Department for
Business, Energy
& Industrial Strategy

# Annual report and accounts

31 March 2018

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Business, Energy
& Industrial Strategy

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Any enquiries regarding this publication should be sent to us at:
Department for Business, Energy & Industrial Strategy
1 Victoria Street, London. SW1H 0ET
Tel: 020 7215 5000 Email: enquiries@beis.gov.uk

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# Contents

# Foreword by the Secretary of State

**The Rt Hon Greg Clark MP**
Secretary of State for Business, Energy and Industrial Strategy

**As the first Secretary of State for this department,** I am immensely grateful for the hard work and dedication of its staff. Over the last 12 months they've delivered a truly ambitious programme that puts our Industrial Strategy at the heart of this Government's economic policy.

**Our Industrial Strategy White Paper, published in November, is an unashamedly ambitious vision for the future of our country,** laying out how we tackle our productivity challenge, increase our earning power and earn our way as a country in the future. We are at one of the most important, exciting and challenging times in the history of global enterprise. Powered by new technologies, the way we live our lives is being transformed across the world. We are well-placed to benefit from this new industrial revolution and we start from a position of significant strength. We have a thriving research base and are home to a wide range of innovative sectors, from advanced manufacturing and life sciences, to fintech and creative industries. Our commitment to reach 2.4% of GDP investment on research and development with business by 2027 will ensure this continues.

**This government believes in a country that works for everyone.** In 2017, we took important steps to ensure people earn more with a further rise to the National Living Wage, whilst the UK also experienced a record low economic inactivity rate and the lowest unemployment rate since 1975. Our Good Work plan puts the UK at the front of the pack in addressing the challenges and opportunities of modern ways of working and will enhance our business environment as one of the best places to work, invest and do business.

**In August, we unveiled a world-leading package of corporate governance reforms** to increase boardroom accountability and trust in business. One of Britain's biggest assets in the global economy is our reputation for being a dependable place in which to do business. This package builds on our already strong reputation and ensures our largest companies are more transparent and accountable to their employees and shareholders.

**Clean growth is at the heart of our Industrial Strategy** showing how the whole country can benefit from a low carbon economy whilst ensuring Britain continues to lead the world in tackling climate change. We are leading the way on decarbonising our energy system, including our commitment to phase out unabated coal generation by 2025, rolling out smart meters, and investing £2.5 billion in low carbon innovation from 2015 to 2021. We want to maximise the advantages for UK industry from the global shift to clean growth.

**In this department's third year** we will continue to deliver on our vision set out in the Industrial Strategy while working to secure a successful EU Exit, endeavoring to represent and serve businesses, workers and consumers across the UK.

# Report of the Permanent Secretary

**Alex Chisholm**
Permanent Secretary and Principal Accounting Officer

BEIS is at the heart of the Government's commitment to build an economy that works for everyone, with great places across the UK for people to work and for businesses to invest, innovate and grow.

**The Industrial Strategy White Paper** was a landmark event for our department this year. Following extensive consultation with businesses and interested parties, the White Paper outlines government's plans to boost productivity and earning power across the country. It focuses on 5 foundations: ideas, people, infrastructure, business environment and places. It also outlines 4 Grand Challenges that the UK must embrace to put the UK at the forefront of the industries of the future. We announced an additional £725 million over the next 4 years in the Industrial Strategy Challenge Fund, in support of the Government's commitment to increase national investment in research and development to 2.4% of GDP by 2027. Since the White Paper, we have published the first sector deals – partnerships between Government and industry aiming to increase sector productivity.

**In preparation for exiting the EU,** we continue to engage with businesses and workers to ensure we represent their views. As set out in the Industrial Strategy, we must build on our strengths, and utilise opportunities before us. For example, we want the UK to be the go-to place for scientists, innovators and tech investors across the world. Alongside this, we secured additional funding for the major EU Exit implementation work and are preparing for the significant domestic and legislative changes required to manage exit from the EU.

**We have continued to support business and economic growth** and announced our plan to inject £20 billion over the next 10 years in innovative high-growth businesses. This includes establishing a new £2.5 billion investment fund through the British Business Bank. We also published our National Security and Investment Review. It outlines proposals to increase national security protections for critical infrastructure. In response to the Taylor Review of Modern Working Practices – The Good Work Plan outlines new measures to protect workers' rights, ensure fair pay, and increase transparency in the business environment. In response to our consultation on Corporate Governance, we intend to better align executive pay with long-term company performance.

**We launched our Clean Growth Strategy in October 2017.** This outlines how the whole country can benefit from low carbon economic opportunities. We have also introduced legislation to tackle unfair practices in the energy market to reduce energy bills. We launched a review on the cost of energy in August 2017. Professor Dieter Helm put forward his proposals for reducing costs in the power system in the long-term, which we are currently considering. We have also shown our continued commitment to tackling climate change, with the UK on track to meet the second carbon budget and 23.4% of our electricity now generated from renewable sources.

**We also continue to transform our Department**. This includes our commitment to increasing representation of BAME staff, people with disabilities and LGBT+ staff at all grades, and to further reduce our gender pay gap. We were delighted to welcome 3 new ministers – Sam Gyimah, Andrew Griffiths and Lord Henley; and 3 new Directors General – Sarah Harrison, Julian Critchlow and Nick Chism.

# Performance Report

Leeds city centre – Local Industrial Strategies will be long-term, based on clear evidence, and aligned to the national Industrial Strategy.

# Overview

This section gives a summary of our department, its purpose, the key risks to the achievement of its objectives, and how it has performed during the past year.

## Our purpose

Our vision is an economy that works for everyone – with great places in every part of the UK for people to work and for businesses to invest, innovate and grow.

## What we are aiming to achieve

**Deliver an ambitious industrial strategy**

We will develop a modern, long-term industrial strategy that lays the foundations for reinvigorating UK economic performance and boosts earning power throughout the country. We will cultivate world-leading science and innovation, build on local strengths and foster enterprise to ensure every place meets its potential.

**Maximise investment opportunities and bolster UK interests**

We will deliver the best results for the UK from exiting the EU by creating a world class business environment that drives investment and employment. As we build our new relationship with the EU we will maintain business and investor confidence and ensure their interests are reflected in the negotiations.

**Promote competitive markets and responsible business practices**

We will secure better outcomes for consumers by creating a more competitive environment for business and industry. We will improve corporate governance and ensure the labour market offers everyone the opportunity to obtain quality, well-paid jobs and better working conditions.

**Ensure the UK has a reliable, low cost and clean energy system**

We will upgrade and diversify our energy supplies to meet future needs – ensuring they are smarter, cleaner, more secure and affordable for consumers and businesses. We will promote clean growth and take action to tackle climate change, working in partnership with business and international communities.

**Build a flexible, innovative, collaborative and business facing department**

We will elevate BEIS from a well-functioning department to an exceptional one which delivers for business on our strategic priorities in relation to the Industrial Strategy, EU exit, and clean growth. We will enable digital, data and technology to deliver exceptional services for our staff as well as the people and businesses we serve.

# Our business model

**Our annual funding is agreed with Treasury and Parliament**. To the extent permissible, ministers, with advice from the Board, Executive Committee and officials, decide the allocation of resources. In 2017-18, we were responsible for the efficient stewardship of £12.2 billion of departmental funds.

**BEIS is responsible for designing and implementing policy relating to the Government's Industrial Strategy, business, science and innovation, energy and clean growth and climate change.** Our department works closely with other government departments and our partner organisations to deliver upon our shared objectives, and builds trusted, two-way relationships with our stakeholders by employing a proactive approach, ensuring their views are considered when shaping policy decisions.

**Our core Department is made up of 7 groups, employing 3,307 people with regional offices across the UK.** Each group is led by a Director General, and these groups are in turn divided into 34 Directorates across the Department. To ensure the effective co-ordination and management of the department's business our Executive Committee meets around four times each month and our Departmental Board meets six times per year.

**We also deliver our business through 40 partner organisations that employ more than 30,000 public servants.** Our network of partner organisations is one of the largest in government – made up of a diverse array of bodies and people with a very wide span of policy and operational responsibilities. These range from large organisations such as UK Research and Innovation and the Nuclear Decommissioning Authority, through medium-size organisations working on delivery and regulation such as the Competition and Markets Authority, to advisory committees including the Committee for Climate Change.

# How we are organised: our structure

Our Department is led by the Secretary of State for Business, Energy and Industrial Strategy who is responsible to Parliament for the Department as a whole. The Permanent Secretary is the Principal Accounting Officer for the Department and delegates within the Department to deliver ministerial decisions and to support ministers in policy-making and managing public funds. Our non-executives provide advice and bring an external perspective to the business of the Department; they do not have decision-making or spending powers.

