



Department
of Energy &
Climate Change

DECC Mid Year Report to Parliament: April to September 2013

Stephen Lovegrove, Permanent Secretary

January 2014

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Executive Summary

The Department continues to make good progress against its five key priorities set by the Coalition. The Energy Bill received Royal Assent on 18 December 2013 and is now named the Energy Act 2013. This success was supported by the work completed over the period of April to September 2013, including the Energy Bill completing its passage through the Commons on 4 June 2013 with one of the largest majorities this Government has seen on 3rd reading – 396 for and 8 against.

The majority of its Structural Reform Priorities have been completed on time, and the two that are delayed are on track to be delivered. This year has seen major progress by DECC on electricity market reform and an agreement to develop the UK's first new nuclear power station in over 20 years. Renewable electricity is continuing to increase, helping to boost low carbon fuels which accounted for a record share of 37% of all generation in the third quarter of 2013. We also launched the Green Deal and are tackling fuel poverty through the Warm Home Discount which means that over 1.16m low income households will get £135 off their electricity bill this winter.

DECC's interests cover a large range of energy and climate change activities and these are set out more fully in our Annual report. This report follows standard Treasury guidance for the mid-year report and focuses on progress against coalition priorities and achievement against indicators in our public business plan.

Among our priority programmes for this year are international climate change, electricity market reform and developing energy supplies from oil and gas, nuclear, renewable electricity and heat sources, taking steps to help commercialise carbon capture and storage, fuel poverty and the Green Deal and the Energy Companies Obligation (ECO).

On finance, our current expectation is that there will be an underspend of around £156m, or 4%, against the Departmental Expenditure Limit of £3.57 billion set at the Main Estimate. There are two main reasons for this:

- £52m relates to the Green Deal programme where £170m of budget is ring-fenced to incentivise take-up of Green Deal measures. Initial levels of take-up have been lower than planned leading to underspends.
- The Nuclear Decommissioning Authority is forecasting underspends of £68m which it expects to surrender at the Supplementary Estimate in order to provide funding for security enhancement work in 2014/15 and 2015/16.

We expect the current Annually Managed Expenditure budget of £451.7m to increase by around £5 billion, mainly due to the annual re-valuation of the provision for the cost of nuclear de-commissioning. This is a similar level of change to previous years and reflects in part the effect of inflation on long term provisions.

Table 1

Coalition Priority	2013 Objectives	Key Achievements and Challenges April to September 2013 (bullet points)	Risk of priority not being met (red high, amber medium, green low)
<p>1. Promote UK Growth by: Maximising the benefits of essential investment in energy infrastructure to jobs, the supply chain, and business opportunities in the UK and abroad. Facilitate the sustainable energy investment that drives greater efficiency and maintains a diverse energy mix, thereby protecting UK consumers and businesses from long-term international fuel price volatility and minimising energy costs.</p>	<p>Publish a UK solar photovoltaics strategy to support solar photovoltaics deployment and growth of the domestic supply chain in the UK (action 3.3 ii)</p>	<p>Completed late. Publication of strategy was delayed pending outcome of anti-dumping negotiations with China.</p>	<p>Green</p>
	<p>Publish an offshore wind sector strategy to support supply chain development and then work with UKTI and BIS to monitor delivery (action 3.3 iv)</p>	<p>Completed on time</p>	<p>Green</p>
	<p>Bring forward proposals on community benefits for shale gas projects (action 3.2 i)</p>	<p>Completed on time</p>	<p>Green</p>
	<p>Publish final design proposals for Capacity Markets (action 3.1i)</p>	<p>Completed on time</p>	<p>Green</p>
	<p>Publish draft electricity Market Delivery Plan, including draft renewable Contracts for Difference strike prices for consultation (action 3.1 ii)</p>	<p>Completed on time</p>	<p>Green</p>
	<p>Energy Bill receives Royal Assent, including a clause on Offshore Transmission Commissioning (action 3.6i)</p>	<p>Completed on time</p>	<p>Green</p>
<p>2. Save energy with the Green Deal and other policies and support vulnerable consumers (reduce energy use by</p>	<p>2.2i Award licence for central body to manage smart meter communications data</p>	<p>Completed on time</p>	<p>Green</p>
	<p>2.2ii Establish process to award competitively procured contracts for centrally provided smart meter communications and data services</p>	<p>Completed on time</p>	<p>Green</p>

households, businesses and the public sector, and help to protect the fuel poor)	2.3i Publish analytical response to the Hills Fuel Poverty review and future strategic approach to fuel poverty	Completed on time	Green
	2.4i Review DECC's Carbon Management Plan for reducing greenhouse gas emissions by 25% by 2014/15 compared to 2009/10	Completed early	Green
3. Deliver secure energy on the way to a low carbon energy future (reform the energy market to ensure that the UK has a diverse, safe, secure, and affordable energy system and incentivise low carbon investment and deployment)	3.1i Publish final design proposals for Capacity Market	Completed on time	Green
	3.1ii Publish draft electricity Market Delivery Plan, including draft renewable Contracts for Difference strike prices for consultation	Completed on time	Green
	3.1iii Publish first Delivery Plan, including Contract for Difference strike prices (subject to Royal Assent for Energy Bill)	Completed on time	Green
	3.1iv Publish contracts for Difference contract terms	Completed on time	Green
	3.1v Publish profile for the Levy Control framework	Completed on time	Green
	3.1vii Energy Bill receives Royal Assent, including powers to move domestic consumers off poor value tariffs, simplify the domestic retail market and help consumers switch tariffs more easily	Completed on time	Green
	3.2i Bring forward proposals on community benefits for shale gas projects	Completed on time	Green
	3.3i Publish a Government response to the call for evidence on community engagement and benefits of onshore wind	Completed on time	Green
3.3ii Publish a UK solar photovoltaic strategy to support solar photovoltaic deployment and growth of the domestic supply chain in the UK	Completed on time	Green	

	3.3iii Publish a Government response to the call for evidence on onshore wind costs	Completed on time	Green
	3.3iv Publish an offshore wind sector strategy to support supply chain development and then work with UKTI and BIS to monitor delivery	Completed on time	Green
	3.3v Report against the first Renewable Energy Directive interim target	Completed on time	Green
	3.4i Take all the decisions Government needs to make in order to facilitate nuclear operators to proceed to a final investment decision on the first new nuclear power stations. These include planning consent, agreement on funded decommissioning, regulatory design acceptance and sufficient progress on Electricity Market Reform	<p>External: This action is delayed but on track.</p> <p>Government has made significant progress in facilitating nuclear operators to proceed to final investment decision on the first new nuclear power stations. This includes reaching, in principle, agreement on the Heads of Terms for a strike price for Hinkley Point C (October 2013). The details of the investment contract will conclude the funded decommissioning agreement and the HMT infrastructure guarantee, to be closed out by summer 2014.</p>	Green

	3.5i Award contract(s) for activities that reduce the risk and cost of Carbon Capture and Storage.	External – see note	Amber
	Note: The contract award for first FEED contract with White Rose was completed on 20 Dec 13. Negotiations on the second FEED study for the Peterhead CCS Project are continuing.		
	3.6i Energy Bill receives Royal Assent, including a clause on Offshore Transmission Commissioning	Completed on time	Green
4. Drive ambitious action on climate change at home and abroad (work for international action to tackle climate change, and work with other government departments to ensure that we meet UK carbon budgets efficiently and effectively)	Ongoing, with international meetings of the UN Framework Convention on Climate Change due during 2014, along with disbursement of money from International Climate Fund. No actions due to finish until 2014. On UK carbon budgets, the latest projections suggest the UK is on track to meet its first three budgets with current planned policies.		Not applicable
5. Manage our energy legacy responsibly and cost-effectively	There are no structural reform actions that relate to this Coalition priority. DECC's Arm's Length Bodies are responsible for delivery and reporting, notably the Nuclear Decommissioning Authority. Aspects of the NDA's performance are reflected in the indicators in Annex A, e.g. table proportion of NDA's budget spent on decommissioning and size of the nuclear provision– see p27 and p34, Annex A		Not applicable

See Annex A for the full set of input and impact indicators.

