviewed the methodology used to ensure that an appropriate sample is selected and the inputs used are appropriate.
16. **Indicator 3a (UK energy consumption)** The data for indicator 3a come from the Digest of UK Energy Statistics (DUKES) which is collected, analysed and published by DECC on an annual basis. The data include statistics on energy consumption for different end-user groups, including industrial users, domestic users and transport users. These statistics are then aggregated into an overall headline statistic of UK energy consumption. DECC also converts the units used within the DUKES data from thousand tonnes of oil equivalent to terrawatt hours. The DUKES data are certified as a National Statistic which provides assurance over the quality of the data.
17. **Indicator 3b (carbon intensity of energy consumption)** This indicator is derived by dividing national CO₂ emissions from energy production by final consumption of energy for all final users. It is defined as the emissions of carbon from the corresponding energy indicators (electricity, all other fuels for the following

¹¹⁶ <http://www.defra.gov.uk/environment/climatechange/research/carboncost/pdf/costeffect-psa-indicator6.pdf>

sectors: households, industry and services). The data system for this indicator uses the data from the UK Greenhouse Gas (GHG) Inventory for UK emissions (see PSA Indicator 4) and the Digest of UK Energy Statistics (DUKES – see above).

- 18. Indicator 4 (adaptation to climate change)** This indicator is still under development.

DSO 2

- 19. Indicators 1a (CO₂ intensity of economy) and 1b (total UK CO₂ emissions)**

See PSA 27 indicators 4 and 5.

- 20. Indicators 2a (de-rated peak capacity margin) and 2b (minutes lost on distribution networks)** The 2007 Energy White Paper announced our commitment to a new security of supply information service – the Energy Market Outlook. The first report was published in October 2007 and the second in December 2008. It is intended to provide professional and clear forward-looking energy market information relating to security of supply, focusing on a limited number of key indicators and scenarios and supported by in-depth analysis looking across a range of primary fuels, demand drivers, and developments in the international energy and carbon markets. The Energy Market Outlook was previously jointly authored by BERR and Ofgem, and draws on analysis from National Grid, the energy industry and other sources. Data on customer minutes lost (for electricity) and the reported number of interruptions (for gas) are published annually by Ofgem in the *Electricity Distribution Quality of Service Report* and the *Gas Distribution Quality of Service Report*.

- 21. Indicator 3a (industrial gas and electricity prices)** Data used for the price comparison are from a new EU methodology and the collection method is still under development in some countries. It is therefore subject to larger revision than most statistics. Eurostat collect the data according to EU directive 90/377/EEC. Estimates for the latest half-year period are produced by Energy Advice Ltd, a private sector consultant.

- 22. Indicator 3b (fuel poverty)** See DSO 1 indicator 2 for fuel poverty.

- 23. Indicator 4 (absence of significant safety-related incidents)** The Government is signatory to a number of international conventions and treaties which put the nuclear industry under regular and intense scrutiny against internationally recognised good practice.

Annex 2 – PSAs from previous spending reviews

1. This document reports performance against CSR07 PSAs for the first time. The 2007-08 annual reports from BERR and Defra gave assessments of performance in areas that are now DECC responsibilities against PSAs from the 2004 spending review. Each of these PSAs was subject either to a final assessment and/or rolled forward into the new PSA and DSO framework, as follows:

SR04 PSA	Status
BERR PSA4 – Energy	There were four indicators relating to this PSA. The first related to greenhouse gas emissions in the UK. This was the joint responsibility of BERR and Defra. The Government was on course to meet it. See Defra PSA 2 below for details. The second indicator concerned reliable energy supplies. This was deemed to be met and was subject to a final assessment in the BERR annual report for 2007-08. ¹¹⁷ It was rolled forward in a modified form to DSO 2. Eliminating fuel poverty was the third indicator. Again this was jointly held with Defra. See Defra's PSA 7 below. The fourth indicator, on competitive energy markets, was met , as demonstrated by BERR's 2007-08 annual report. This was rolled forward, modified, to DSO 2 and is also relevant to CSR07 PSA 6 (led by BIS).
BERR PSA 9 – Nuclear Decommissioning Authority	This PSA was subject to a final assessment in the BERR annual report for 2007-08. It was shown to be partly met . This PSA is now relevant to DSO 3.
Defra PSA 1 – Promoting sustainable development across Government in the UK and internationally	Defra's PSA 1 included a climate change indicator relating to progress towards internationally agreed commitments on climate change. This was subject to a final performance assessment in the Defra autumn performance report. ¹¹⁸ The report demonstrated that this element of PSA 1 was met . The target of securing a comprehensive global deal in Copenhagen in December 2009 was subsumed in CSR07 to PSA 27 and there is a process-based indicator on this in DSO 1.