## Our ministers

**Secretary of State for Business, Energy and Industrial Strategy**
The Rt Hon Greg Clark MP

**Minister of State for Energy and Clean Growth**
The Rt Hon Claire Perry MP

**Minister of State for Universities, Science, Research and Innovation**
Sam Gyimah MP

**Parliamentary Under Secretary of State, Minister for Small Business, Consumers and Corporate Responsibility**
Andrew Griffiths MP

**Parliamentary Under Secretary of State, Minister for Business and Industry**
Richard Harrington MP

**Parliamentary Under Secretary of State**
The Rt Hon Lord Henley

## Our management: executives

**Permanent Secretary and Accounting Officer**
Alex Chisholm

**Director General, Corporate Services**
Sarah Harrison MBE

**Director General, Business and Science**
Gareth Davies

**Director General, Energy and Security**
Jeremy Pocklington

**Director General, Energy Transformation and Clean Growth**
Julian Critchlow
(14 May 2018)

**Director General, Enterprise**
Nick Chism
(1 Jun 2018)

**Director General, EU Exit and Analysis**
Sam Beckett

**Director General, Market Frameworks**
Jaee Samant

**BEIS Chief Scientific Adviser**
Professor John Loughhead CB OBE FReng FTSE

**Chief Financial Officer**
Tom Taylor

**Director, Policy, Delivery and Private Office**
Caleb Deeks

## Our management: non-executives

**Lead non-executive board member**
Archie Norman

**Non-executive board member**
Charles Randell CBE

**Non-executive board member**
Professor Dame Ann Dowling DBE

**Non-executive board member**
Dame Carolyn McCall

**Non-executive board member**
Kathryn Parsons

**Non-executive board member**
Stephen A. Carter

**Non-executive board member**
Stuart Quickenden

# How we are organised: our group

Public sector bodies can be grouped based on the level of control the core Department has over them. Our executive agencies act as an arm of the core Department, undertaking executive functions, rather than giving policy advice. The other bodies in the Departmental group are separate legal entities, but the core Department usually sets their strategic framework and normally appoints the chair and all non-executive members of the board and is consulted on the appointment of the CEO. The wider Departmental group includes other public-sector bodies which work with us to achieve our objectives but have more authority over their own policies and are not consolidated into the group financial statements. Our area of responsibility extends beyond the bodies listed in the wider departmental group. A more comprehensive picture can be seen in our Accounting Officer System Statement, published separately.

**Core Department and agencies**

- Committee on Fuel Poverty
- Copyright Tribunal
- Council for Science and Technology
- Government Office for Science
- Industrial Development Advisory Board
- Insolvency Service
- Low Pay Commission
- Nuclear Liabilities Financing Assurance Board
- Office of Manpower Economics
- Office of Product Safety and Standards
- Office of the Regulator of Community Interest Companies
- Regulatory Policy Committee
- UK Space Agency

**Consolidated Departmental group**

- Advisory, Conciliation and Arbitration Service (ACAS)
- British Business Bank Plc
- Central Arbitration Committee
- Certification Officer
- Civil Nuclear Police Authority
- Coal Authority
- Committee on Radioactive Waste Management
- Competition Appeal Tribunal
- Competition Service
- Electricity Settlements Company
- Financial Reporting Council
- Low Carbon Contracts Company Ltd
- Nuclear Decommissioning Authority
- Oil and Gas Authority
- UK Atomic Energy Authority
- UK Green Infrastructure Platform Ltd
- UK Shared Business Services Ltd
- UK Research and Innovation[1]

**Wider departmental group**

- British Hallmarking Council
- British Nuclear Fuels Limited
- Committee on Climate Change
- Companies House
- Competition & Markets Authority
- Groceries Code Adjudicator
- Independent Complaints Reviewer
- Intellectual Property Office
- Land Registry
- Met Office
- National Nuclear Laboratory
- National Physical Laboratory
- Nuclear Liabilities Fund
- OFGEM
- Ordnance Survey
- Pacific Nuclear Transport Limited
- Post Office Ltd
- Pubs Code Adjudicator
- Small Business Commissioner

1 On 30 March 2018, the seven UK Research Councils and Innovate UK came together to form UK Research and Innovation (UKRI).

# Our highlights in 2017-2018


On 27 November 2017 the **Industrial Strategy White Paper** was published, setting out how we are investing in the skills, industries and infrastructure of the future.

**Sector deals** boost productivity, employment, innovation and skills. Since November 2017 we have announced deals for the Life Sciences, Automotive and Creative sectors.

**In October 2017,** Professor Dieter Helm published his independent **review into the cost of energy.** He was asked to consider the whole electricity supply chain, to recommend how to reduce costs, whilst maintaining a secure supply.

A world-leading package of **corporate governance reforms** was unveiled on 29 August 2017. The measures will increase boardroom accountability and enhance trust in business.

**The Matthew Taylor Review** into modern working practices was published on 11 July 2017. The Government responded on 7 February 2018, outlining proposals that will give millions of workers new rights.

On 17 October 2017 the department published **the National Security and Infrastructure Investment Review,** launching a consultation on measures to update the merger system and better protect national security.

**The new Office for Product Safety and Standards** created on 21 January 2018 has national oversight of identifying consumer risks and managing responses to large-scale consumer product recalls and repairs.

**The Clean Growth Strategy,** published on 12 October 2017, set out proposals to accelerate the pace of 'clean growth', delivering increased economic growth and decreased emissions.

**The Domestic Gas & Electricity (Tariff Cap) Bill** was introduced into Parliament on 26 February 2018. This legislation will protect 11 million households across England, Wales and Scotland.

**The Contracts for Difference (CfD) auction in September 2017** secured a record amount of renewable energy capacity. New offshore wind projects will be delivered 50% lower than the first auction held in 2015.

**The Space Industry Bill** achieved Royal Assent on 15 March 2018. It establishes a regulatory framework that will enable exciting new technologies to operate safely from the UK.


**The transition to BEIS from DECC and BIS** was completed by Summer 2017. This included agreeing a new vision, objectives and team structures – providing clarity over everyone's roles in BEIS.

# Where we spent our money in 2017-2018

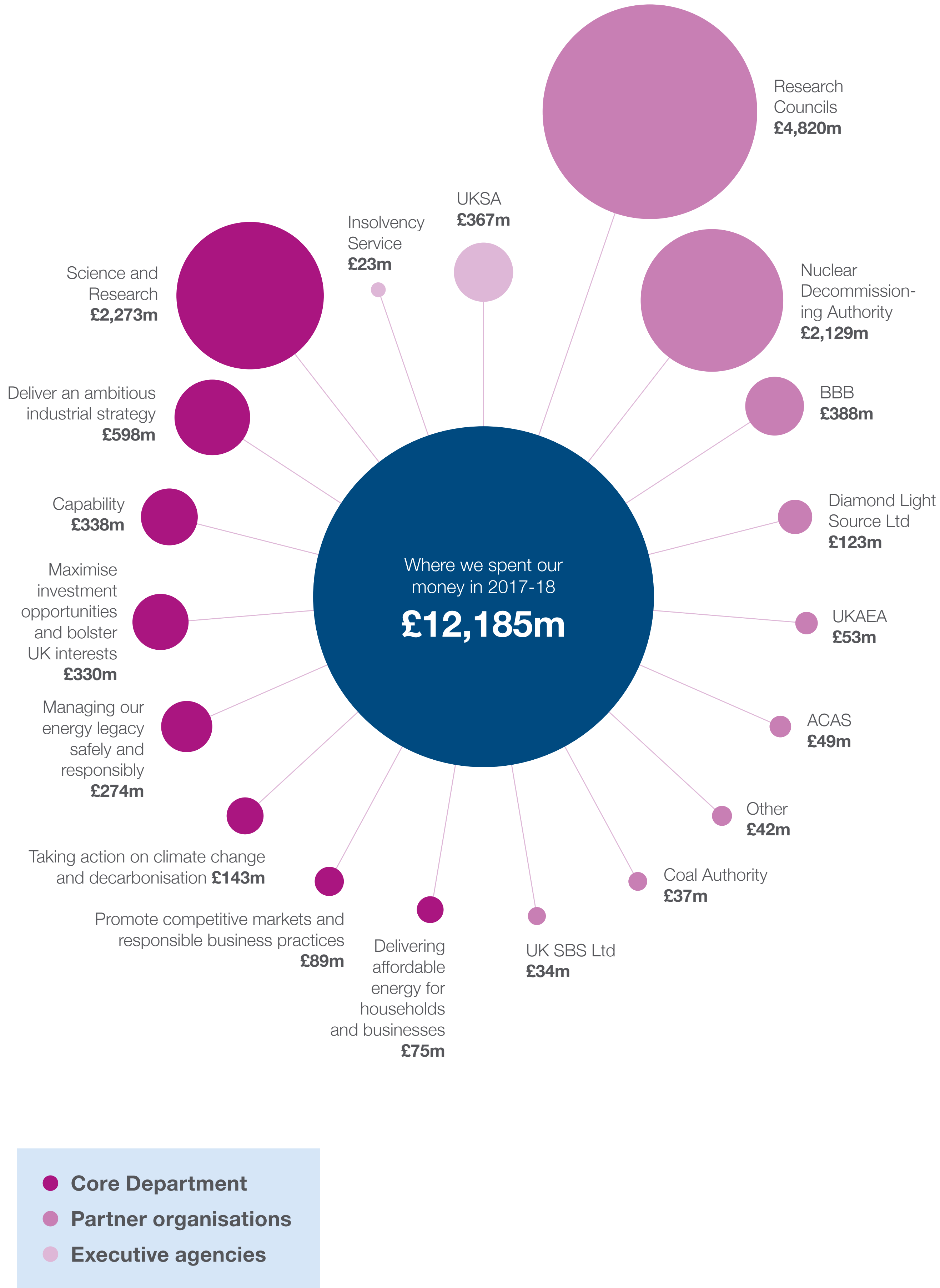
The departmental group incurred spending against parliamentary budgets for the year ending 31 March 2018 of £12.2 billion[1]. Of this, £4.5 billion related to the core Department and agencies, and £7.7 billion related to our partner organisations.