Financial Performance

Financial Performance	Resources (£'000)			Capital (£'000)		
	Annual Plan 2013-14	Actual April to September 2013-14	Actual April to September 2012-13	Annual Plan 2013-14	Actual April to September 2013-14	Actual April to September 2012-13
Total Departmental Expenditure Limit (DEL)- Voted	2,117,975	965,996	880,571	2,239,965	884,242	854,933
Save energy with the Green Deal and support vulnerable consumers (1)	60,848	22,131	17,320	140,000	5,816	8,256
Deliver secure energy on the way to a low carbon energy future	68,805	29,126	16,883	77,345	14,384	3,780
Drive ambitious action on climate change at home and abroad (2)	8,420	4,605	3,070	400,000	32,496	-
Manage our energy legacy responsibly and cost-effectively	334,295	165,672	151,640	6,225	113	778
Deliver the capability DECC needs to achieve its goals	154,421	61,606	65,083	7,695	230	2,082
NDA and SLC expenditure (NDPB)	1,456,263	668,291	615,949	1,601,000	828,842	841,954
Coal Authority (NDPB) (net)	31,335	12,916	9,862	7,700	2,361	(1,917)
Committee on Climate Change (NDPB) (net)	3,588	1,649	764	-	-	-
Civil Nuclear Police Authority (NDPB) (net)	-	-	-	-	-	-
Total Departmental Expenditure Limit (DEL)- Non Voted	(733,851)	(446,049)	(499,584)	(55,000)	-	-
Nuclear Decommissioning Authority Income (CFER)	(729,000)	(446,049)	(499,584)	(55,000)	-	-
Electricity Market Reform	(4,851)	-	-	-	-	-

Financial Performance	Resources (£'000)			Capital (£'000)		
	Annual Plan Approved by Parliament 2013-14	Actual April to September 2013-14	Actual April to September 2012-13	Annual Plan Approved by Parliament 2013-14	Actual April to September 2013-14	Actual April to September 2012-13
Total Annually Managed Expenditure (AME)- All Voted	496,742	(111,575)	(166,366)	(45,000)	3,211	1,085
Manage our energy legacy responsibly and cost-effectively (3)	(232,293)	(148,228)	(218,308)	(50,000)	-	-
Nuclear Decommissioning Authority (NDPB) (4)	597,000	39,498	57,998	-	-	-
Coal Authority (NDPB) (net)	5,972	(9,227)	(6,652)	-	-	-
Civil Nuclear Police Authority (NDPB) (net)	63	-	-	-	-	-
Renewable Heat Incentive (5)	126,000	6,382	596	5,000	3,211	1,085
Total Departmental Expenditure Limit (voted and non-voted)	1,384,124	519,947	380,987	2,184,965	884,242	854,933
Of Which Admin	189,560	83,268	76,023			
Total Annually Managed Expenditure (voted and non-voted)	496,742	(111,575)	(166,366)	(45,000)	3,211	1,085
Net Cash Requirement	4,472,452	2,046,161	1,545,051			

Departmental Expenditure Limit (DEL):

(1) Save energy with the Green Deal and support vulnerable consumers.

The capital DEL budget includes £130m of ring-fenced budget to incentivise the take-up of Green Deal in its first full year of operation. (The 2012/13 budget was only £30m as Green Deal did not go live until January 2013). Spending to date is low due to the time taken to develop the supply chain for Green Deal. The full year underspend is expected to be around £50m. Expenditure in the remainder of the year will be concentrated on communities following the agreement of a new £80m package of measures to help bill payers in the Autumn Statement.

(2) Drive ambitious action on climate change at home and abroad.

The capital DEL budget relates to Official Development Assistance (ODA). This budget is typically disbursed almost entirely in December and has been spent in its entirety in every year. The ODA budget profile set in CSR 2010 is variable reflecting available government funding. The budget was £133m in 2010/11, £215m in 2011/12 and £400m in 2013/14.

Annually Managed Expenditure (AME):

(3) Manage our energy legacy responsibly and cost-effectively.

Resource AME relates to the unwinding of provisions for historical fuel liabilities in respect of British Energy and concessionary fuel. As the provisions decline year by year, the credits to the AME budget diminish in line with contractual schedules of payments, though the precise amounts are dependent upon the Retail Price Index. The budget will be adjusted in line with the latest forecasts at the Supplementary Estimate.

(4) Nuclear Decommissioning Authority (NDPB):

Resource AME budgets set in the main Estimate relate to depreciation and impairment costs only. The majority of these costs are normally scored in the latter part of the year when the NDA's assets are re-valued for the year end accounts. Changes to the provision for the costs of nuclear decommissioning are recognised at the Supplementary Estimate to reflect a detailed annual re-assessment of the provision valuation. An additional cost of £4.85 billion AME is expected to be voted at that point.

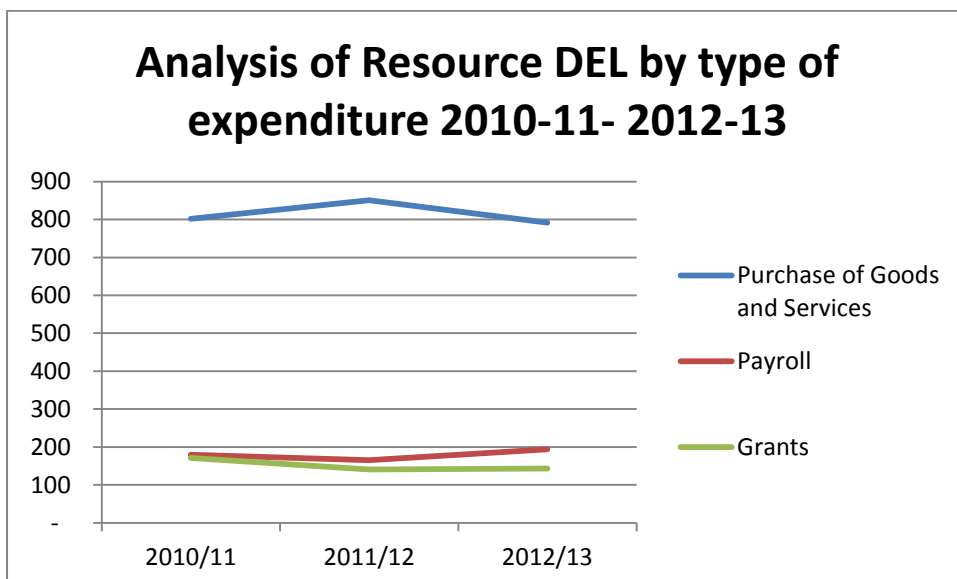
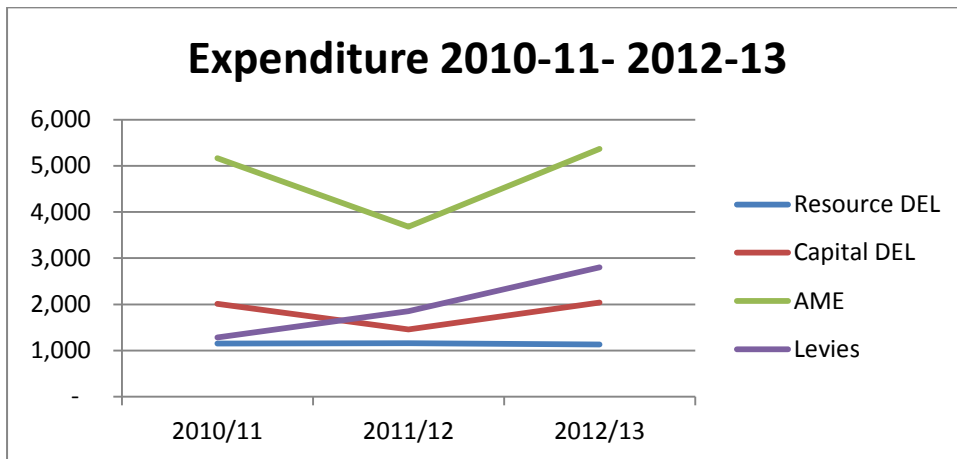
(5) Renewable Heat Incentive (RHI):

The non-domestic RHI scheme began in November 2011 so expenditure in the first half of 2011/12 related to pre-launch costs. The AME budget is expected to underspend by around £65m this year. The scheme provides subsidy for 20 years so expenditure will build over time despite a slow start which is likely to result in an under spend of around £100m in the current financial year.

Trend Analysis

Resource DEL has declined in line with savings targets. The Department's CSR 2010 settlement for **capital DEL** had an uneven profile which is reflected in expenditure, in particular due to the Official Development Assistance budget, Green Deal and the Nuclear Decommissioning Authority. The Nuclear Decommissioning

Authority's capital expenditure increased from £1.2bn in 2011/12 to £1.5bn in 2012/13 because of one-off income from land sales in 2011/12. **AME** expenditure relates mainly to provisions which are generally being released over time resulting in lower AME expenditure. The significant increase in 2012/13 was due to a change in discount factors applied to provisions. The increasing expenditure on **levies** (controlled through the Levies Control Framework) reflects a move to market mechanisms to secure investment in renewables and new nuclear and support for the fuel poor.



People

Our 2010 Spending Review settlement recognised that DECC would grow in size as it focussed on delivering implementable policy. DECC is tasked with one the largest agendas in government which is vital to delivering growth, jobs and private investment. To deliver these benefits we need the right number of staff with the right skills. Cutting numbers in advance of delivery would undermine investment and growth. We expect DECC's headcount to peak in 13/14 and then start to fall back as major projects are delivered and transition to a business as usual position.