¹¹⁷ <http://www.berr.gov.uk/aboutus/corporate/performance/annual-spending/page47093.html>

¹¹⁸ <http://www.defra.gov.uk/corporate/apr/apr2008.pdf>

SR04 PSA	Status
Defra PSA 2 – To reduce UK greenhouse gas emissions by 12.5% in line with Kyoto and to move towards a reduction in CO ₂ emissions of 20% (both compared to 1990 levels)	This PSA was subject to a performance assessment in the Defra autumn performance report. This showed that the Government was on course to meet its Kyoto target of a 12.5% reduction in greenhouse gas emissions. It also showed that the domestic goal of a 20% reduction in CO ₂ emissions by 2010 would be very difficult to meet. We currently expect to deliver a reduction in CO ₂ emissions of about 15% by that time. As set out in Chapter 2, in April 2009, the Government announced that the carbon budget for 2008-2012 would require a reduction in greenhouse gas emissions of just over 22%. This PSA was jointly held with BERR. It now forms part of PSA 27 and is also linked to DSO 1.
Defra PSA 7 – To eliminate fuel poverty in vulnerable households by 2010	This PSA was also subject to an assessment in the autumn performance report produced by Defra. This showed that there was slippage in relation to this target, which was jointly held with BERR. The target now forms part of DECC's current DSOs (1 and 2). It also links to DECC's aims and objectives set out in Chapter 1.

2. There are no 2002 spending review PSAs for which performance reports are outstanding.

Annex 3 – Delivery Partners

1. This Annex lists our formal partners. This DECC ‘family’ consists of a number of non-departmental public bodies (NDPBs) and other delivery partners.
2. DECC is committed to making appointments in its delivery partners based on merit. Public appointments to the boards of our NDPBs and agencies are made by Ministers in accordance with the Code of Practice of the Office of the Commissioner for Public Appointments.¹¹⁹

Executive non-departmental public bodies	
Civil Nuclear Policy Authority	www.cnpa.police.uk
Coal Authority	www.coal.gov.uk
Committee on Climate Change	www.theccc.org.uk
Nuclear Decommissioning Authority	www.nda.gov.uk

Advisory non-departmental public bodies	
Advisory Committee on Carbon Abatement Technologies	www.berr.gov.uk/energy/sources/sustainable/carbon-abatement-tech/advisory-committee/page40400.html
Committee on Radioactive Waste Management	www.corwm.org.uk
Fuel Poverty Advisory Group	www.berr.gov.uk/energy/fuel-poverty/fpag/index.html
Nuclear Liabilities Financing Assurance Board	www.berr.gov.uk/energy/sources/nuclear/whitepaper/actions/waste-decommissioning/nlfab/page49007.html
Renewables Advisory Board	www.renewables-advisory-board.org.uk/index.htm
UK Chemical Weapons Convention National Authority Advisory Committee	www.berr.gov.uk/energy/non-proliferation/cbw/national-authority/naac/page40772.html

3. During 2008-09, DECC was also associated with a number of other bodies:

Sponsored partners	
Carbon Trust	www.carbontrust.co.uk
Energy Saving Trust	www.energysavingtrust.co.uk

¹¹⁹ See <https://www.publicappointmentscommissioner.org/web-resources/resources/90fd67c34f9.pdf>

Central Government Organisations

Nuclear Liabilities Fund	No website available
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Non-Ministerial Departments

Ofgem	www.ofgem.gov.uk
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Public Corporations

British Energy Group Plc ¹²⁰	www.british-energy.com
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Ad-hoc Groups

Pilot Task Force for Oil and Gas	www.pilottaskforce.co.uk
UK Coal Forum	www.berr.gov.uk/energy/sources/coal/forum/page37276.html

4. Executive NDPBs publish their own annual report and accounts, which provide full information on targets and performance of the organisation, as well as financial information. These can be obtained from their websites or The Stationery Office. DECC's resource accounts show the money the Department has provided to Executive NDPBs as grant in aid.

Relationship between the Department and delivery partners

5. Each NDPB is overseen by a sponsor team within DECC, which agrees the NDPBs remit and monitors performance. The sponsor teams work with the NDPBs, providing support for their high level aims and challenge to ensure adherence to rules of regularity and propriety and for the purpose of budgetary control.

¹²⁰ British Energy Group plc was sold in January 2009. The Department retains special shares in the Group and obligations as noted in Chapter 6, Notes 15.4 and 29 respectively.

Annex 4 – Public Accounts Committee recommendations

1. Between 1 April 2008 and 31 March 2009, the Public Accounts Committee (PAC) published three reports on matters for which we are responsible. This Annex provides details of those reports and of the Government response to them.