The diagram opposite shows our major areas of spend either through our partners or in each core Department business. The significant items (more than £250 million) of expenditure recorded in the core Department were:

- **£2,273 million** of funding for **Science and Research** – mainly grants to the Higher Education Funding Council for England
- **£598 million** to **deliver an ambitious industrial strategy** including £303 million of support for energy intensive industries
- **£338 million** of **capability** spending, including staff costs to support the delivery of departmental objectives, and our transformation programmes
- **£330 million** to **maximise investment opportunities and bolster UK interest** – primarily £307 million on International Climate Finance Official Development Assistance, as part of the Government's commitment to spend 0.7% of Gross National Income on overseas aid
- **£274 million** to deliver the department's objective of **managing our energy legacy safely and responsibly**. This includes £193 million to meet certain obligations arising from the restructuring of British Energy in January 2005. Further details are provided in note 19.1

**Notes:**

1. This expenditure corresponds to total DEL expenditure for our departmental group. DEL is the controllable budget total, issued by HM Treasury on behalf of Parliament, that the department uses to fund delivery of its strategic objectives. The diagram opposite excludes AME expenditure which represents volatile, demand-led spend and technical accounting matters. These concepts are fully explained on page 42.


Research Councils £4,820m
UKSA £367m
Insolvency Service £23m
Science and Research £2,273m
Nuclear Decommission-ing Authority £2,129m
Deliver an ambitious industrial strategy £598m
BBB £388m
Capability £338m
Diamond Light Source Ltd £123m
Where we spent our money in 2017-18
£12,185m
Maximise investment opportunities and bolster UK interests £330m
UKAEA £53m
Managing our energy legacy safely and responsibly £274m
ACAS £49m
Other £42m
Taking action on climate change and decarbonisation £143m
Coal Authority £37m
Promote competitive markets and responsible business practices £89m
Delivering affordable energy for households and businesses £75m
UK SBS Ltd £34m
Core Department
Partner organisations
Executive agencies

# Risks affecting delivery of our objectives

The Department's approach to the management of risk has continued to mature over the last year. The process, detailed in our corporate governance statement, builds on best practice established in the HM Treasury Orange Book of Risk Management and the ISO 31000 industry standards. We continue to develop the process with the support of our Audit Risk and Assurance Committee and have a rigorous audit schedule that provides the senior leadership with the required assurances. The tables below describe principal risks we have faced during the year.

### Icons in the table map the risks to our objectives

- **Delivering an ambitious industrial strategy**
- **Maximise investment opportunities and bolster UK interests**
- **Promote competitive markets and responsible business practices**
- **Ensure the UK has a reliable, low cost and clean energy system**
- **Build a flexible, innovative, collaborative and business facing department**

| Relative severity | Change during the year |
|---|---|
| H High | ⬆ Increasing risk |
| M Medium | ⬇ Decreasing risk |
| L Low | ⬌ Stable |

| Risk | Mitigating activities | Direction of risk trend at year end |
|---|---|---|
| EU Exit negotiations may end in suboptimal outcomes for business, leading to an adverse impact for the UK economy | → Supported Her Majesty's Government to secure political agreement to an implementation period.<br>→ Dedicated EU Exit programme in place to ensure BEIS can deliver its EU Exit responsibilities, alongside building capacity and capability.<br>→ BEIS represented on all key EU Exit Cabinet Committees.<br>→ Active role in separation and withdrawal negotiations, planning for multiple scenarios.<br>→ Dedicated team focused on legislative planning, including an established secondary legislation programme. | H<br>Progress is being made as negotiations continue. BEIS continues to build capability and capacity to deliver a smooth EU Exit. |
| Government policy may not be seen by industry as a sufficient catalyst to generate the market conditions to improve productivity | → Working with businesses and industry to communicate the strategy and ensure delivery.<br>→ Working across Whitehall with Local Government on implementing the strategy.<br>→ Decision to create the position of Director General Enterprise with focus on enterprise and investment in support of UK businesses.<br>→ Linked closely with EU Exit programme to understand how negotiations could affect implementation of the strategy across the whole country.<br>→ UK Research and Innovation has a specific focus on managing the Industrial Strategy Challenge Fund.<br>→ PM-chaired Economy and Industrial Cabinet Committee to monitor implementation of the Industrial Strategy. | M<br>The Industrial Strategy White Paper was well received across both the government and business sectors increasing confidence in approach taken. |
| Interruptions to energy supply may occur due to industrial action, cyber-attack, terrorism, extreme weather, accident or financial failure | → Maintaining adequate electricity capacity via capacity market, to cope with peak demand.<br>→ Making the electricity system smarter and more flexible including enabling more storage.<br>→ Working with industry to improve cyber security across the sectors, ensuring companies are protecting themselves.<br>→ Working with Office for Nuclear Regulation and the Civil Nuclear Constabulary to maintain safety and security.<br>→ Maintain the UK's oil stocking regime and work internationally to identify and mitigate energy supply risks. | M<br>2017-18 electricity market margin considerably improved on 2016-17. The gas system experienced extreme demand on 1 March but the system responded flexibly. National Grid confirm there was no danger to domestic supply at any point. |
| Climate change mitigation policy interventions may not be sufficient to keep on track for carbon budgets 4 or 5 and the 2050 target in the Climate Change Act | → Engaging extensively with stakeholders on overall strategy for carbon budget 4 and 5 as set out in Clean Growth Strategy.<br>→ Developing a robust governance and implementation plan for Clean Growth Strategy within BEIS, across government and with industry.<br>→ Active modelling and monitoring of forecast scenarios. | M<br>Developed a detailed project plan and monitoring against key metrics. Public reporting of progress against carbon budgets in order to consider further intervention if required. |

| Risk | Mitigating activities | Direction of risk trend at year end |
|---|---|---|
| Comparatively low investment in research and development may hinder UK competitiveness and collaboration between UK and EU higher education institutions | → Recent creation of UK Research and Innovation to bring together the seven Research Councils, Innovate UK and Research England will help connect the best researchers and innovators with customers, users and the public.<br>→ Active engagement with senior stakeholders across higher education, research and innovation, ministerial and official engagements.<br>→ Developing options to boost access to talent including additional funding for PhDs and research leadership programmes.<br>→ Develop contingency options, negotiations and influencing strategies on research mobility and EU and research and innovation programmes. | M<br>Future partnership paper on collaboration on science and innovation outlined ambition for an ambitious agreement on science and innovation. It reinforced research and innovation as a key objective for the UK in the negotiations. |
| Increase in skills demand across UK may lead to insufficient skills capability and capacity for BEIS to deliver fully on ministerial objectives | → We have a new resourcing approach and have reduced the time to hire.<br>→ BEIS has a competitive attraction and retention strategy in place.<br>→ Increasing the number of secondees within our business.<br>→ Utilising central government functional consultancy and other innovative routes to market.<br>→ Expanded learning and development package including negotiations skills. | M<br>Progress is being made but challenge remains high in a competitive market for skills. |
| The enabling resources necessary to deliver key priorities (systems, processes, technology) may not perform in ways which are optimal resulting in failure to deliver on ministerial, Parliamentary and public expectations | → Resilience and recovery built into the design of Departmental systems and IT to protect us from malicious attacks.<br>→ Good practice and training programmes rolled out to increase staff awareness of new challenges (e.g. GDPR).<br>→ Joined up working across corporate services and professions.<br>→ Strong governance and collaborative working with our partner organisations and stakeholders.<br>→ Transformation programme to enhance the capacity and capability of BEIS and its staff.<br>→ Implementation of best practice in risk identification and management. | M<br>Progress has been made in rolling out a programme designed to transform the Department's ICT by delivering modern, reliable and secure technology. |

# Performance analysis

## Our performance

### 1. Deliver an ambitious industrial strategy

1.1 Build a Britain for the future

One of the most significant achievements of 2017-18 was the publication in November 2017 of the Industrial Strategy White Paper. This was the culmination of months of work building on last year's Green Paper consultation, which closed in April 2017, with over 2,000 responses received.

The Industrial Strategy sets out a long-term plan to boost the productivity and earning power of people throughout the UK by focusing on the five foundations of productivity, which align to our vision for a transformed economy:

- ideas: to be the world's most innovative economy
- people: good jobs and greater earning power for all
- infrastructure: a major upgrade to the UK's infrastructure
- business environment: the best place to start and grow a business
- places: prosperous communities across the UK

The Strategy sets out Grand Challenges to put the UK at the forefront of industries of the future. The first 4 Grand Challenges are focused on the global trends which will transform our future:

- growing the artificial intelligence and data driven economy: we will put the UK at the forefront of the AI and data revolution
- clean growth: we will maximize the advantage for UK industry from the global shift to clean growth
- future of mobility: we will become a world leader in the way, people, goods and services move
- ageing society: we will harness the power of innovation to help meet the needs of an ageing society

1.2 Invest in science and innovation

In April 2017 the Higher Education and Research Act achieved Royal Assent. The passing of the Act represented a significant cross-government achievement between BEIS and DfE, enabling major reforms to the research and innovation landscape. The Act created a single body, UK Research and Innovation (UKRI) that formally came into existence on 30 March 2018, to act as the strategic centre of the UK's research and innovation funding system. It incorporates the seven existing research councils, Innovate UK and the research funding roles of the Higher Education Funding Council for England.

In the Autumn Budget 2017, the Chancellor referenced several measures that, along with the creation of UK Research and Innovation, are designed to improve the UK's productivity, helping deliver on our vision to build an economy that works for everyone. Budget announcements included:

- a further £2.3 billion for investment in research and development, and an increase in the main research and development tax credit, up to 12%. This will support the government's ambition to increase research and development investment nationally to 2.4% of GDP by 2027
- £170 million will be made available through the Industrial Strategy Challenge Fund to back a construction sector deal to support innovation and skills
- £100 million has been allocated for the plug-in car grant and £200 million to support the role out of charging infrastructure for zero emission vehicles
- £123 million will be invested in the Redcar steelworks site – this is made up of £118 million for securing and making safe the site and £5 million to allow the South Tees Development Corporation to take ownership of the site

In December 2017 we announced funding to help exploit the UK's potential to become a world-leader in nuclear technologies, to support research and development into innovative advanced and small modular reactors, and to assess their feasibility and accelerate the development of promising designs. We also launched phase two of the Nuclear Innovation Programme.