Whole Department Family Workforce Size		30-9-13	30-9-12
Payroll Staff	Department and Agencies	1,498	1,367
	Non departmental public bodies	1,867	1,741
	Department Family	3,365	3,108
Average Payroll Staff Costs¹		£15,649,047	£15,387,708
Contingent Labour	Department and Agencies	155	157
	Non departmental public bodies	28	39
	Department Family	183	196
Average Contingent Labour Staff Costs²		£4,152,331	£4,145,615

Department and Agencies Only		31-3-13	31-3-12
Workforce Shape	Administrative Assistants and Officers	4.8%	5.9%
	Executive Officers	9.3%	8.6%
	Higher and Senior Executive Officers	35.9%	36.2%
	Grade 7/6	42.9%	41.9%
	Senior Civil Servants	7.1%	7.4%
	Part Time	7.81%	6.95%
Workforce Dynamics	Recruitment Exceptions ³	18	8

¹ Calculated as an average over the preceding 12 months and based on data previously supplied and held by Cabinet Office

² Calculated as an average over the preceding 12 months and based on data previously supplied and held by Cabinet Office

³ Civil Service exceptions over the preceding 12 months

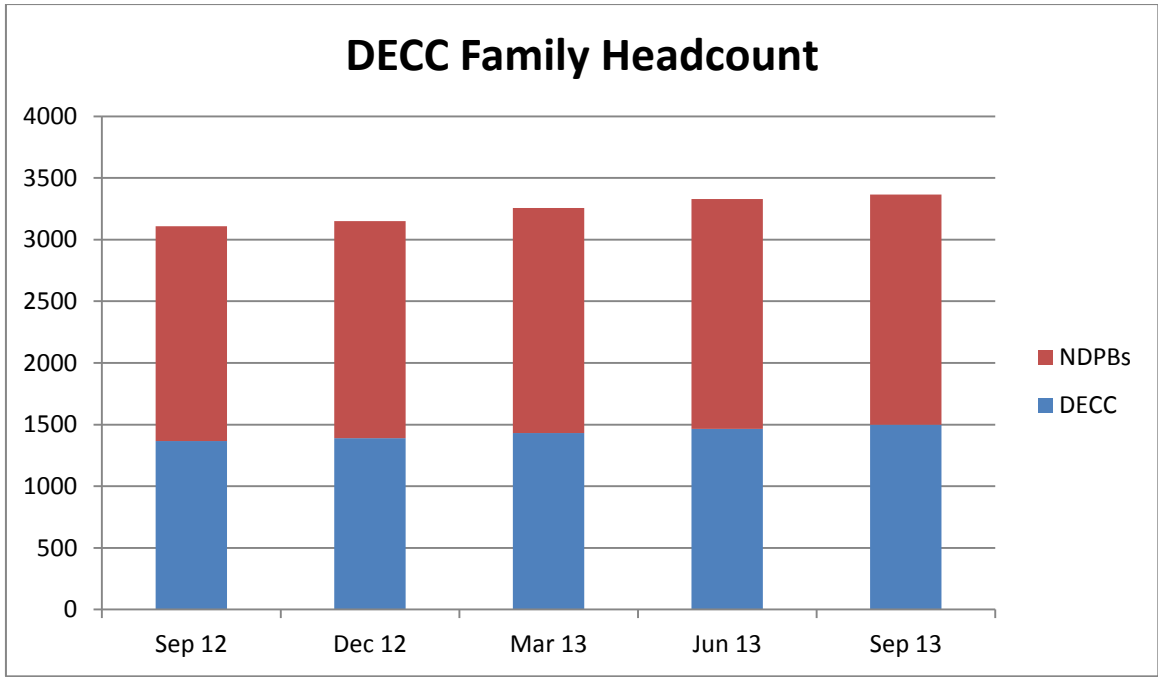
	Annual Turnover Rate	11.05%	9.99%
Workforce Diversity	Black and Minority Ethnic	9.6%	10.2%
	Women	46.7%	44.9%
	Disabled	5.7%	5.7%

DECC has set itself challenging diversity targets, however, the Department has historically been below these levels and remains so at present as shown in the figures in brackets above. To address this we have in place a Diversity Action plan with measures including: improving recruitment e.g. by advertising all SCS jobs across Whitehall; having diverse selection panels for all interviews; and introducing targeted advertising for external recruitment. A number of positive action development options are also being offered and leadership capability increased through mandating the people elements of the DECC leadership programme, including one to focus on unconscious bias.

Department and Agencies Only		31-3-13	31-3-12
Diversity of Senior Civil Servants only	Black and Minority Ethnic	2.9%	4.1%
	Women	27.2%	30.9%
	Women (Top Management Posts)	14.8%	21.4%
	Disabled	4.85%	5.2%
Average Working Days Lost	Actual	2.7	3.6
	Standardised ⁴	6.2	6.5

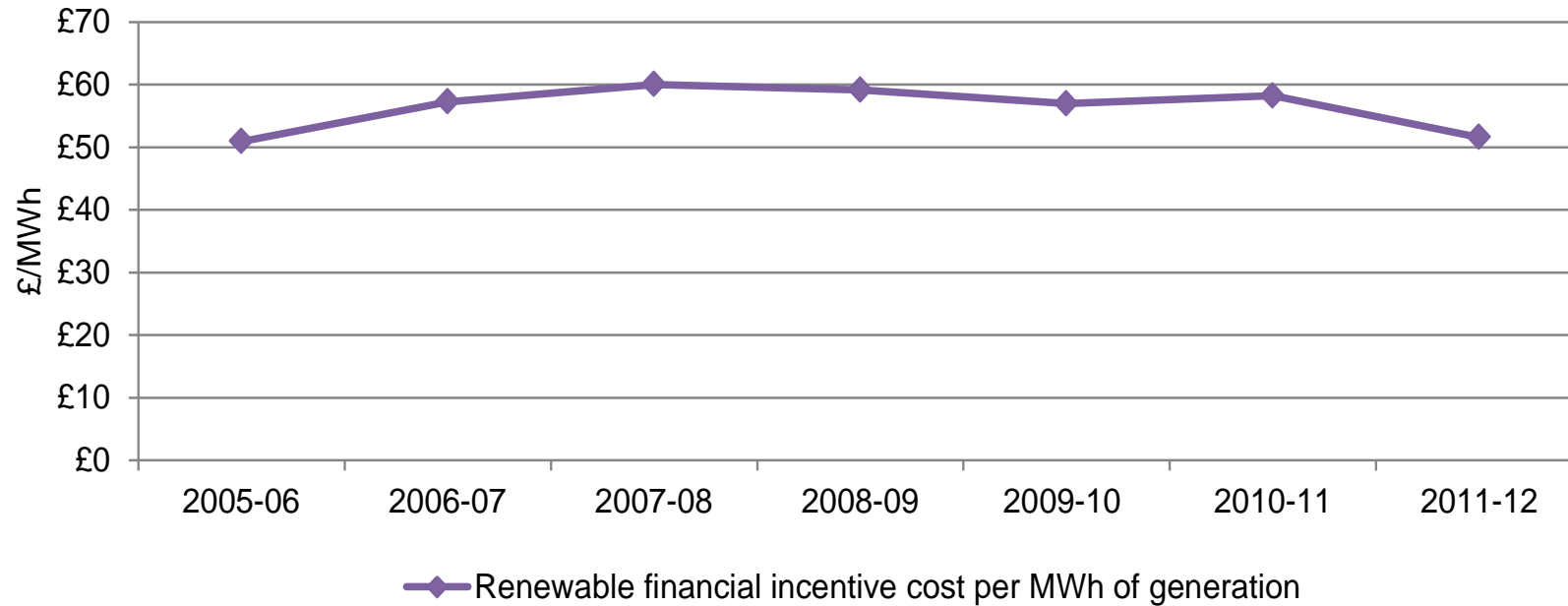
Department only; People Survey Metrics		Oct 2013	Oct 2012
Engagement Index (%)		58%	58%
Theme Scores (%)	Leadership and Managing Change	44%	42%
	My Work	79%	78%
	My Line Manager	68%	65%
	Organisational Objectives and Purpose	87%	86%