The Carbon Trust: Accelerating the move to a low carbon economy HC157, 20 May 2008¹²¹	About the report The Public Accounts Committee published its report in May 2008, following the publication in November 2007 of the National Audit Office's value for money review of the Carbon Trust.¹²² The NAO review looked at the support provided to business and the public sector under the Carbon Trust's Solutions activities (which provide support for reducing carbon emissions in the short term), the effectiveness of the Carbon Trust's Innovations and Investments programmes (which support the development of low carbon technologies) and the Trust's own internal management systems. In turn, the PAC report made seven conclusions and recommendations, including on increasing the Carbon Trust's contribution to emission targets, and a range of recommendations on improving the effectiveness of the Carbon Trust's activities. Government response The Government welcomed¹²³ the PAC report and its conclusion, in particular, that the Carbon Trust appears to be on course to meet its target of an annual reduction in emissions of 4.4Mt by 2010 compared to 1990 levels. The Government accepted a number of the Committee's recommendations and good progress has been made towards implementing them. For example, in response to the recommendation that the financial support incentive of 100% interest free loans for smaller businesses should be reviewed, a further £100m of funding for the scheme was announced in Budget 2009.
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¹²¹ <http://www.publications.parliament.uk/pa/cm200708/cmselect/cmpubacc/157/157.pdf>

¹²² http://www.nao.org.uk/publications/0708/the_carbon_trust_accelerating.aspx

¹²³ <http://www.official-documents.gov.uk/document/cm73/7366/7366.asp>

**Nuclear
Decommissioning
Authority –
Taking forward
decommissioning
HC370, 10 July
2008¹²⁴**

About the report Following publication of an NAO report¹²⁵, the PAC's main conclusions were that: the cost of decommissioning the UK's first generation of civil nuclear sites is enormous; there was continuing uncertainty over estimating the future cost of decommissioning civil nuclear legacy sites; and the Department was unable to provide complete assurance that the costs of decommissioning new nuclear power stations will not fall back on future taxpayers. The PAC made eight conclusions reflecting these findings.

Government response In its response¹²⁶ the Government welcomed the PAC report and agreed with many of its conclusions. The response highlighted the fact that this Government was the first to rise to the challenge of dealing with the nuclear legacy and remained committed to delivering effective and efficient clean-up and decommissioning of that legacy. It was always known that dealing with the legacy would be costly, with costs rising in the short term as the NDA developed its understanding of the work involved. Establishing the liability for all the sites in the NDA's portfolio was an unprecedented process. It was a sign of success that the NDA had been able to deliver a baseline liability figure against which future performance could be measured. The Government fully agreed with the PAC that plans for decommissioning should already be in place for new nuclear power stations before being built. The provisions needed to ensure this were successfully included in the Energy Act 2008.

124 <http://www.publications.parliament.uk/pa/cm200708/cmselect/cmpubacc/370/370.pdf>

125 http://www.nao.org.uk/publications/0708/the_nuclear_decommissioning_au.aspx

126 <http://www.official-documents.gov.uk/document/cm74/7453/7453.asp>

**Programmes to
reduce household
energy
consumption**

**HC228, 3 March
2009¹²⁷**

About the report Following a report from the NAO¹²⁸, the PAC produced its report in May 2008. It concluded that the Government's programmes may have contributed to the reduction in household energy consumption in 2004-07, which followed a long-term trend of rising household energy consumption. Overall, however, household energy consumption was still 8% higher in 2007 than in 1990. Without sufficient improvements in energy efficiency, energy consumption could rise again due to trends such as the growth in the number of households, the demand to use more electronic appliances and a desire to live in warmer homes. The report suggested that, to offset these upward pressures and achieve further reductions, the key challenges for the Government were to strengthen and improve enforcement of minimum energy efficiency standards for new homes and to coordinate and focus government programmes to increase the energy efficiency of existing homes and achieve behaviour change by householders.

Government response The Government broadly agreed with the thrust of the PAC report and accepted all of its nine recommendations and conclusions either wholly or partially.¹²⁹ There has been progress in implementing them, for example through the Heat and Energy Saving Strategy consultation, the legal establishment of the first three carbon budgets and the recently launched consultation on smart meters. DECC also works closely with Communities and Local Government (CLG) which leads on a number of policy areas covered by the report such as building regulations and oversight of the private rented sector.

¹²⁷ <http://www.publications.parliament.uk/pa/cm200809/cmselect/cmpublic/228/9780215526618.pdf>

¹²⁸ http://www.nao.org.uk/publications/0708/household_energy_consumption.aspx

¹²⁹ <http://www.official-documents.gov.uk/document/cm76/7622/7622.asp>

Annex 5 – Expenditure tables

Introduction

These Tables present actual expenditure by the Department for the years 2003-04 to 2008-09, and planned expenditure for the years 2009-10 to 2010-11. The data relate to the Department's expenditure within the Budgeting boundary (see Chapter 5 for an explanation of the relationship between Estimates, Accounts and Budgets). Exceptionally, there are no Tables 7, 8 and 9 showing expenditure analysed by country and region. This information is included in the Tables presented by BERR and Defra (as the data in respect of the Budget which transferred to DECC as part of the Machinery of Government change in 2008-09 have not been disaggregated).