In addition, the Government has awarded the UK Atomic Energy Authority (UKAEA) £86 million to establish a fusion innovation centre of global significance. The national fusion technology platform will be set up at the Culham Centre for Fusion Energy in Oxfordshire. This will reinforce the UK's world leading fusion research and development capability, and allow UK firms to compete for up to a further £1 billion of international contracts for fusion technologies, including for the International Thermonuclear Experimental Reactor (ITER).

1.3 Support world leading sectors

The first 4 Grand Challenges of the Industrial Strategy focused on growing the artificial intelligence and data driven economy, clean growth, the future of mobility and the ageing society.

We have also invested in areas where the UK already has significant strengths such as satellite development and battery technology. The Government has an ambition for the UK to be a leading player in the global space industry. The decreasing cost of launching small satellites is a great opportunity for the UK, and commercial space travel and space tourism are becoming real future possibilities. Therefore, in March 2018 the Government introduced the Space Industry Act 2018. The Bill creates a regulatory framework for the expansion of commercial space activities and the development of a UK space port.

In July 2017 BEIS announced the launch of the first phase of a £246 million Government investment into battery technology, known as the Faraday Challenge, to ensure the UK leads the world in the design, development and manufacture of electric vehicle batteries. The Challenge's competitions are divided into three programmes designed to drive a step-change in translating the UK's world-leading research into market-ready technology.

In November 2017, £80 million of the £246 million Challenge Fund was allocated to the creation of the new National Battery Manufacturing Development Facility (NMDF) – the first ever facility of its kind. Based in Coventry and Warwickshire, this facility, which is a key element of the Automotive Sector Deal, is designed to make the UK a world leader in battery innovation.

Over the next year or so government and industry will be launching further sector deals to drive investment in key areas of the UK economy. The first of these, the Life Sciences Sector Deal, was announced in December 2017. It includes several significant commitments and investments into the UK by 25 global organisations. It sets out a plan for key priorities for the sector, with a programme of action under the themes of research, technologies of the future, the evolution of UK clinical trials capabilities and business environment. It draws in substantial investment, ensuring the next wave of breakthrough treatments, innovative medical research and technologies, and high skilled jobs are created throughout the world-class life sciences clusters already in place across the country.

Similarly, the Automotive Sector Deal, announced in January 2018 between government and the automotive industry, seeks to build on the unique strengths of the UK automotive sector and further develop the strong collaborative partnership established between BEIS and industry. The Deal, which seizes opportunities to engage with the wider world beyond Europe, brings together several long-term joint commitments between government and industry that will help build and establish the UK's leadership in meeting the Future of Mobility and Clean Growth Grand Challenges. These include low-carbon automotive technologies, automotive research and development, transitioning to ultra-low and zero emission vehicles and Connected Autonomous Vehicles (CAV) technology, funding for 22 projects that were announced in February 2018 and a supply chain competitiveness and productivity programme.

1.4 Support business to start and grow[1]

Throughout the year there have been several announcements launching new funds that will be made available to invest directly in UK businesses, to help leverage additional private investment or to strengthen the role of those that oversee UK markets to ensure a fair playing field:

- the National Productivity Investment Fund has been extended out to 2022/23, increasing the size of the fund by £7 billion to £31 billion
- the British Business Bank has been provided with £2.5 billion to establish an investment fund to help unlock £20 billion of patient capital investment
- £2.8 million a year has been allocated to the Competition and Markets Authority so that it can take on more cases against companies that are acting unfairly
- there will be an extension of the Enterprise Finance Guarantee, which provides loans to smaller businesses, to March 2022

1.5 Drive growth across the country

In addition to the many regional elements of the Industrial Strategy and its supporting Challenges we have also been working to improve the support that is provided directly to local businesses. Following funding announcements in the Autumn Budget to support local economic development through initiatives such as Growth Hubs, city region mayors, Local Enterprise Partnerships, the Northern Powerhouse and the Midlands Engine, the department has been working with the Ministry of Housing, Communities and Local Growth to take forward these initiatives, with several policy announcements due in summer 2018.

1 https://www.gov.uk/government/publications/small-business-survey-2015-businesses-with-employees

## 2. Maximising opportunities and bolstering UK interests

2.1 Encouraging inward Investment

The Secretary of State announced £300 million of funding from the Industrial Strategy Challenge Fund (ISCF) that will bring together the UK's world-class research expertise with business investment to develop technologies that can help the UK prepare for the challenge of an ageing society. From the £300 million of funding, £98 million has been allocated to investigate healthy ageing and £210 million to improve early diagnosis and precision medicine.

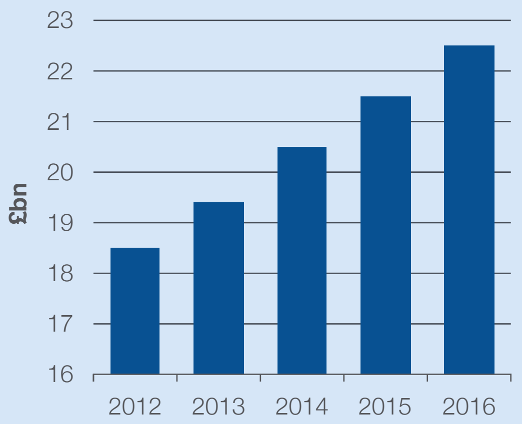
Business Investment in the UK was estimated to have increased

Q4 2017: £46.2 billion
Q4 2016: £43.5 billion[2]

Number of inward investment projects involving Department for International Trade (a cross-government figure showing the work of BEIS, DIT and others)

2017: 1,859[3]

Expenditure by UK businesses on research and development (at constant prices)[4]




2.2 Ensuring our economy is resilient and seizing opportunities

We have reviewed our horizon scanning and enhanced business intelligence to improve early identification and prevention of shocks, as well as provide a more effective intervention through targeted contingency planning, and clear roles and responsibilities.

2 https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/businessinvestment/octobertodecember2017revisedresults
3 Department for International Trade Annual Reports and Accounts 2016-2017 – latest available.
4 https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/researchanddevelopmentexpenditure/bulletins/businessenterpriseresearchanddevelopment/2016

## 2.3 Promoting interests of UK businesses in EU exit negotiations

BEIS has one of the most diverse portfolios within the EU Exit negotiations. We continue to analyse the impacts of EU exit on the wide range of sectoral and cross-cutting interests for which we are responsible, including the impact on businesses, a range of economic sectors and consumers. We are ensuring these views are reflected in HM Government's negotiating priorities and approach as well as preparing for any domestic policy changes required as a result of the exit.

Additionally we are working to ensure a smooth exit for the UK's nuclear sector from Euratom and the EU, delivering future arrangements to facilitate trade, our ambitious nuclear programme, and continued nuclear research and development collaboration whilst providing compliance with international standards.

## 2.4 Building a profile of the UK on the international stage[5]

As well as working with EU colleagues to deliver continued innovation after EU Exit, we are establishing new partnerships with non-EU leading science nations to make it easier for our researchers and innovators to collaborate with our broader international partners. We have sought to promote UK research and innovation internationally to drive investment and export opportunities and are working with other countries to address shared global challenges through science and innovation. This includes designing and implementing a £1.5 billion fund to support cutting-edge research that addresses the challenges faced by developing countries.

We also continue to support international action on climate change including through mobilising £2 billion international climate finance (ICF) within BEIS. A set of key performance indicators (KPIs) have been developed and tested to capture the results achieved by this funding.

**Between 2012 and 2017, ICF programmes:**

i. supported 34 million people to cope with the effects of climate change
ii. provided 12 million people with improved access to clean energy
iii. reduced or avoided 9.2 million tonnes of greenhouse gas (GHG) emissions ($tCO_2e$)
iv. installed more than 400 MW of clean energy capacity
v. mobilised £2.2 billion public and £500 million private finance for climate change purposes in developing countries[4]

5 https://www.gov.uk/government/publications/2017-uk-climate-finance-results

## 3. Promote competitive markets and responsible business practices

3.1 Reforming corporate governance

In April 2017, the Government published its response to the Green Paper consultation on Corporate Governance reform. Since then we have been working with the Financial Reporting Council, the Institute of Chartered Secretaries and Administrators, and the Investment Association to implement reforms aimed at:

- strengthening shareholder control on executive pay and increasing transparency on pay
- strengthening employee and other stakeholder voices in company boardrooms
- ensuring high standards of corporate governance in the UK's largest private businesses

3.2 Promoting fairness in the labour market

In February 2018, the Department outlined its Good Work Plan through which millions of flexible workers will receive new rights. The Plan is in response to the independent Matthew Taylor Review into the impact that modern working practices are having on working life, which was launched in July 2017.

The Good Work plan seeks to ensure workers know their rights and receive the benefits they are entitled to, and that action is taken against employers who breach these rights. It includes proposals on first-day entitlements to holiday and sick pay, a new right to payslips for all workers – including casual and zero hour workers – and a right for all workers to request a more stable contract, providing more financial security for those on flexible contracts.

Matthew Taylor recognised in his review that the UK's employment and tax laws can fail to provide clarity. In response, BEIS is will be launching a consultation to examine options, including new legislation, to make it easier for both the workforce and businesses to understand whether someone is an employee, worker or self-employed.

The Government has again responded to the Low Pay Commission's recommendations, increasing the National Living Wage in line with our ambition for it to be 60% of median earnings by 2020, subject to sustained economic growth.

We also continue to work towards improving the equitable representation of those with protected characteristics under the Equalities Act on company boards.