⁴ This is not DECC data. It is calculated and supplied by Cabinet Office



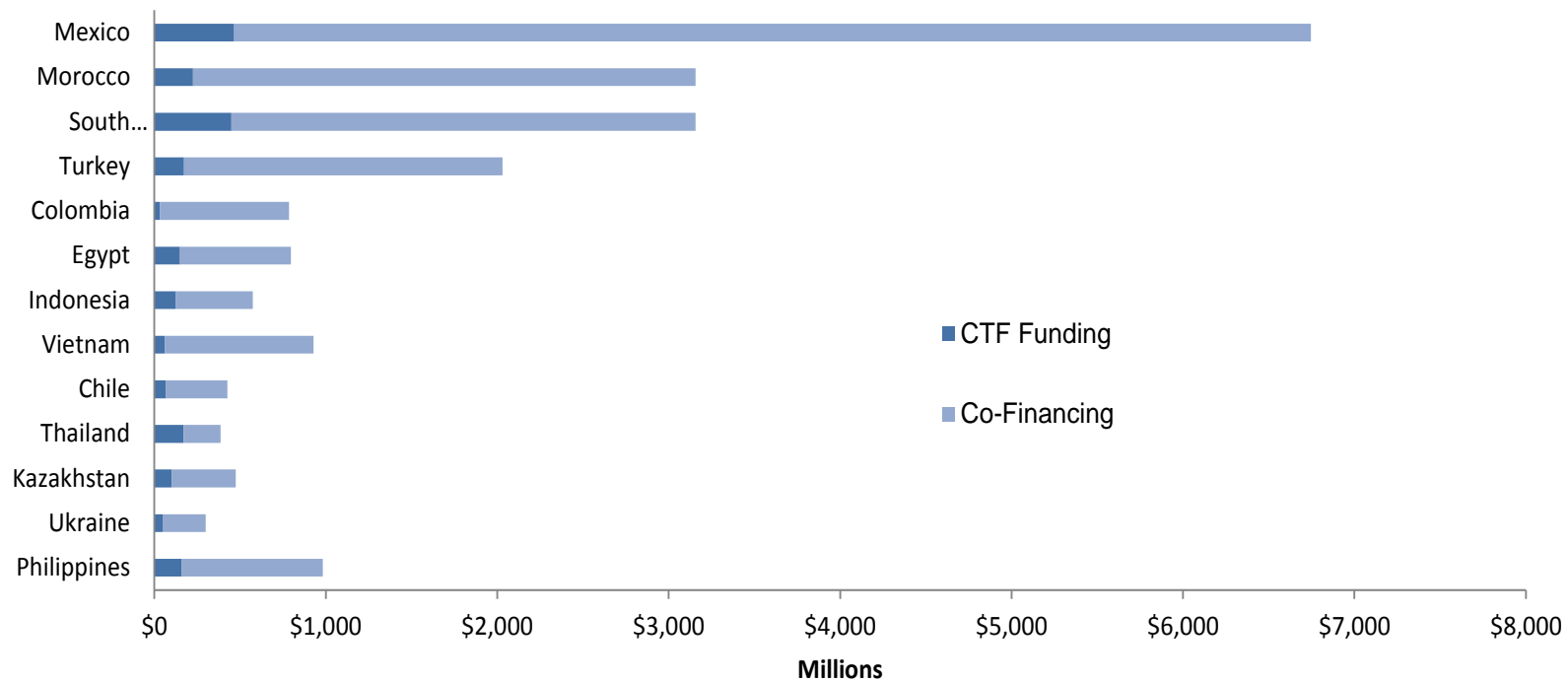
Input indicators: This section shows progress against the indicators from our external business plan. The first section reports input indicators (e.g. resources directed to meeting a goal) while the second section provides impact indicators, which measure outputs or outcomes, e.g. real world effects.

Renewable financial incentive cost per unit of renewable energy generated



Leverage of UK international climate change finance*

Finance leveraged from the private sector, MDBs & domestic investment from \$ spend (leverage ratio)



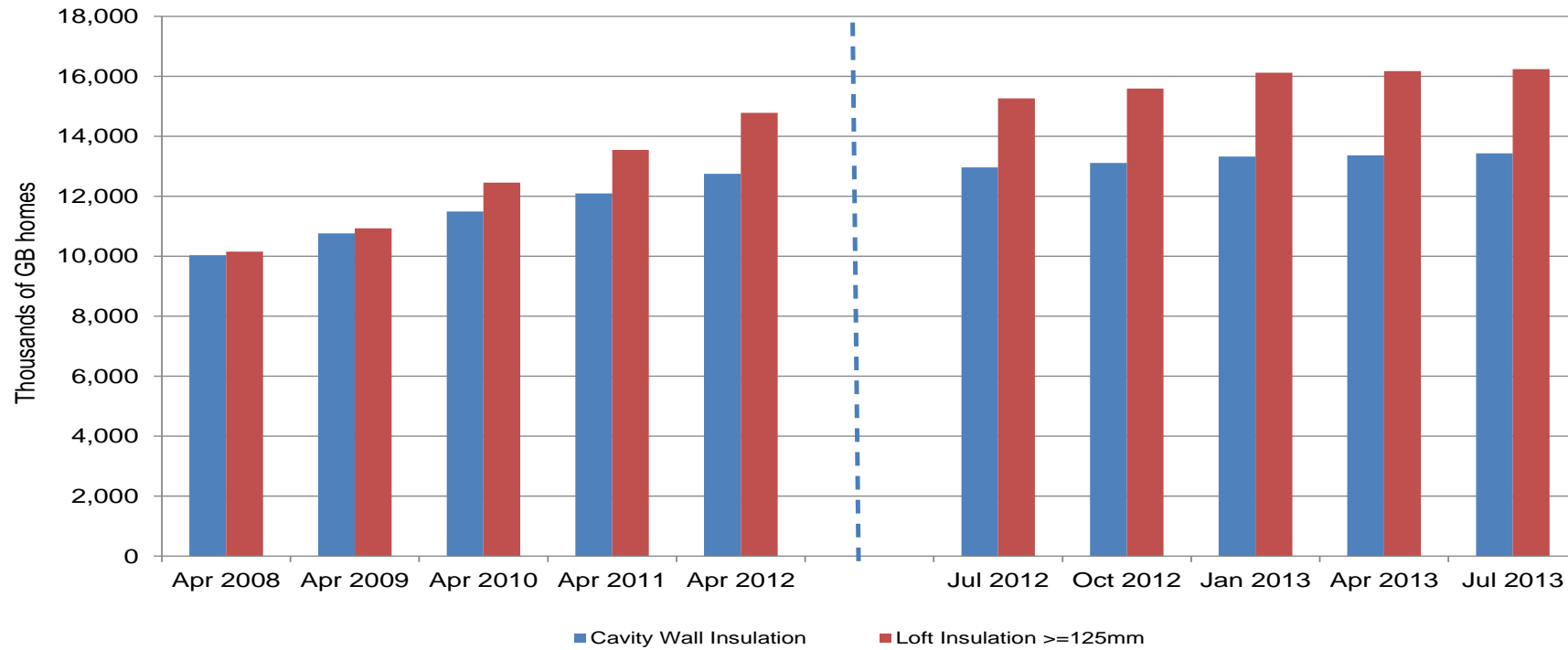
*Note: Average ratio for all countries = 8.3

Proportion of the Nuclear Decommissioning Authority's budget spent on decommissioning and cleaning up nuclear plants

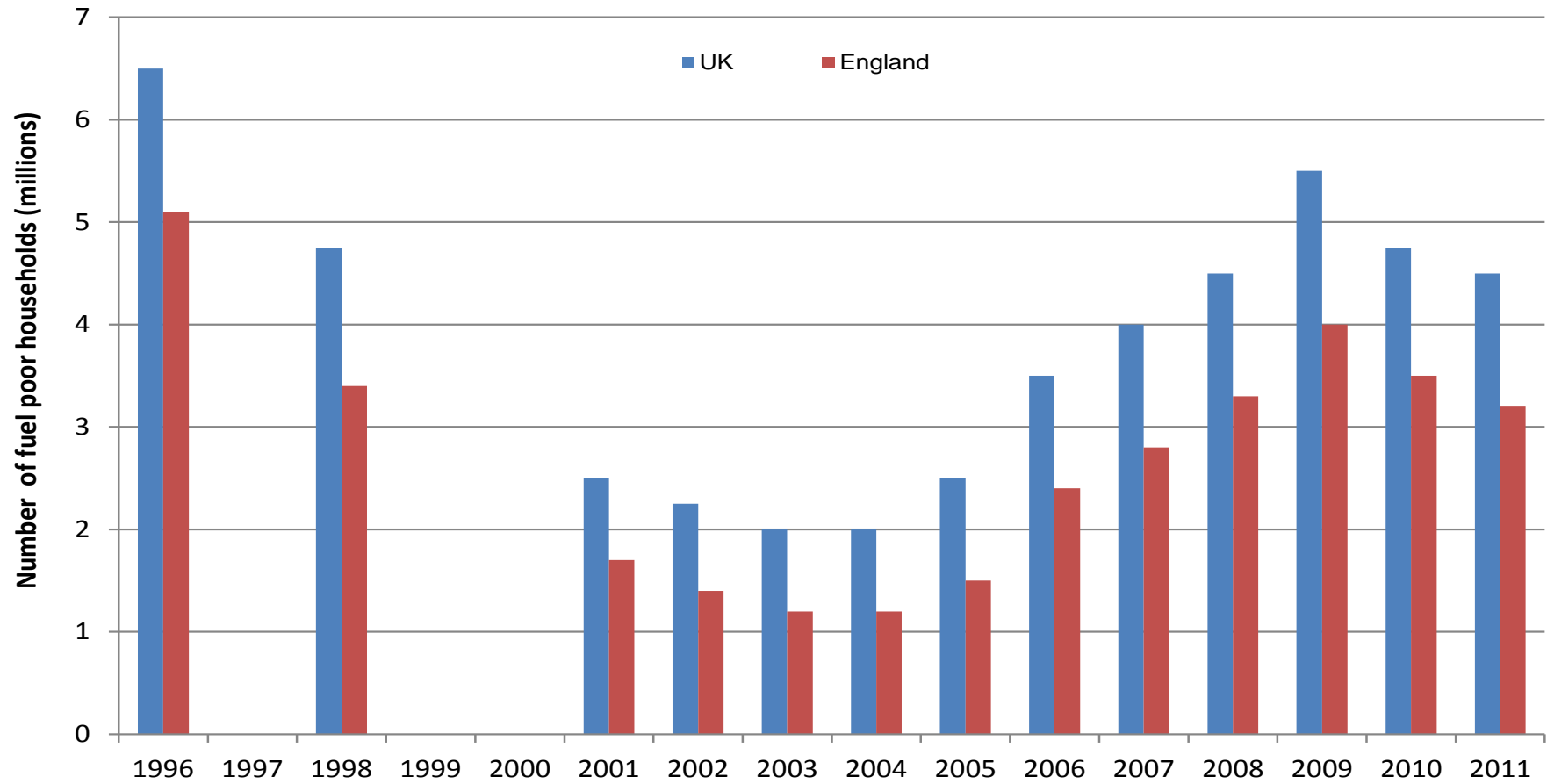
2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
20%	24%	24%	24%	25%	29%	34%	35%