The format of the Tables is determined by HM Treasury for all departments. The disclosure in Tables 2 and 3 is analysed by the functions within the Supply Estimates, adopted for the Department's New Estimate 2008-09. This data will be re-stated in future years to reflect any revised set of Departmental Strategic Objectives agreed with HM Treasury.

The data in the Tables include figures for past years which are restated from a combination of figures from BERR and Defra. The exception is Table 4, Total Capital Employed, where the only past year shown is 2007-08 where the outturn has been restated from BERR and Defra figures to be consistent with the Departments' Resource Accounts.

2008-09 outturns are those used for the 2008-09 Public Expenditure Outturn White Paper. Plans for 2009-10 and 2010-11 reflect the Department's settlement from the Comprehensive Spending Review 2007 (CSR07) as supplemented by the Prime Minister's announcement on the Warm Front programme in September 2008, the 2008 Pre-Budget Report and the 2009 Budget. Plans for 2009-10 also reflect the recently voted Main Supply Estimate.

Table 1: Total Departmental Spending

Table 1 summarises expenditure on functions now administered by the Department, covering the period from 2003-04 to 2010-11. Consumption of Resource includes programme and administration costs, analysed between DEL and AME expenditure. Total Departmental expenditure is analysed by Departmental Supply Estimates, and any unallocated provision. Where there are significant changes from year to year, explanations are included in the more detailed commentaries under Tables 2 and 3. The commentaries also focus on the period 2007-08 to 2010-11 reflecting the creation of the new department on 3 October 2008.

Table 2: Resource Budget

Table 2 provides a more detailed analysis of the Resource Budget information summarised in Table 1 and shows expenditure by the functions and sub-heads within the Supply Estimates. The Table separates the DEL and AME elements of the Departmental Resource expenditure, and illustrates the trends across the years under review.

The most significant movement across the review period in the Resource Budget DEL is in *Managing historic energy liabilities effectively and responsibly* reflecting the re-timing of the recognition of NDA commercial income on certain long-term re-processing contracts into 2008-09 as discussed in the Financial Overview in Chapter 5. NDA figures are shown net of all commercial income, which under Treasury rules it is entitled to retain for decommissioning work. NDA commercial income was also particularly high in 2007-08 (because of specific one-off commercial deals) and in 2008-09 (also because of one-off commercial deals and higher electricity generating income, from higher prices and higher plant availability). Income in future years is expected to fall from their recent highs as prices fall and plants reach the end of their operating lives on environmental and other grounds, leading to an overall increase in the net Resource spend.

Bringing about a low carbon UK reflects the increased expenditure on the Environmental Transformation Fund.

The Departmental Unallocated Provision of £24m in 2009-10 appears on a separate line because it has not yet been voted by Parliament although it was included in the Machinery of Government Budget transfer from Defra as part of the increased funding for the Warm Front programme announced by the Prime Minister in September 2008, and has been included in the Department's business planning on this basis. This provision will be drawn down through a Supplementary Supply Estimate during 2009-10.

The near-cash Resource Budget DEL movements reflect the explanations above.

The most significant movement in the Resource Budget AME reflects the stabilisation of the NDA provision for decommissioning works as the forensic accounting to identify all aspects of the future costs came closer to completion. This trend is expected to continue but the nature of AME is more volatile than DEL. There is more detail on this provision in the NDA's own resource accounts. The reduction in the near cash element reflects the clearance of historic coal health compensation claims.

Table 3: Capital Budget

Table 3 provides a more detailed analysis of the Capital Budget information summarised in Table 1 and shows expenditure by the functions within the Supply Estimates. The Table separates the DEL and AME elements of the Departmental Capital expenditure, and illustrates the trends across the years under review.

Managing historic energy liabilities effectively and responsibly DEL reflects the continued increasing investment in decommissioning work by the NDA. It does not yet reflect all of the receipts from the recent sale of land by NDA. NDA is entitled to retain this income to support additional decommissioning expenditure.

Bringing about a low carbon UK DEL shows strong planned growth in 2009-10 as a result of the additional funding announced in Budget 2009.

Promoting low carbon technologies in developing countries DEL also shows strong growth in the forward years as a result of the international window of the Environmental Transformation Fund, jointly funded with the Department for International Development, announced in CSR07.

Table 4: Capital Employed

Table 4 shows capital employed by the Department in balance sheet format (as disclosed in the Department's Resource Accounts). It also shows as a separate line the net capital employed by Non Departmental Public Bodies, which are not included in the Department's Resource Accounts, to give a total figure for capital employed by the Departmental family.