National Living Wage

April 2017: we raised the National Living Wage to £7.50. This is 57.6% of median earnings[6]

Proportion of board positions held by women amongst FTSE 350

October 2017: 24.5%[7]

Proportion of BAME directors on boards of FTSE 100 companies

October 2017: 8%

This compares to 14% BAME representation in the UK population[8]

6 https://www.gov.uk/government/publications/national-minimum-wage-low-pay-commission-report-2017
7 Source: Hampton-Alexander review. Release schedule: annua
8 This compares to 14% BAME representation in the UK population. Source: Parker Review, 2017. Release schedule: annual

### 3.3 Ensuring UK has the right regulatory frameworks

The Department published a consumer Green Paper in April 2018 to help consumers benefit from strong protections and competitive markets. These include allowing tougher action against companies that break consumer law, developing proposals to protect consumers from facing unexpected payments when a subscription is renewed or when a free trial ends and making terms and conditions clearer, simpler and shorter.

We continue to support small businesses and have been focusing on the issue of late payments. The total overall late payment debt to small and medium-size businesses is currently £14.2 billion and an estimated 50,000 businesses fail every year due to delays being paid what they are owed. We have been working with partners across government and industry to create a culture where prompt payment is the norm and not the exception.

From April 2017, large businesses must provide information to the government on their typical payment terms and policies and how well they meet them. Businesses will be able to use this data to make better informed decisions about who they work with.

In December 2017 we launched the role of the Small Business Commissioner, which was taken up by Paul Uppal. The Commission will provide information about how to avoid and resolve payment issues. It will also consider complaints from small businesses, allowing them to challenge poor practice without taking the more drastic step of legal action.

Following the General Election in June 2017, the Business Impact Target to achieve £10 billion of regulatory savings by 2020 (the expected end of the Parliament) was closed, with a replacement target being introduced. Pro-rata the target for the last Parliament was £4 billion. A final report on target delivery is expected this summer.

### 3.4 Safeguarding UK interests in investments in national infrastructure

In October 2017, we launched a consultation on a review of National Security and Infrastructure Investment. Earlier this year, Parliament agreed to our proposed amendments to the Enterprise Act 2002. As a result, our powers to intervene into mergers which may raise national security concerns has been expanded.

Part two of the consultation on the longer-term reforms closed on 9 January 2018. We are now considering the responses received and will lay out plans for long-term reform shortly.

In December 2017 BEIS announced £370 million of funding to secure the future of the UK's Post Office network. The investment will help maintain and modernise the Post Office network so it can continue to provide essential services to its 17 million customers across the UK, and introduce changes including extending opening hours and cutting queue times.

Published figures reveal the network has grown for the second year running with 99.7% of people living within three miles of their local post office and number of rural branches rising to 6,185.

Delivering on our objective to promote competitive markets, BEIS has worked with the Post Office to extend the availability of banking services to SMEs and 95% of small business customers can now access day-to-day banking services in branch.

## 4. Ensuring the UK has a reliable, low-cost and clean energy system

4.1 Ensure our energy system is reliable and secure

We have successfully improved our security of supply through 2017-18. Loss of Load Expectation (LOLE) is used to measure security of the electricity supply. It is the expected amount of time per year that the electricity supply cannot meet demand, when National Grid may need to use back-up balancing tools. The lower the LOLE, the more secure the electricity system, and the Government has a legal target to not exceed 3 hours.

> Security of electricity measured by Loss of Load Expenditure (LOLE)
>
> 2017-18 LOLE: 0.01 hours
> 2015-16 LOLE: 0.5 hours
>
> This is the time that the National Grid forecast they may need to use balancing tools in the electricity supply[9]

We also have a very high level of gas security. Gas system capacity is measured on how the system would cope – indicating what percentage of demand could be met – if it lost its largest single piece of infrastructure (the 'N-1' indicator).

> Gas system capacity
>
> Percentage of demand that could be met if largest piece of gas infrastructure failed, in a severely cold winter:
>
> 2016: 127%
> 2015: 112%[10]

4.2 Deliver affordable energy for households and businesses

This year saw significant steps taken to cut the cost of energy to consumers and to further improve clean growth.

The Domestic Gas and Electricity (Tariff Cap) Bill, introduced to Parliament in February 2018, will put in place a requirement on the independent regulator, Ofgem, to cap energy tariffs until 2020, with the possibility of it being extended to 2023 if necessary. It will mean an absolute cap can be set on poor value tariffs, protecting 11 million households. The Government intends Ofgem to be able to set the temporary price cap by the end of 2018 so that it is in place for next winter.

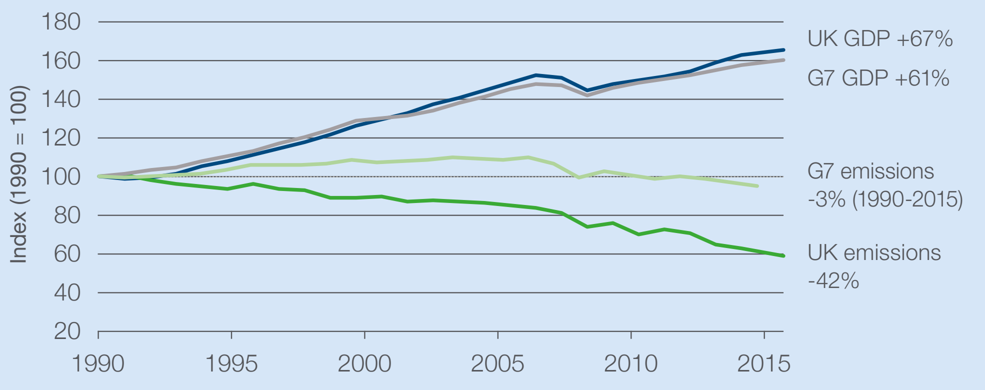
The Bill is part of a package of measures being introduced by government to increase competition in the retail energy market and lower prices for consumers, including the rollout of smart meters in every household and initiatives to promote smarter and faster switching.

> Number of smart and advanced meters operating in homes and businesses across Great Britain
>
> March 2018: 11.06 million
> March 2017: 6.78 million
> March 2016: 3.6 million[11]

4.3 Climate change and low-cost decarbonisation

Over the past 25 years the UK has been among the most successful countries in the developed world in growing our economy while reducing emissions. Since 1990, we have reduced emissions faster than any other G7 nation, while leading the G7 group of countries in growth in national income over this period.

9 https://www.nationalgrid.com/sites/default/files/documents/Winter%20Outlook%202017.pdf
10 https://www.gov.uk/government/publications/statutory-security-of-supply-report-2017
11 This is a 17% increase from the previous quarter, and a 71% increase on the number of meters in operation as at 31 December 2016. https://www.gov.uk/government/statistics/statistical-release-and-data-smart-meters-great-britain-quarter-4-2017




The Clean Growth Strategy, published in October 2017, outlined the Government's commitment to continue that progress. We project that we will outperform against our second and third carbon budgets, covering the years 2013 to 2022, by almost 5% and 4% respectively. Our economy is expected to grow by 12% over that time.

Wind and solar generation overtook nuclear in Q4 2017 to be the UK's second highest source of electricity for the first time. This was due to increased wind and solar capacity and higher wind speeds in Q4 2017, combined with lower nuclear generation.

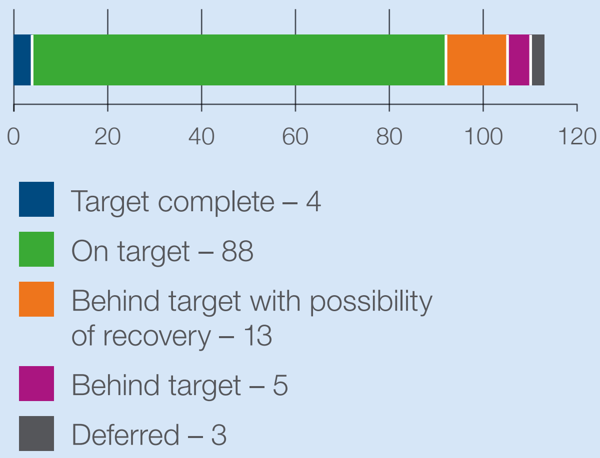
Annual greenhouse gas emission reporting against carbon budgets

2016 total greenhouse gas emissions: 468 $MtCO_2e$.

The UK was on track to meet the Second Carbon Budget (2,782 $MtCO_2e$ in 2013-17)[12]

## 4.4 Manage our energy legacy safely and responsibly

The Department has worked closely with the Nuclear Decommissioning Authority (NDA) and UK Government Investments (UKGI) to improve governance and reporting of the NDA's activities. The NDA business plan covers 113 targets encompassing site restoration, spent fuels, integrated waste management, business optimisation and critical enablers. Progress as at end of September 2017 is summarised below.




https://www.gov.uk/government/publications/nda-mid-year-performance-report-quarter-2-status-for-2017-18

Following an announcement in March 2017, Steve Holliday, the former Chief Executive of National Grid, is leading an independent inquiry into the procurement, litigation, settlement and termination of the Magnox contract. The Inquiry delivered its initial findings in October 2017 and has since continued to pursue additional avenues of inquiry.

Our Department also sponsors the Coal Authority to manage the £4.3 billion long-term mining legacy and to regulate the coal industry. We also sponsor the Oil and Gas Authority, who are charged with revitalising exploration, improving stewardship and promoting investment in the UK Continental Shelf.

12 2016 Final estimates of UK greenhouse gas emissions 1990-2016; release schedule: annual.