Impact indicators

The total number of energy efficiency installations

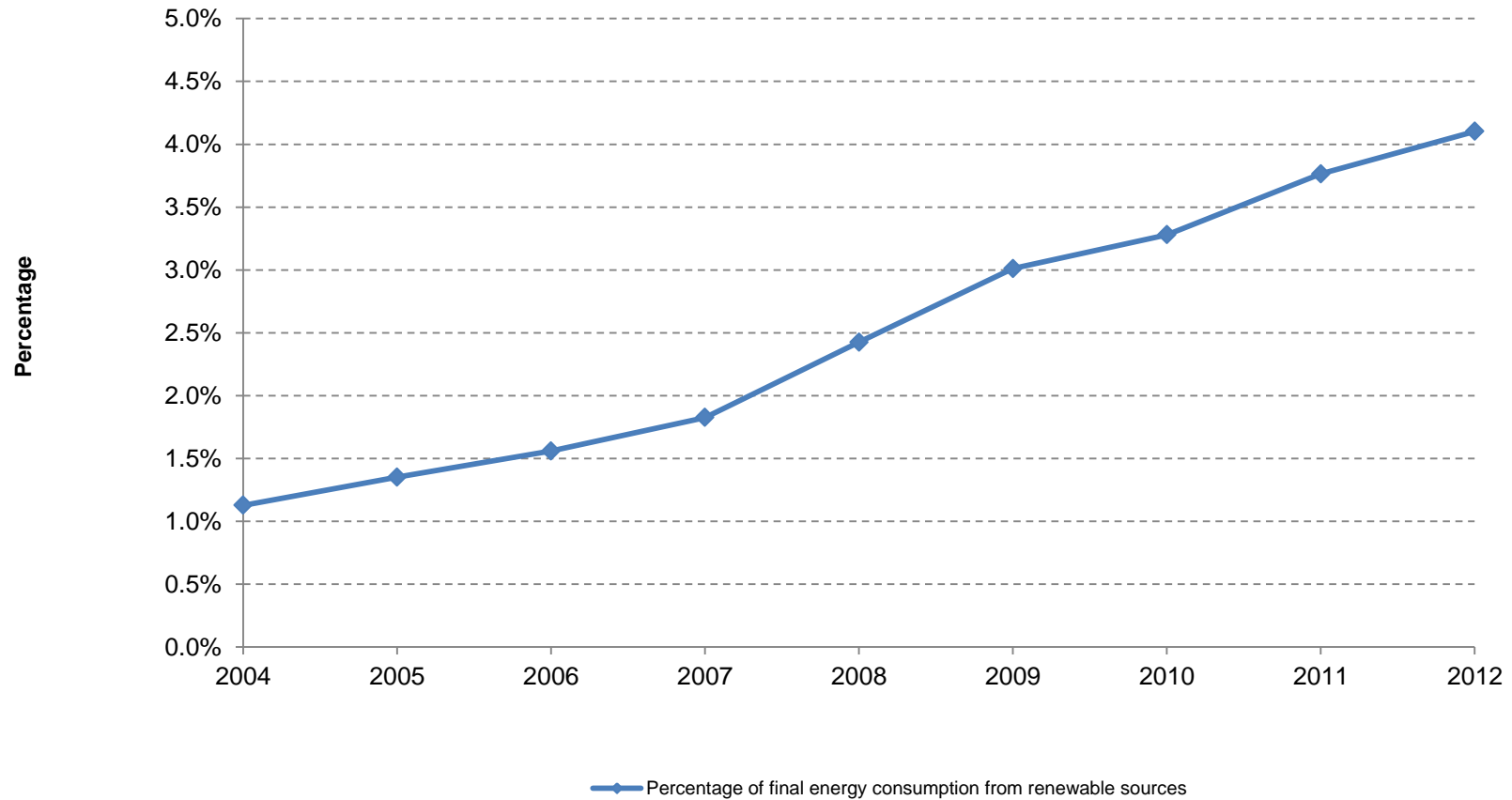


The number of households in fuel poverty in England (2012 data will not be available until May 2014)

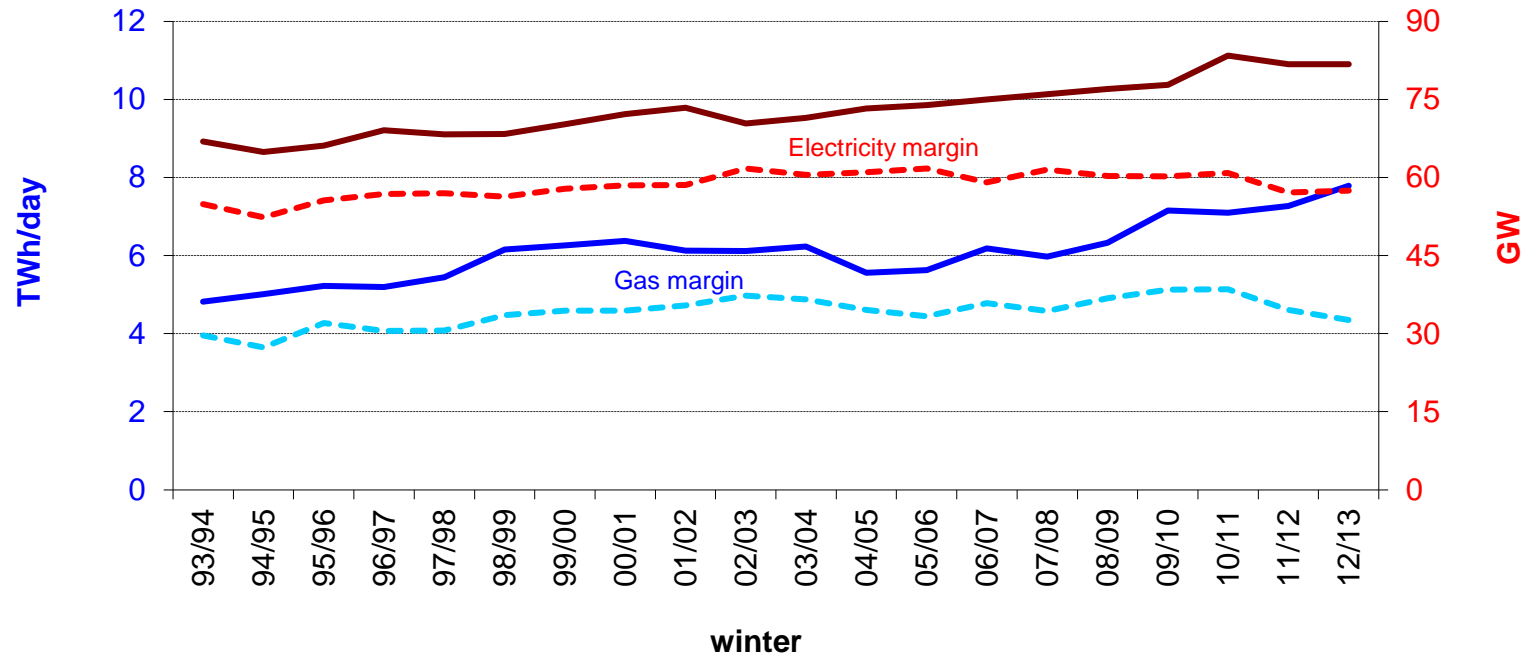


Percentage of energy consumed in the UK that has been generated from renewable sources

(2013 data will not be available until June 2014)