The Department does not own any buildings and its major IT infrastructure is outsourced. The Financial Assets are the interest in the potential surpluses on the mineworkers pension funds explained further in the Financial Overview and Note 15 in the Resource Accounts. Current Assets are higher than normal at 31st March 2009 due to cash drawn from Treasury close to the year end not being used until after the year end. Provisions are set out in Note 19 in the Resource Accounts.

The NDPB capital employed dwarfs the Department's and is a credit due to the de-commissioning provisions at NDA, described fully in their Resource Accounts

Table 5: Administration Costs

Table 5 provides a more detailed analysis of the administration costs of the Department. It retains the high level functional or sub-head analysis used in Table 1.

The Administration Cost Budget for 2008-09 includes a number of set-up costs for the new Department. Further such costs were planned to be incurred in 2009-10 as the Department completes the move to a single London building and integrates systems and processes.

Table 6: Staff Numbers

Table 6 shows staff numbers employed by the main Department.

Other tables

It is not possible to provide tables on:

- total spending by country and region;
- total spending per head by country and region; and
- spending by function or programme, by country and region;

because the figures have not been restated for the creation of DECC. DECC-related expenditure is included in the relevant tables in the BIS and Defra Departmental reports. The figures for DECC will be available from 2009-10.

Table 1 – Total Departmental Spending

	£'000							
	2003-04 Outturn	2004-05 Outturn	2005-06 Outturn	2006-07 Outturn	2007-08 Outturn	2008-09 Estimated Outturn	2009-10 Plans	2010-11 Plans
Resource budget								
Resource DEL								
Supporting the provision of energy that is affordable, secure and sustainable; bringing about a low carbon UK; securing an international agreement on climate change; promoting low carbon technologies at home and in developing countries; managing historic energy liabilities effectively and responsibly	643,478	931,234	708,112	1,030,422	648,759	361,088	1,081,163	1,141,169
Departmental Unallocated Provision	–	–	–	–	–	–	24,000	–
Total resource budget DEL	643,478	931,234	708,112	1,030,422	648,759	361,088	1,105,163	1,141,169
of which: Near-cash	681,216	908,260	666,559	913,177	671,736	294,910	1,126,125	1,172,507
Resource AME								
Supporting the provision of energy that is affordable, secure and sustainable; bringing about a low carbon UK; securing an international agreement on climate change; promoting low carbon technologies at home and in developing countries; managing historic energy liabilities effectively and responsibly	954,289	-830,860	5,315,026	5,556,841	5,979,442	849,358	178,957	74,028
Total resource budget AME	954,289	-830,860	5,315,026	5,556,841	5,979,442	849,358	178,957	74,028
of which: Near-cash	934,899	883,613	1,039,687	825,454	626,762	331,800	64,620	8,130
Total resource budget	1,597,767	100,374	6,023,138	6,587,263	6,628,201	1,210,446	1,284,120	1,215,197
of which: depreciation	1,387	1,737	1,329,376	461,734	676,293	461,337	607,091	608,665
Capital budget								
Capital DEL								
Supporting the provision of energy that is affordable, secure and sustainable; bringing about a low carbon UK; securing an international agreement on climate change; promoting low carbon technologies at home and in developing countries; managing historic energy liabilities effectively and responsibly	143,458	211,007	1,257,056	1,460,754	1,485,172	1,668,689	2,027,305	1,832,704
Total capital budget DEL	143,458	211,007	1,257,056	1,460,754	1,485,172	1,668,689	2,027,305	1,832,704
Capital AME								
Supporting the provision of energy that is affordable, secure and sustainable; bringing about a low carbon UK; securing an international agreement on climate change; promoting low carbon technologies at home and in developing countries; managing historic energy liabilities effectively and responsibly	-391,000	-328,000	-440,280	-569,000	-419,000	-310,275	-409,000	-65,000
Total capital budget AME	-391,000	-328,000	-440,280	-569,000	-419,000	-310,275	-409,000	-65,000
Total capital budget	-247,542	-116,993	816,776	891,754	1,066,172	1,358,414	1,618,305	1,767,704

	£'000							
	2003-04 Outturn	2004-05 Outturn	2005-06 Outturn	2006-07 Outturn	2007-08 Outturn	2008-09 Estimated Outturn	2009-10 Plans	2010-11 Plans
Total departmental spending†								
Supporting the provision of energy that is affordable, secure and sustainable; bringing about a low carbon UK; securing an international agreement on climate change; promoting low carbon technologies at home and in developing countries; managing historic energy liabilities effectively and responsibly	1,348,838	-18,356	5,510,538	7,017,283	7,018,080	2,107,523	2,271,334	2,374,236
Departmental Unallocated Provision	-	-	-	-	-	-	24,000	-
Total departmental spending†	1,348,838	-18,356	5,510,538	7,017,283	7,018,080	2,107,523	2,295,334	2,374,236
of which:								
Total DEL	785,549	1,140,504	1,961,130	2,484,910	2,126,994	2,017,343	3,125,377	2,965,208
Total AME	563,289	-1,158,860	3,549,408	4,532,373	4,891,086	90,180	-830,043	-590,972

† Total departmental spending is the sum of the resource budget and the capital budget less depreciation. Similarly, total DEL is the sum of the resource budget DEL and capital budget DEL less depreciation in DEL, and total AME is the sum of resource budget AME and capital budget AME less depreciation in AME.