## 5. Building a flexible, innovative, collaborative and business facing Department

5.1 People Strategy

In conjunction with business planning processes the Department has developed and implemented a revised Strategic Workforce Plan to identify the size, shape and strategic delivery framework that will be required for future years. This has been adapted to include planning rounds for EU Exit resource across BEIS and has been used alongside the People Plan to provide the overarching framework for other key HR strategies.

The Department has also improved organisational and individual capability and talent development through a learning and talent offer that provides opportunities for all our people to develop knowledge and skills in priority areas. This was supported by a focus on developing expertise across the professions and in the strong leadership and management required to meet our organisational objectives.

We have also focused on our understanding of business by developing a learning offer that will provide a foundation on how businesses work, their priorities and how they interact with BEIS, its agencies and wider government as well as supporting deeper specialist learning for more experienced teams. To encourage innovation and create an innovative environment, we will roll out a workshop to provide our senior civil servants and selected teams with high quality tools and techniques.

5.2 Enabling digital, data and technology

Throughout the year BEIS has worked to identify a new operating model for its digital services that achieves a balance between the use of in-house teams that can make the strategic links of projects across the digital portfolio and the use of external resource where there is a short-term need for specific skills or to tackle a higher than usual workload.

5.3 Deliver a workspace that supports and enables BEIS to deliver its objectives

The Department has worked closely with the Government Property Agency (GPA) and is one of the first departments to transfer significant elements of its asset management to the GPA. We have developed an asset management approach that will ensure the BEIS estate meets the needs of the Department whilst contributing to Government's wider aims for its property portfolio. This has involved a significant number of movements of teams into and out of 1 Victoria Street to ensure that we can accommodate the core Department while also enabling us to improve efficient usage of space.

5.4 Using resources efficiently to deliver ministers' strategic priorities

As well as improvements to departmental workforce strategy and improved prioritisation through our business planning round the department has sought to improve the efficient use of those people in key professions. HR and the leads for government professions have contributed to BEIS-wide resource planning and have enabled the Department to better co-ordinate the recruitment across key professions such as Project Management, targeting new arrivals to those areas with the greatest need.

5.5 Building an exceptional department

In April 2017 BEIS completed its Transition Programme, designed to bring the Department together after the Machinery of Government changes, and co-locate ex-DECC and BIS staff in 1 Victoria Street.

At the same time, we launched the new Transformation Programme to ensure we are best equipped for the future – whatever opportunities or challenges it may bring. Transformation is about building on what we do well and recognising where we can develop – making sure BEIS is a great place to work, where we're able to deliver our objectives and make a real-world impact.

The key focus was to embed a shared culture in BEIS, help make BEIS a great place to work including a new performance management system and IT platform rollout, and improve the way we work with our partner organisations.

After a significant consultation exercise through the summer and autumn, in December 2017, BEIS launched its new sponsorship model for working with our partner organisations. The model is based on 4 key principles – to improve engagement, promote assurance, align strategically and foster talent. At the same time, the BEIS partnership team has been strengthened to deliver a common, consistent and collective approach to the way we engage with our partner organisations.

Following consultation to ensure that they were representative of our people's views, we launched the 'BEIS values' and developed the BEIS story as a tool to show how values and delivery of our objectives fit together. This has been reinforced regularly through the year, including the use of regular team profile stories that show how each area of the Department can directly link their delivery to the achievement of our strategic objectives.

Annual People Survey score on organisational objectives and purpose index

Oct 2017: 75%
Oct 2016: 52%

The values were also embedded within the departmental performance management system. Objectives for the year had to reflect how the individual would achieve their goals not just what those goals were.

The organisation-wide consultation to develop a new performance management approach for 2018/2019 onwards received 1,250 survey responses and over 300 colleagues attended face-to-face sessions. Through consultation, feedback and collaboration with networks, employee volunteer groups and senior stakeholders performance management recommendations have been developed and agreed ready for implementation in April 2018.

To support the successful implementation we have produced a range of support materials and to introduce the new performance management framework we conducted 34 briefing sessions for managers covering 6 regional areas (London, Aberdeen, Cardiff, Leeds, Birmingham and Teddington) and recorded a total attendance of 1,246 staff.

# Looking ahead

### Delivering an ambitious industrial strategy

To do this we will:

- deliver the government's modern Industrial Strategy which sets out a long-term plan to boost the productivity and earning power of people throughout the UK
- build a Britain fit for the future by focusing on the five foundations of productivity: ideas, people, infrastructure, business environment and places
- establish an Independent Industrial Strategy Council to develop measures of success and evaluate the performance of the strategy
- work to increase investment in research and development across the economy to 2.4% of GDP by 2027, and work with industry to develop a roadmap to meet this target
- support world leading sectors and launch our Grand Challenges to put the UK at the forefront of the industries of the future
- support businesses to start and grow, driving productivity in businesses of all sizes by increasing collaboration, building skills and ensuring everyone has the opportunity of 'good work' and better, higher skilled jobs
- drive growth across the country by working with the Ministry of Housing, Communities and Local Government to introduce Local Industrial Strategies and further strengthen local leadership through Local Enterprise Partnerships and Mayoral Combined Authorities

### Maximising investment opportunities and bolstering UK interests

To do this, we will:

- promote the interests of UK businesses and wider BEIS interests in EU and Euratom Exit negotiations
- attract investment into the UK by identifying innovative solutions to emerging trends and challenges both in the UK and globally, delivering on our vision for the future economy
- seize economic opportunities by providing targeted promotion and support for investors to increase investment into the UK
- improve resilience to economic shocks through early identification and mitigate risk through investigation of future trends and enhanced business intelligence
- build the profile of the UK on the international stage and ensure that our Industrial Strategy is well understood globally and benefits from the experience of our international partners

### Promoting competitive markets and responsible business practices

To do this, we will:

- ensure businesses are run responsibly and transparently, including by encouraging companies to adopt best practice in corporate reporting and responsibility as well as good business practice
- promote fairness in the labour market, improved working conditions and greater earning power for all, and build on the recommendations of the Matthew Taylor Review
- ensure the UK has the right regulatory frameworks to help meet business and consumer needs
- safeguard UK interests in investments in national infrastructure
- reform regulatory approaches to support innovation and productivity, including by establishing a new £10 million Regulators' Pioneer Fund to help regulators to develop innovative approaches aimed at getting new products and services to market

### Ensuring the UK has a reliable, low-cost and clean energy system

To do this, we will:

- maximise the advantages for UK industry from the global shift to clean growth through the new Clean Growth Grand Challenge, and taking action on climate change
- ensure we maintain adequate energy capacity, for example through the annual operation of the capacity market, to guarantee that we can cope with unexpected peaks in demand and enable a reliable supply of electricity and gas
- deliver affordable energy for households and businesses, including by ensuring that every household and small business in the country has been offered a smart meter by the end of 2020
- deliver safe, cost effective and environmentally sensitive decommissioning of offshore oil and gas infrastructure in the North Sea, while making sure that the UK benefits from the job opportunities this will create
- work with and through the Nuclear Decommissioning Authority to develop and deliver a robust plan for safe, cost effective, environmentally sensitive decommissioning of our civil nuclear waste through a geological disposal facility, creating jobs and opportunities for UK companies in the supply chain

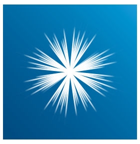
### Building a flexible, innovative, collaborative and business facing Department

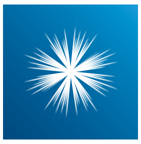
To do this, we will:

- elevate BEIS from a well-functioning department to an exceptional one which delivers for business on our strategic priorities in relation to the Industrial Strategy, EU exit, and clean growth
- deliver our people strategy to provide the capability to achieve our objectives, improving organisational and individual capability and talent development through a learning and talent offer that provides opportunities for all our people to develop knowledge and skills in priority areas
- enable digital, data and technology to deliver exceptional services for our staff as well as the people and businesses we serve
- ensure good knowledge and information management supports our policy making, and that we handle and protect information responsibly
- provide estate, support services and security that enable our ministers, policy teams, and partner organisations to deliver their objectives

# United Nations sustainable development goals

The Sustainable Development Goals (SDGs) are the current global goals for 2016 – 2030 adopted by UN member states. They include 17 global goals, 169 targets and 231 indicators. The UK government played a key role in the negotiations. UK Government departments are required to look within their single department plans to identify policies and programmes that will support the delivery of the SDGs.