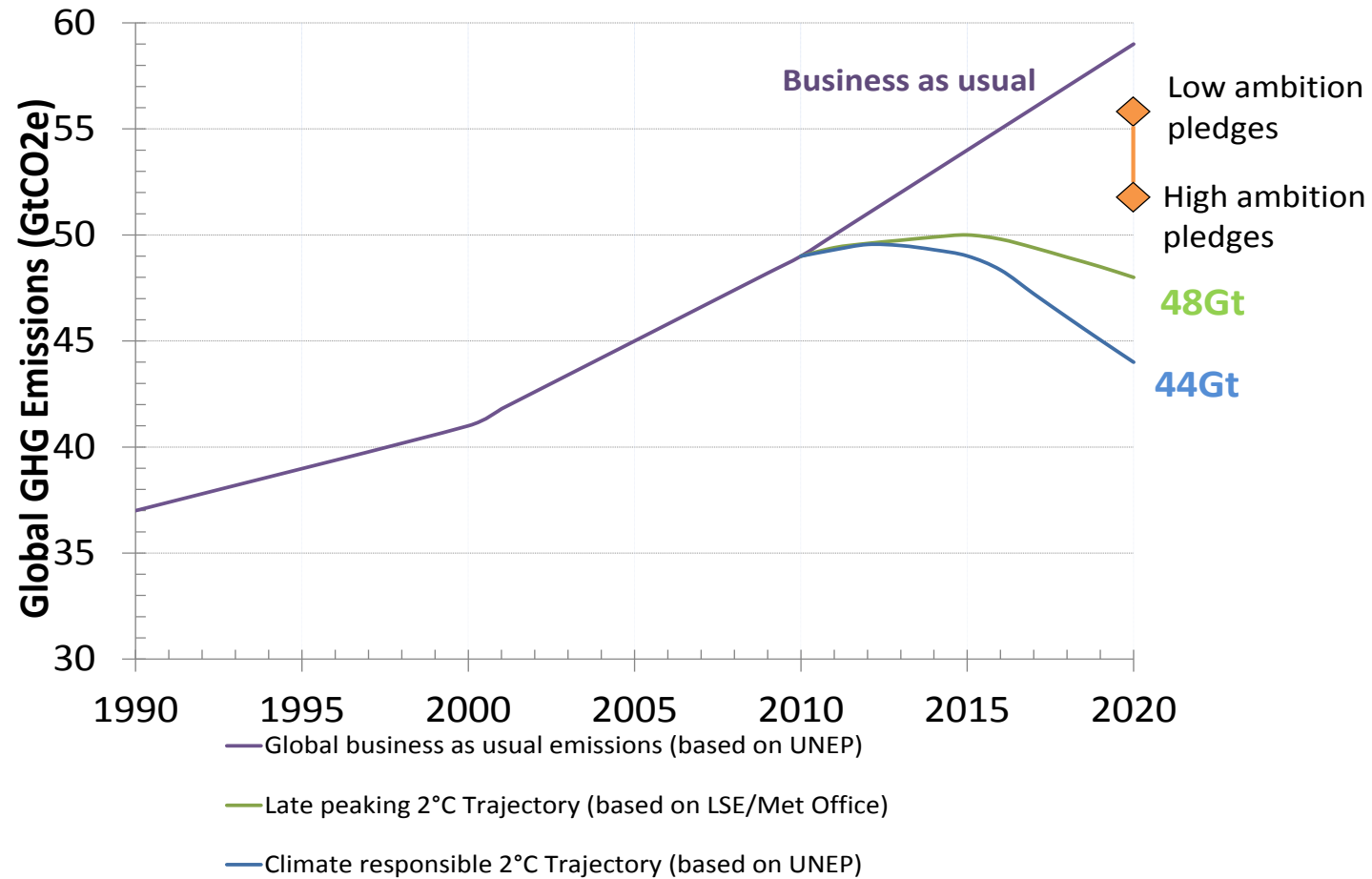


The spare capacity of the UK's gas and electricity networks

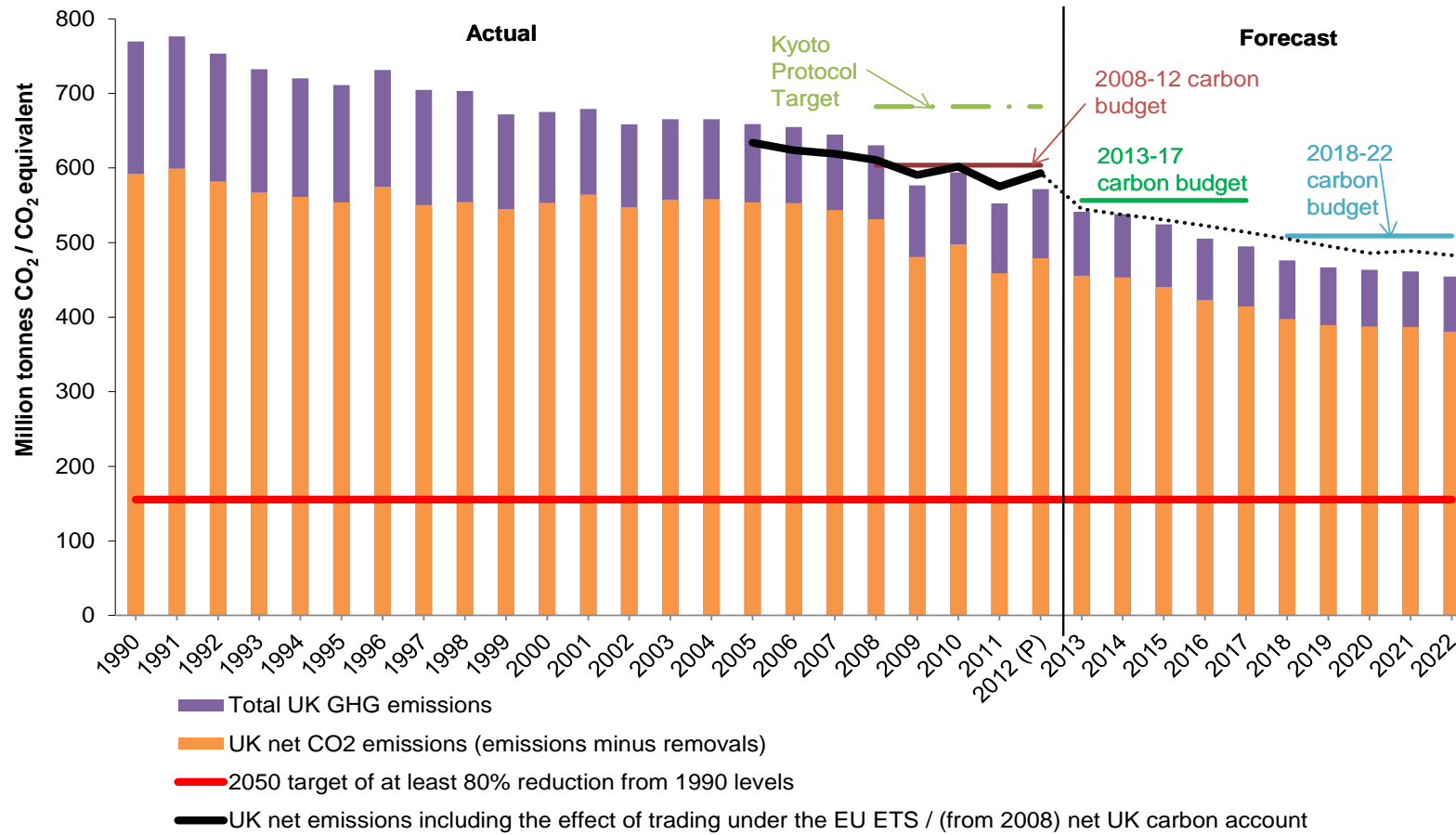


- Forecast maximum gas supply (left hand scale)
- - - Actual maximum gas demand (left hand scale)
- Total electricity declared net capacity (right hand scale)
- - - Simultaneous maximum electricity load met (right hand scale)

The impact of other countries' pledges to decrease their greenhouse gas emissions on predicted global emissions