**Spending by local authorities
on functions relevant to the
department**

Current spending	-	-	-	-	-	-	-	-
of which:								
financed by grants from budgets above	-	-	-	-	-	-	-	-
Capital spending	-	-	-	-	-	-	-	-
of which:								
financed by grants from budgets above††	-	-	-	-	-	-	-	-

†† This includes loans written off by mutual consent that score within non-cash Resource Budgets and aren't included in the capital support to local authorities line in Table 3.

Table 2 – Resource budget DEL and AME

	£'000							
	2003-04 Outturn	2004-05 Outturn	2005-06 Outturn	2006-07 Outturn	2007-08 Outturn	2008-09 Estimated Outturn	2009-10 Plans	2010-11 Plans
Resource DEL								
Supporting the provision of energy that is affordable, secure and sustainable; bringing about a low carbon UK; securing an international agreement on climate change; promoting low carbon technologies at home and in developing countries; managing historic energy liabilities effectively and responsibly	643,478	931,234	708,112	1,030,422	648,759	361,088	1,081,163	1,141,169
<i>of which:</i>								
Supporting affordable, secure and sustainable energy	75,777	81,846	66,017	64,721	70,928	78,002	76,564	75,780
Managing historic energy liabilities effectively and responsibly	316,994	567,474	366,792	710,987	315,070	-171	675,768	756,812
Bringing about a low-carbon UK	153,363	183,024	174,104	140,290	117,774	182,038	213,461	205,892
Developing an international agreement on climate change	15,755	15,471	20,393	39,854	49,742	7,800	9,858	10,261
Promoting low carbon technologies in developing countries	-	-	-	-	-	-	12,000	3,000
Professional support & infrastructure	81,589	83,419	80,806	74,570	95,245	93,419	93,512	89,424
Departmental Unallocated Provision	-	-	-	-	-	-	24,000	-
<i>of which:</i>								
Unallocated provision	-	-	-	-	-	-	24,000	-
Total resource budget DEL	643,478	931,234	708,112	1,030,422	648,759	361,088	1,105,163	1,141,169
<i>of which:</i>								
Near-cash	681,216	908,260	666,559	913,177	671,736	294,910	1,126,125	1,172,507
<i>of which:†</i>								
Pay	58,407	61,260	84,014	96,210	102,813	96,287		
Procurement	507,625	751,866	486,758	714,104	451,915	63,436	871,403	946,811
Current grants and subsidies to the private sector and abroad	126,654	105,695	108,500	102,819	116,932	111,022	107,683	107,240
Current grants to local authorities	-	-	-	-	-	-	-	-
Depreciation	1,387	1,737	4,038	6,266	6,937	12,434	7,091	8,665
Resource AME								
Supporting the provision of energy that is affordable, secure and sustainable; bringing about a low carbon UK; securing an international agreement on climate change; promoting low carbon technologies at home and in developing countries; managing historic energy liabilities effectively and responsibly	954,289	-830,860	5,315,026	5,556,841	5,979,442	849,358	178,957	74,028
<i>of which:</i>								
Managing historic energy liabilities effectively and responsibly	954,289	-830,860	5,315,026	5,556,841	5,979,442	849,358	178,957	74,028

	£'000							
	2003-04 Outturn	2004-05 Outturn	2005-06 Outturn	2006-07 Outturn	2007-08 Outturn	2008-09 Estimated Outturn	2009-10 Plans	2010-11 Plans
Total resource budget AME	954,289	-830,860	5,315,026	5,556,841	5,979,442	849,358	178,957	74,028
<i>of which:</i>								
Near-cash	934,899	883,613	1,039,687	825,454	626,762	331,800	64,620	8,130
<i>of which:†</i>								
Pay	–	–	–	–	–	–	–	–
Procurement	10,719	10,872	3,014	1,960	-70,149	32,400	15,500	15,500
Current grants and subsidies to the private sector and abroad	926,120	873,220	1,036,673	823,494	696,911	299,400	81,120	24,630
Current grants to local authorities	–	–	–	–	–	–	–	–
Depreciation	–	–	1,325,338	455,468	669,356	448,903	600,000	600,000
Total resource budget	1,597,767	100,374	6,023,138	6,587,263	6,628,201	1,210,446	1,284,120	1,215,197

† The breakdown of near-cash in Resource DEL by economic category may exceed the total near-cash Resource DEL reported above because of other income and receipts that score in near-cash Resource DEL but aren't included as pay, procurement, or current grants and subsidies to the private sector, abroad and local authorities.