| Sustainable development goal | BEIS delivery area | Progress in 2017-18 |
|---|---|---|
| **Goal 1**<br>End poverty in all its forms |  | **3.2 Promoting fairness in the labour market**<br>Department outlined its Good Work Plan through which millions of flexible workers will receive new rights and increasing the National Living Wage to 57% of median earnings. |
| **Goal 7**<br>Ensure access to affordable, reliable, sustainable and modern energy for all |  | **4.2 Delivering affordable energy for households and businesses**<br>The Domestic Gas and Electricity (Tariff Cap) Bill was introduced which enables Ofgem to put an absolute cap on poor value tariffs, protecting 11 million households. As at 31 December 2017, there were 10.04 million smart and advanced meters operating across homes and businesses in Great Britain. |
| | | **4.3 Climate change and low-cost decarbonisation**<br>UK emissions in 2017 were provisionally estimated to be 43% lower than in 1990 and 3% lower than 2017, at 456 $MtCO_2e$. The Clean Growth Strategy, published in October 2017, outlined the Government's commitment to continue progress. |
| **Goal 8**<br>Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all |  | **1.5 Drive growth across the country**<br>Improved support to local businesses and supporting local economic development through initiatives such as Growth Hubs, city region mayors, Local Enterprise Partnerships, the Northern Powerhouse and the Midlands Engine. |
| | | **1.2 Investing in science, research and innovation**<br>The Autumn Budget 2017 announced a further £2.3 billion for investment in research and development, and an increase in the main research and development tax credit, up to 12%. |
| | | **1.3 Support world leading sectors**<br>Delivery of the Industrial Strategy through a range of Grand Challenges that will fund research, development and scale up to production in key areas of the economy. |
| | | **1.4 Supporting businesses to start and grow**<br>Launching new funds to invest directly in UK businesses, to help leverage additional private investment or to strengthen the role of those that oversee UK markets to ensure a fair playing field. |
| **Goal 9**<br>Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation |  | **1.2 Investing in science, research and innovation**<br>Royal Assent of the Higher Education and Research Act enabling major reforms to the research and innovation landscape, and creating the single body, UK Research and Innovation (UKRI) to act as the strategic centre of the UK's research and innovation funding system. |

| Sustainable development goal | BEIS delivery area | Progress in 2017-18 |
|---|---|---|
| **Goal 11**<br>Make cities and human settlements inclusive, safe, resilient and sustainable |  | **1.4 Supporting businesses to start and grow**<br>Allocated funds to the Competition and Markets Authority so that it can take on more cases against companies that are acting unfairly and extending The National Productivity Investment Fund and the Enterprise Finance Guarantee which provides loans to smaller businesses. |
| **Goal 12**<br>Ensure sustainable consumption and production patterns |  | **4.1 Ensuring that our energy system is reliable and secure**<br>Improved security of electricity supply measured through the Loss of Load Expectation (LOLE), and high security of the gas system capacity measured through the 'N-1' indicator. |
| **Goal 13**<br>Take urgent action to combat climate change and its impacts |  | **4.3 Taking action on climate change and decarbonisation**<br>Continue to support the UK Climate Change Act through the Clean Growth Strategy and continued reduction in UK emissions. |
| **Goal 16**<br>Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels |  | **4.2 Delivering affordable energy for households and businesses**<br>Cutting the cost of energy to consumers through the Domestic Gas and Electricity (Tariff Cap) Bill and further improving clean growth. |

## Anti-bribery and anti-corruption

There is active and ongoing commitment from senior management to counter bribery and corruption and a policy of zero tolerance which is communicated throughout the organisation. BEIS has adopted a risk-based approach to managing bribery and corruption which helps to identify and rightly focus efforts to the areas of highest risk within the business. We are developing an operating model for countering fraud bribery and corruption which will further provide the necessary skills, capabilities and support to manage these risks effectively within BEIS and its partner organisations.

There were no identified cases of bribery or corruption within BEIS this year. Nonetheless, we will continue to raise staff awareness of good practice to avoid any complacency.

# Sustainability report

Our department is committed to sustainability in the way we make policy, procure goods and services. We are also committed to environmental sustainability. As part of the Government Greening Commitments (GGC), we report on our greenhouse gas (GHG) emissions, water use, paper use and waste.

## Policy development

Rural proofing
Our Industrial Strategy policy outlines government plans to increase productivity and economic growth – this is across every part of the country. It covers issues in rural areas, including a shortage of work premises, slow internet connections and a lack of knowledge transfer between business communities spread across wide areas. Rural proofing is built into our impact assessments.

Climate change adaptation
Climate change adaptation refers to adapting to the consequences of climate change, recognising that some of those consequences are unavoidable. We contribute to the cross-government National Adaptation Plan, published every 5 years. The plan sets out how risks of extreme weather events will be managed (e.g. flood resilience measures) in relation to communities, the built environment, businesses and local government.

## Sustainable procurement

Suppliers
We use Crown Commercial Service framework to procure goods and services. The procurement service keeps its policies under regular review. It also works with its partners individually to ensure sustainability goals are achieved.

Engagement with small and medium enterprises (SMEs)
We continue to introduce new measures to improve SME engagement. In 2017-18, the share of procurement made directly with SMEs was 28.4%. Of this the core department share was 20.8%. We are committed to meeting the cross-government target of 33% directly and through the supply chain by the end of 2022.

Prompt payments:
We comply with the prompt payment code from the Institute of Credit Management. Whilst our standard terms and conditions specify payment within 30 days of receipt, we aim to make payments within 5 working days. In 2017-18, for the core department, 99.3% of undisputed invoices were paid with 30 days (2016-17: 99.4%) and 97.1% of undisputed invoices were paid within 5 working days (2016-17: 96.3%). The proportion of the aggregate amount owed to trade creditors at year-end, compared with the aggregate amount invoiced by suppliers during the financial year, in terms of creditor days, equaled less than one day.

## Environmental sustainability

Greenhouse gas emissions
We have created a Green Guardians network for BEIS. The network monitors our energy consumption and recycling and engages staff in initiatives to promote sustainability in the home.

Water and paper
We recently received accreditation to ISO 50001 (energy efficiency) and ISO1400 (waste management). We will be reviewed annually against these standards and we will seek continuous improvement in both. We have a closed paper cycle whereby all paper is recycled for reuse.

Waste
We have installed bins for recycling a variety of materials.

Food and catering
We are committed to sustainable (and where possible British) food products.

Sustainable construction
We have had no new builds or major refurbishments in the last year. We worked with the shadow Government Property Agency to ensure any construction work prioritises sustainability, and reaches the government buying standard for construction.

Biodiversity and the natural environment
The department has no significant impact on biodiversity. However, site licence companies managing NDA nuclear sites are contractually required to have suitable biodiversity action plans in place.

## Progress on Greening Government Commitments[1]

| Targets by 2019-2020 compared to 2009-10 baseline | Progress in 2017-18 compared to 2009-10 baseline |
|---|---|
| **Total GHG emissions:** reduce by 32%[2] | ↓ 53% |
| **Domestic flights:** reduce by 30% | ↓ 67% |
| **Vol. of water used:** reduce generally | ↓ 61% |
| **Reams of paper procured:** reduce by 50% | ↓ 86% |
| **Total non-hazardous waste generated:** reduce generally | ↓ 67% |
| **Waste to landfill:** reduce proportion to 10% | 11.7% in 2017-18 |
| **Waste recycled/reused:** increase generally | ↑ 17% |

**Notes**

1. These are provisional figures. Actual figures to be confirmed in the Greening Government Commitments Annual Report 2017-18.
2. As we outlined in the Clean Growth Strategy, we are currently working with departments to agree higher targets for 2020 and actions to further reduce greenhouse gas emissions beyond this date. We will publish the new targets shortly.

## Greening Government Commitments: data[1,2]

| GHG | | 2017-18 | 2016-17 | 2009-10 |
|---|---|---|---|---|
| **Non-financial indicators** | Gross emissions scope 1 (direct) (tonnes $CO_2e$) | 8,007 | 6,109 | 17,837 |
| | Gross emissions scope 2 & 3 (indirect) (tonnes $CO_2e$) | 22,325 | 25,480 | 46,507 |
| | **Total emissions – scope 1, 2 & 3 (tonnes $CO_2e$)** | **30,332** | **31,589** | **64,344** |
| **Related energy consumption** | Electricity: non-renewable (MWh) | 29,221,350 | 30,360,293 | 45,323,891 |
| | Electricity: renewable (MWh) | 17,428,973 | 19,540,688 | 38,675,792 |
| | Gas (MWh) | 36,185,503 | 29,071,359 | 62,905,227 |
| | District heating (MWh) | 149,220 | 124,776 | – |
| | Other heat (MWh) | 6,824,394 | 2,664,381 | 9,865,113 |
| | **Total energy consumption (MWh)** | **89,809,439** | **81,761,497** | **156,770,023** |
| **Financial indicators** | Expenditure on energy (£000s) | 6,755 | 6,467 | n/a |
| | CRC licence expenditure (£000s) | 598 | 497 | n/a |
| | Expenditure on official business travel (£000s) | 7,559 | 11,660 | n/a |
| | **Total expenditure on energy and business travel (£000s)** | **14,912** | **18,624** | **n/a** |

| Travel | | 2017-18 | 2016-17 | 2009-10 |
|---|---|---|---|---|
| **Non-financial indicators** | **Number of domestic flights (tonnes $CO_2e$)** | 2,689 | 5,125 | 8,078 |

| Water | | 2017-18 | 2016-17 | 2009-10 |
|---|---|---|---|---|
| **Non-financial indicators** | Water consumption ($m^3$) | 110,457 | 126,468 | 283,495 |
| **Financial indicators** | Water supply & sewage costs (£000s) | 325 | 329 | n/a |

| Waste | | | 2017-18 | 2016-17 | 2009-10 |
|---|---|---|---|---|---|
| **Non-financial indicators** | **Total waste** | | **2,468** | **2,159** | **7,541** |
| | Non-hazardous waste | Landfill | 289 | 197 | 2,986 |
| | | Reused/recycled | 1,779 | 1,775 | 4,107 |
| | | Composted/ biodigestion | 49 | 60 | 25 |
| | Total ICT waste | Reused | – | – | 7 |
| | | Recycled | 11 | 51 | 2 |
| | Incinerated/energy from waste | | 389 | 181 | 448 |
| | Reams of paper procured | | 61,825 | 97,893 | 441,134 |
| **Financial indicators** | **Total disposal cost** | | **468** | **432** | n/a |

**Note**

1. These are provisional figures. Actual figures to be confirmed in the Greening Government Commitments Annual Report 2017-18.
2. Entities include: i. BEIS core Department, ii. Companies House, iii. Ordnance Survey, iv. Insolvency Service, v. Intellectual Property Office, vi. Land Registry, and vii. Natural Environment Research Council.

**Alex Chisholm**
Permanent Secretary and
Principal Accounting Officer

3 July 2018

# Accountability Report

UK Space Agency is studying how machines can support humans to make the exploration of the universe more efficient.