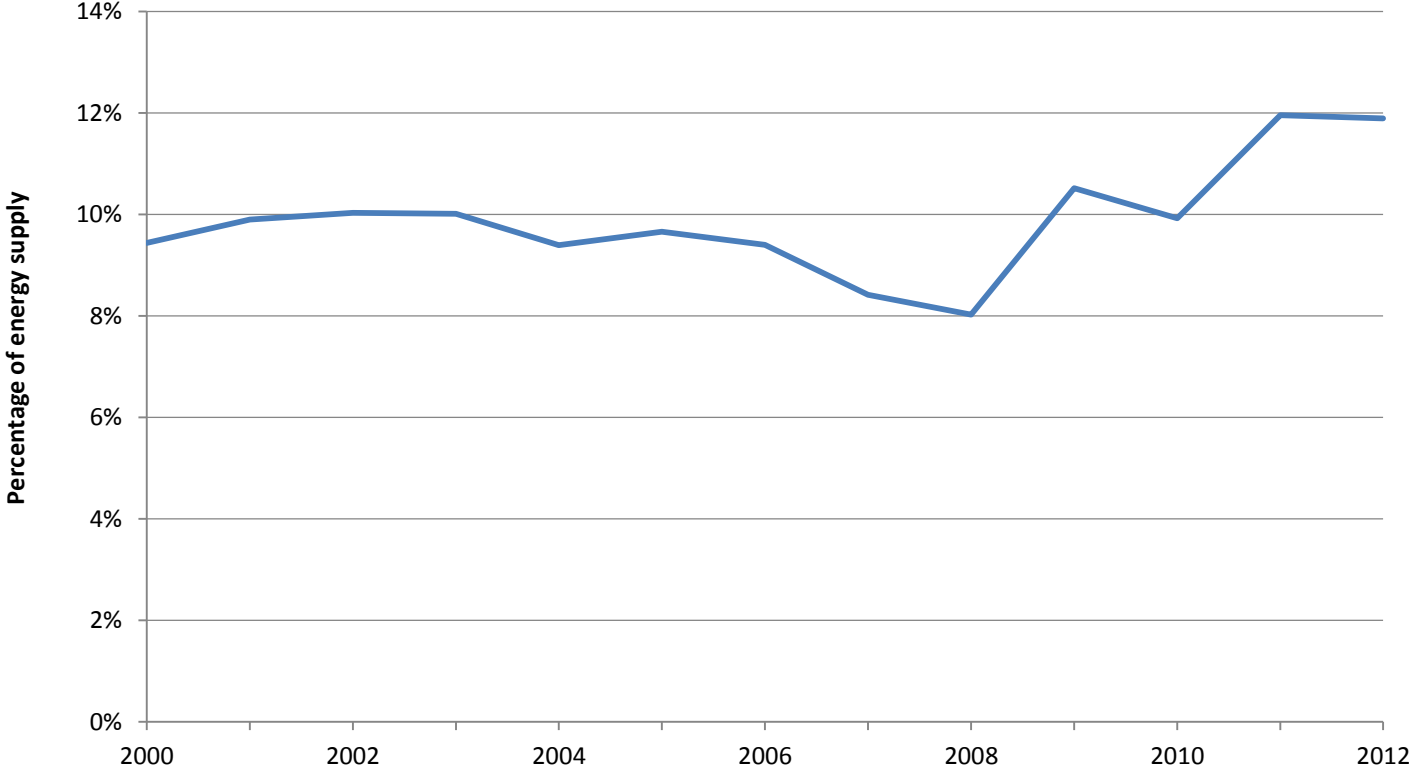
Total emissions of greenhouse gases from the UK



Reduction in the Nuclear Provision through decommissioning and clean-up

Financial Year/£bn	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Opening balance	-24.1	-30.6	-37.0	-44.1	-44.5	-45.0	-49.2	-52.9
Provision discharged	1.3	1.5	1.8	1.4	1.8	2.2	1.9	2.4
Financial adjustments and changes in scope	-7.8	-7.9	-8.9	-1.8	-2.3	-6.4	-5.6	-8.5
Closing estimate	-30.6	-37.0	-44.1	-44.5	-45.0	-49.2	-52.9	-59.0

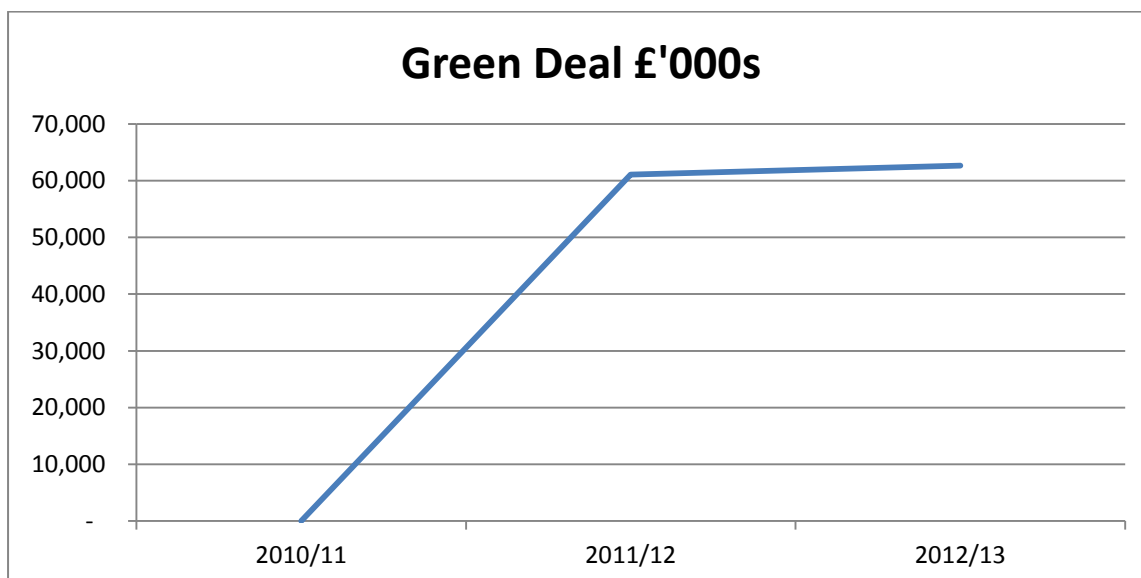
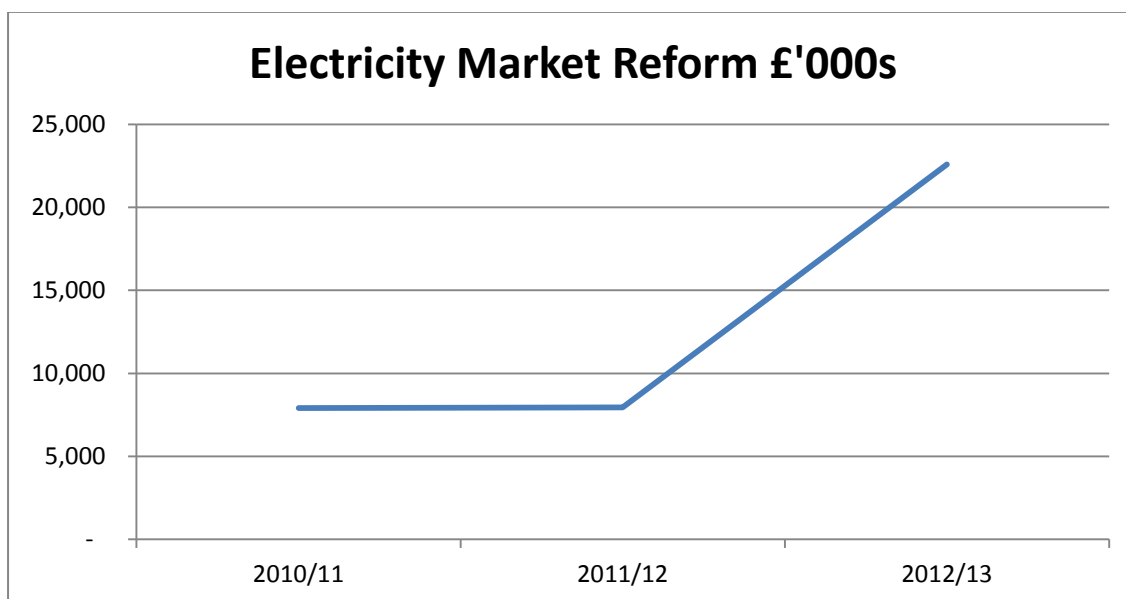
The proportion of all UK energy supply from low carbon sources