Table 3 – Capital Budget DEL and AME

	2003-04 Outturn	2004-05 Outturn	2005-06 Outturn	2006-07 Outturn	2007-08 Outturn	2008-09 Estimated Outturn	2009-10 Plans	2010-11 Plans
Capital DEL								
Supporting the provision of energy that is affordable, secure and sustainable; bringing about a low carbon UK; securing an international agreement on climate change; promoting low carbon technologies at home and in developing countries; managing historic energy liabilities effectively and responsibly	143,458	211,007	1,257,056	1,460,754	1,485,172	1,668,689	2,027,305	1,832,704
<i>of which:</i>								
Supporting affordable, secure and sustainable energy	644	29,307	17,979	4,116	1,522	210	–	–
Managing historic energy liabilities effectively and responsibly	-26,484	-17,256	1,003,383	1,050,908	1,075,881	1,140,040	1,200,975	1,194,391
Bringing about a low-carbon UK	169,298	191,036	233,497	405,730	407,689	478,439	726,330	388,313
Developing an international agreement on climate change	–	7,920	1,460	–	80	–	–	–
Promoting low carbon technologies in developing countries	–	–	737	–	–	50,000	100,000	250,000
Total capital budget DEL	143,458	211,007	1,257,056	1,460,754	1,485,172	1,668,689	2,027,305	1,832,704
<i>of which:</i>								
Capital expenditure on fixed assets net of sales†	-20,886	-12,167	1,003,383	1,050,908	1,075,881	1,140,040	1,200,975	1,194,391
Capital grants to the private sector and abroad	169,942	223,174	253,732	409,846	409,291	518,449	694,900	627,600
Net lending to private sector	–	–	–	–	–	–	67,100	1,050
Capital support to public corporations	-5,598	–	–	–	–	–	–	–
Capital support to local authorities††	–	–	–	–	–	–	–	–
Capital AME								
Supporting the provision of energy that is affordable, secure and sustainable; bringing about a low carbon UK; securing an international agreement on climate change; promoting low carbon technologies at home and in developing countries; managing historic energy liabilities effectively and responsibly	-391,000	-328,000	-440,280	-569,000	-419,000	-310,275	-409,000	-65,000
<i>of which:</i>								
Managing historic energy liabilities effectively and responsibly	-391,000	-328,000	-440,280	-569,000	-419,000	-310,275	-409,000	-65,000
Total capital budget AME	-391,000	-328,000	-440,280	-569,000	-419,000	-310,275	-409,000	-65,000
Total capital budget	-247,542	-116,993	816,776	891,754	1,066,172	1,358,414	1,618,305	1,767,704
<i>Of which:</i>								
Capital expenditure on fixed assets net of sales†	-20,886	-12,167	1,003,383	1,050,908	1,075,881	1,140,040	1,200,975	1,194,391
Less depreciation†††	1,387	1,737	1,329,376	461,734	676,293	461,337	607,091	608,665
Net capital expenditure on tangible fixed assets	-22,273	-13,904	-325,993	589,174	399,588	678,703	593,884	585,726

† Expenditure by the department and NDPBs on land, buildings and equipment, net of sales. Excludes spending on financial assets and grants, and public corporations' capital expenditure.

†† This does not include loans written off by mutual consent that score within non-cash Resource Budgets.

††† Included in Resource Budget.

Table 4 – Capital Employed

	£'000			
	2007-08 Outturn	2008-09 Outturn	2009-10 Plans	2010-11 Plans
Fixed Assets				
Tangible	5,893	4,711	4,805	4,901
<i>of which</i>				
Scientific Equipment	443	130	133	135
Plant and Machinery	19	9	9	9
Information Technology	5,431	4,572	4,663	4,757
Financial assets	2,972,927	469,580	419,580	369,580
Current Assets	672,204	1,273,751	725,365	675,365
Creditors < 1 year	-343,192	-982,341	-1,001,988	-1,022,028
Provisions	-3,148,438	-2,878,829	-2,685,212	-2,485,212
Capital Employed within the Department's Resource Accounts	159,394	-2,113,128	-2,537,450	-2,457,393
NDPB Capital Employed	-44,063,316	-45,416,949	-45,871,118	-46,329,830
Total Capital Employed in Departmental Family	-43,903,922	-47,530,077	-48,408,568	-48,787,223