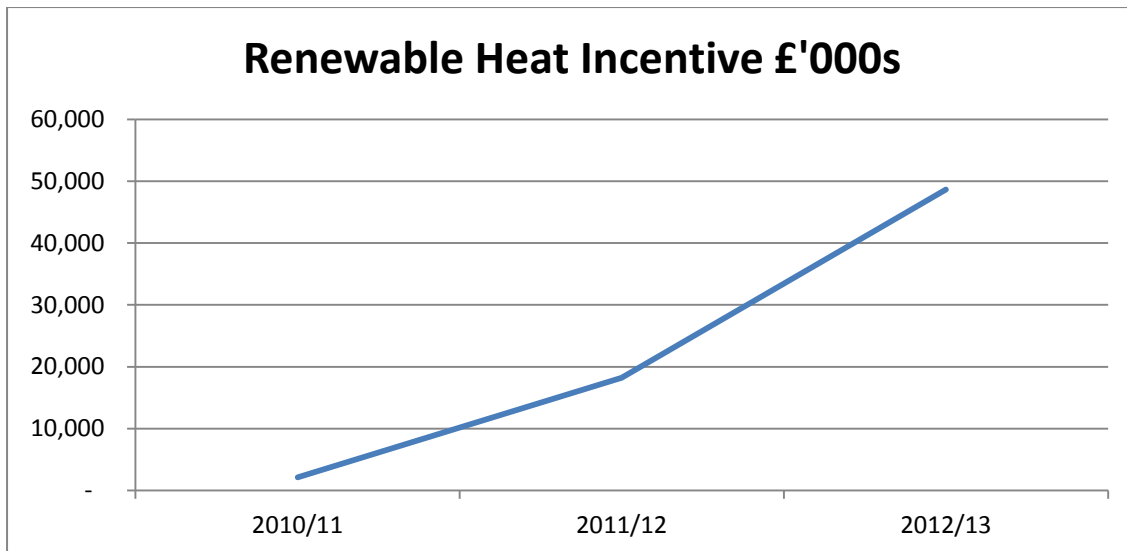


Annex B

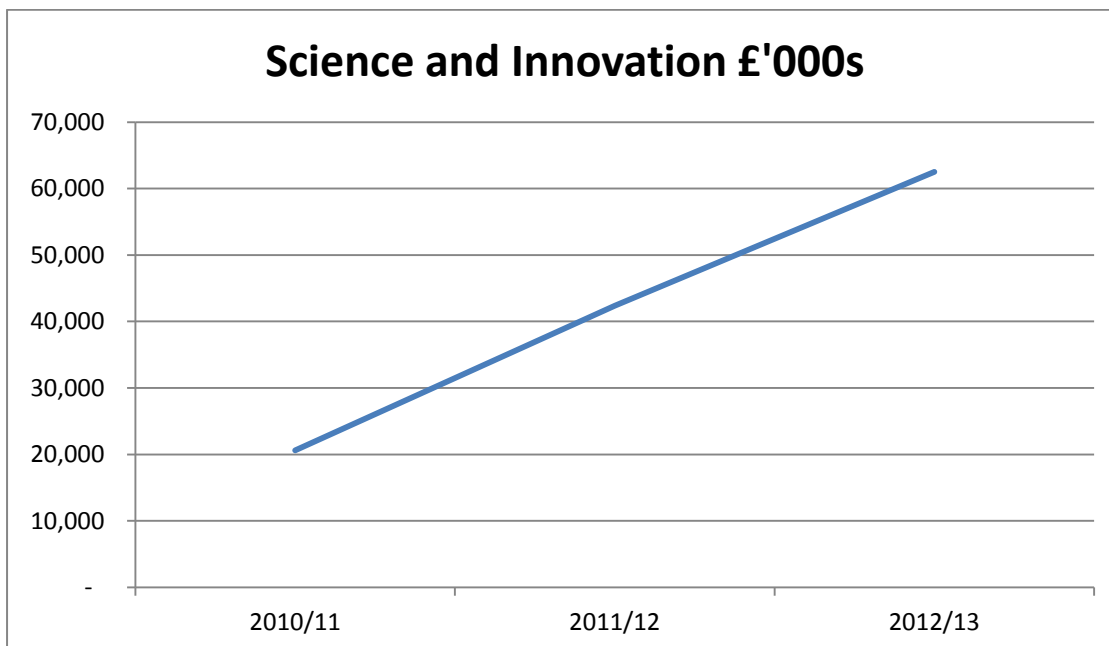
The following graphs show patterns of expenditure across all budgets (DEL and AME, resource and capital) combined in key DECC policy areas.

Electricity Market Reform. Green Deal and the Renewable Heat Incentive are all programmes which began in the current Spending Review period. Expenditure profiles reflect the arc of policy development and operational implementation.

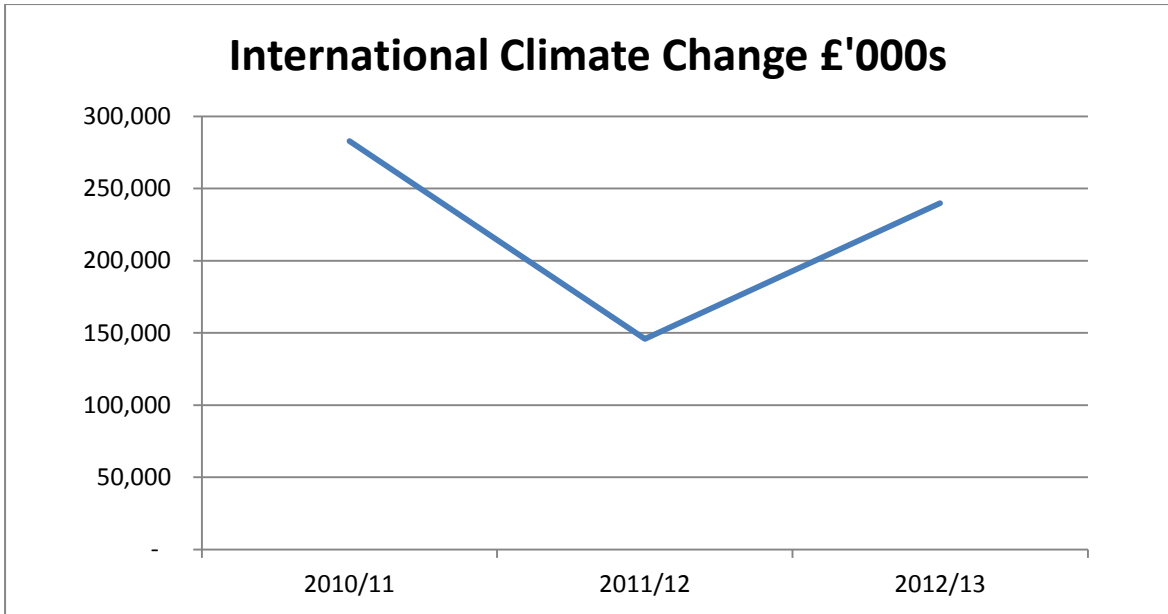




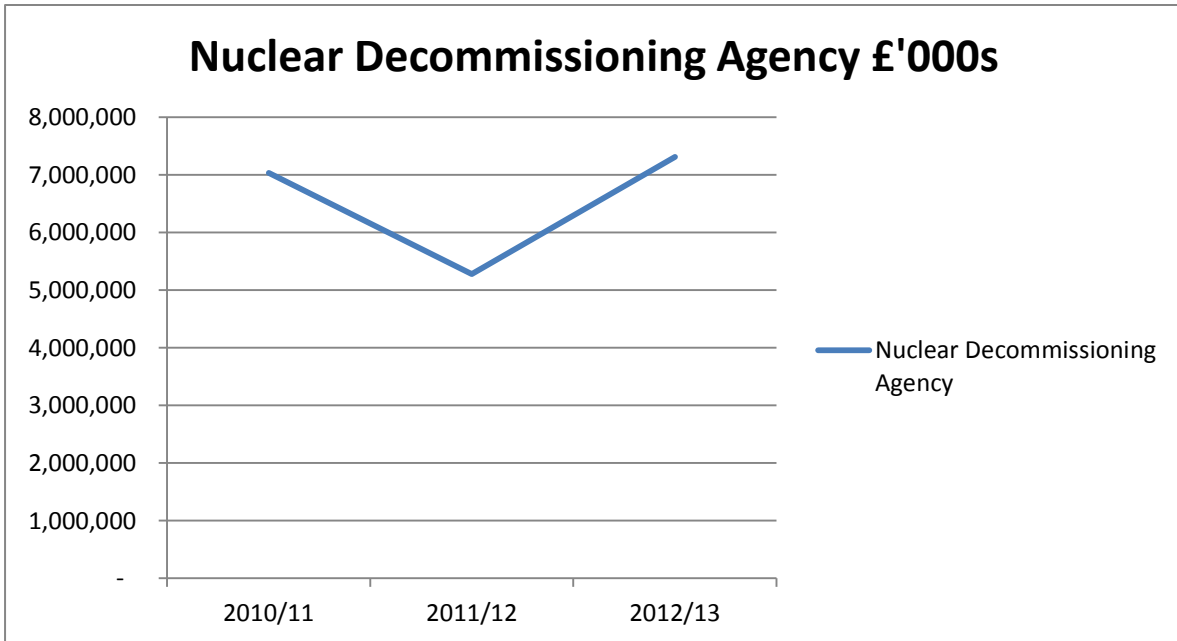
The rising expenditure for science and innovation is consistent with the Department's CSR 2010 settlement and reflects the time taken to identify and develop projects suitable for support.



Expenditure on International Climate Change is in line with the budget allocated to DECC from the Official Development Assistance budget which has been spent in full. The budget profile was not determined by DECC and represents what is affordable on an annual basis within the government's overall commitment to spend 0.7% of Gross National Income on Overseas Development Assistance across the current Spending Review period.



The Nuclear Decommissioning Authority budgets are dominated by the AME provision for historical nuclear liabilities which increased in 2012/13 due to a change in Treasury discount rates.



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