Table 5 – Administration Costs

	£'000							
	2003-04 Outturn	2004-05 Outturn	2005-06 Outturn	2006-07 Outturn	2007-08 Outturn	2008-09 Estimated Outturn	2009-10 Plans	2010-11 Plans
Administration Expenditure								
Paybill	58,407	55,913	51,341	49,195	54,111	51,608		
Other	23,182	27,506	29,465	25,375	41,134	44,180		
Total administration expenditure	81,589	83,419	80,806	74,570	95,245	95,788	93,512	89,424
Administration income	–	–	–	–	–	-2,369	–	–
Total administration budget	81,589	83,419	80,806	74,570	95,245	93,419	93,512	89,424
Analysis by activity								
Supporting the provision of energy that is affordable, secure and sustainable; bringing about a low carbon UK; securing an international agreement on climate change; promoting low carbon technologies at home and in developing countries; managing historic energy liabilities effectively and responsibly	81,589	83,419	80,806	74,570	95,245	93,419	93,512	89,424
Total administration budget	81,589	83,419	80,806	74,570	95,245	93,419	93,512	89,424

Table 6 – Staff in post

	2007-08 Actual	2008-09 Actual
Full time employees	730.3	768.1
Others	94.5	122.5
Total	824.8	890.6

Acronyms

AME	Annually Managed Expenditure	DSO	Departmental Strategic Objective
BE	British Energy	DUKES	Digest of UK Energy Statistics
BEC	Benefits Entitlement Check	DWP	Department of Work and Pensions
BERR	Department for Business, Enterprise and Regulatory Reform	EEPR	European Energy Programme for Recovery
BIS	Department for Business, Innovation and Skills	EMI	Energy Markets and Infrastructure
BRE	Better Regulation Executive/ Building Research Establishment	EqIA	Equality Impact Assessment
BREW	Business Resource Efficiency and Waste	EST	Energy Saving Trust
CCA	Climate Change Agreement	ETF	Environmental Transformation Fund
CCC	Committee on Climate Change	EU	European Union
CCGT	Combined Cycle Gas Turbine	EU ETS	EU Emissions Trading System
CCR	Carbon capture ready/readiness	FCO	Foreign and Commonwealth Office
CCS	Carbon capture and storage	FReM	Government Financial Reporting Manual
CERT	Carbon Emissions Reduction Target	FRS	Financial Reporting Standard
CESP	Community Energy Saving Programme	GDN	Gas Distribution Network
CETV	Cash Equivalent Transfer Value	GHG	Greenhouse gas
CFER	Consolidated Fund Extra Receipts	HESP	Home Energy Saving Programme
CHP	Combined Heat and Power	HESS	Heat and Energy Saving Strategy
CLG	Communities and Local Government	HMG	HM Government
CML	Customer Minutes Lost	HMT	HM Treasury
COPD	Chronic Obstructive Pulmonary Disease	IA	Impact Assessment
CRC	Carbon Reduction Commitment	IAEA	International Atomic Energy Agency
CSR07	2007 Comprehensive Spending Review	IEA	International Energy Agency
CSSSG	Corporate Support and Shared Services Group	IEF	International Energy Forum
DEC	Display Energy Certificate	INES	International Nuclear and Radiological Event Scale
DECC	Department of Energy and Climate Change	IPC	Infrastructure Planning Commission
Defra	Department of Environment, Food and Rural Affairs	IPCC	Intergovernmental Panel on Climate Change
DEL	Departmental Expenditure Limit	IPEEC	International Partnership for Energy Efficiency Co-operation
DfID	Department for International Development	IPM	Independent Panel Member
DfT	Department for Transport	LAA	Local area agreement
DNO	Designated Network Operator	LCBP	Low Carbon Buildings Programme
		LCPD	Large Combustion Plant Directive
		LNG	Liquefied natural gas
		MEF	Major Economies Forum
		MoG	Machinery of Government

NAO	National Audit Office
NDA	Nuclear Decommissioning Authority
NDPB	Non-Departmental Public Body
NI	National Indicator
NPS	National Policy Statement
OCC	Office of Climate Change
OCS	Operating cost statement
OPCW	Organisation for the Prohibition of Chemical Weapons
PAC	Public Accounts Committee
PCSPS	Principal Civil Service Pension Schemes
PEOWP	Public Expenditure Outturn White Paper
PPCR	Pilot Programme for Climate Resilience
PSA	Public Service Agreement
RDA	Regional Development Agency
RES	Renewable Energy Strategy
RfR	Request for Resources
RHI	Renewable Heat Incentive
RO	Renewables Obligation
SCS	Senior Civil Service
SEA	Strategic Environmental Assessment
SLC	Site Licensed Company
SPC	Shadow Price of Carbon
SR	Spending Review
SSA	Strategic Siting Assessment
TME	Total Managed Expenditure
UKCS	UK Continental Shelf
UN	United Nations
UNECE	UN Economic Commission for Europe
UNFCCC	United Nations Framework Convention on Climate Change
VfM	Value for Money
VWF	Vibration White Finger



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