# Statement of Accounting Officer's responsibilities

Under the Government Resources and Accounts Act 2000 (the GRAA), HM Treasury has directed the **Department for Business, Energy and Industrial Strategy** to prepare, for each financial year, consolidated resource accounts detailing the resources acquired, held or disposed of, and the use of resources during the year by the Department (inclusive of its executive agencies), and its sponsored non-departmental and other arm's-length public bodies. These other bodies are designated by order made under the GRAA by Statutory Instrument 2017 no 1256 (together known as the 'Departmental group', consisting of the Department and **sponsored bodies listed at note 27 to the accounts**). 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 the Departmental group, and of the net resource outturn, application of resources, changes in taxpayers' equity and cash flows of the Departmental group for the financial year.

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

- **observe** the Accounts Direction issued by the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- **ensure** that the Department has in place appropriate and reliable systems and procedures to carry out the consolidation process
- **make judgements** and estimates on a reasonable basis, including those judgements involved in consolidating the accounting information provided by non-departmental and other arm's-length public bodies
- **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
- **prepare** the accounts on a going concern basis

**HM Treasury has appointed the Permanent Head of the Department as Accounting Officer.** The Accounting Officer has also appointed the Chief Executives or equivalents of its sponsored non-departmental and other arm's length public bodies as Accounting Officers of those bodies.

**The Accounting Officer of the Department is responsible** for ensuring that appropriate systems and controls are in place to ensure that any grants that the Department makes to its sponsored bodies are applied for the purposes intended and that such expenditure and the other income and expenditure of the sponsored bodies are properly accounted for, for the purposes of consolidation within the resource accounts. Under their terms of appointment, the Accounting Officers of the sponsored bodies are accountable for the use, including the regularity and propriety, of the grants received and the other income and expenditure of the sponsored bodies. 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 assets of the department or non-departmental or other arm's length public body for which the Accounting Officer is responsible, are set out in Managing Public Money published by HM Treasury.

**Accounting Officer's confirmation:**
I have taken all the steps 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. The annual report and accounts is fair, balanced and understandable. I take personal responsibility for the annual report and accounts and the judgements required for determining that it is fair, balanced and understandable.

**Alex Chisholm**
Permanent Secretary and
Principal Accounting Officer

3 July 2018

# Directors' report: financial review

## Expenditure

### How expenditure is presented

The Department's expenditure is reported on two different bases in this Annual Report and Accounts:

- **The Statement of Comprehensive Net Expenditure** (page 123) presents net expenditure of £86.5 billion for our Departmental Group and £12.7 billion for the core Department and agencies. This expenditure is calculated following accounting standards and guidance which are explained in more detail in note 1.1 (page 132) and on a similar basis to those rules generally applied by private sector businesses.
- **The Statement of Parliamentary Supply** (page 102) presents a total expenditure for our Departmental Group of £86.1 billion and compares this with the budget presented to Parliament of £97.8 billion. These figures are calculated in accordance with HM Treasury's Consolidated Budgeting Guidance, which differs in several respects with the accounting basis above. An overview of HM Treasury's budget framework, including the terms used for different types of expenditure, is included in the box on the right. **The summaries and explanations of key movements below have been prepared on this basis, except where stated otherwise.**

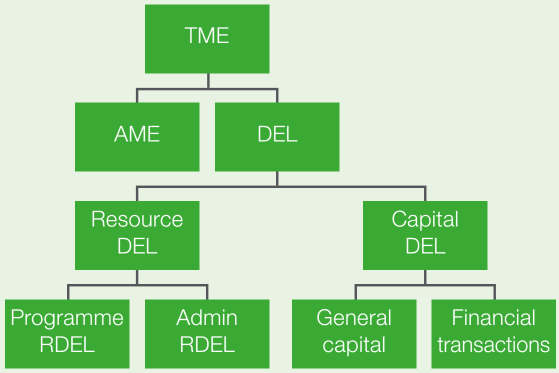
### An overview of our expenditure

The Total Managed Expenditure (TME) of the departmental group was £86.1 billion, broken down by HM Treasury's spending categories as set out in the table below.

| | 2017-18 outturn | 2017-18 budget | 2016-17 outturn |
|---|---|---|---|
| | £m | £m | £m |
| **TME** | **86,112** | **97,754** | **16,343** |
| – Resource DEL | 1,720 | 2,002 | 1,945 |
| – Capital DEL | 10,465 | 10,856 | 10,849 |
| Total DEL[1] | 12,185 | 12,858 | 12,794 |
| – Resource AME | 75,124 | 85,746 | 3,564 |
| – Capital AME | (1,197) | (850) | (15) |
| Total AME | 73,927 | 84,896 | 3,549 |

1. This expenditure is analysed in 'Where we spent our money' on page 16.

### Our Budget Framework




HM Treasury sets the overall budgetary framework for government spending. The total amount the department spends is referred to as its TME, Total Managed Expenditure. Budgets are classified as either AME: Annually Managed Expenditure; or DEL: Departmental Expenditure Limit.

AME budgets are volatile or demand-led in a way that the department cannot control. HM Treasury do not set firm AME budgets in spending reviews, but the department monitors AME forecasts closely and these are updated annually.

DEL budgets are understood and controllable. HM Treasury set firm limits for each type of DEL budget. This is done at spending reviews which occur every 3 to 5 years. DEL budgets are divided into RDEL: resource spend and CDEL: capital spend.

The RDEL budget is further split into:

- programme' budgets for direct frontline service provision
- 'administration' budgets for the running costs of the department such as back-office staff, rent and IT

The CDEL budget is further split into:

- 'financial transactions' for loans given or shares purchased
- 'general capital' for spending on all other assets or investments

This does not represent cash spend. The Departmental group's performance in any year is significantly impacted by accounting 'fair value' movements, most significantly those included in the 'Resource AME' lines. These accounting adjustments are referred to as 'non-cash' and as such tend not to feature in conventional descriptions of Departmental 'spending' of the kind shown in the Performance Report. The largest movements are driven by changes in discount rates which have a highly material impact on the value of nuclear decommissioning and other provisions. The main categories of spend and variations in expenditure against budget and the prior year are explained in further detail below.

## Comparison of expenditure to prior years

Our key areas of net expenditure for the last 3 years are shown in the table below.

| | 2017-18 | 2016-17 | 2015-16 |
|---|---|---|---|
| | £m | £m | £m |
| NDA | 73,218 | 5,082 | 92,066 |
| Science and research | 6,740 | 6,374 | 6,248 |
| Contracts for Difference | 3,558 | (273) | 10,122 |
| Innovate UK | 973 | 801 | 735 |
| Coal Authority | 1,545 | 34 | 1,936 |
| Green Investment Bank | 24 | 845 | 308 |
| Renewable Heat Incentive | 687 | 545 | 372 |
| International Climate Finance | 330 | 333 | 319 |
| Post Office Limited | 140 | 220 | 280 |
| Green Investment Bank sale receipts | (1,621) | – | – |
| Other | 518 | 2,383 | 1,146 |
| **Total** | **86,112** | **16,344** | **113,532** |

While spending on areas such as Science and Research and International Climate Finance remains broadly consistent, there are 3 categories where expenditure shows a high variation in the current year. All of these are driven by accounting fair value movements to assets and liabilities, rather than in-year cash or other expenditure. These amounts can be volatile in years when inputs underlying accounting estimates, such as discount rates, are changed. These are explained in detail in the review of the Statement of Financial Position on the following pages as follows:

Nuclear Decommissioning Authority (NDA)

In addition to expenditure incurred in the period, changes to the discount rate assumption have increased the provision values and resulted in a significant expense. A full explanation of the reasons behind this is set out in *(a) Impact on changes in discount rate (page 46) and (b) Nuclear Decommissioning Authority provisions (page 48).* In the current year the change in discount rate alone accounted for an expense of £71.0 billion (see also Financial Statements notes 4.3 and 19.1).

Coal Authority

The Authority has long-term future liabilities arising from its responsibilities arising from the ownership of abandoned coal mines. These are again highly sensitive to movements in discount rates, with an impact of £1.5 billion in the year (see also Financial Statements notes 4.3 and 19.2).

Contracts for Difference (CfD)

Fair value movements of £3.7 billion have been driven by changes to inflation and forecast price inputs into the valuation model. This is further explained in *(c) Contracts for Difference (page 49)* and Financial Statements note 9.

## Comparison of outturn to budget

The table below summarises the outturn of the Total Managed Expenditure of our Departmental group, in comparison with the budgets agreed by Parliament.

| | Outturn | Budget | Variance | |
|---|---|---|---|---|
| | £m | £m | £m | % |
| **TME** | **86,112** | **97,754** | **11,642** | **11.9** |
| – Resource DEL | 1,720 | 2,002 | 282 | 14.1 |
| – Capital DEL | 10,465 | 10,856 | 391 | 3.6 |
| Total DEL | 12,185 | 12,858 | 673 | 5.2 |
| – Resource AME | 75,124 | 85,746 | 10,622 | 12.4 |
| – Capital AME | (1,197) | (850) | 347 | 40.8 |
| Total AME | 73,927 | 84,896 | 10,969 | 12.9 |

Explanations for the key variances from budget are as follows, split by budget line headings from the Statement of Parliamentary Supply.

Total Managed Expenditure (TME)
Our TME budget was £97.8 billion; against this the department had an outturn of £86.1 billion. The difference of £11.7 billion resulted from lower than budgeted AME expenditure, mainly accounting valuation adjustments as explained below.

Resource DEL
The Estimate was £2 billion. Outturn against the adjusted Estimate was £1.7 billion. The department spent less than budget by £282 million due to a mixture of underspends across various areas and organisations. The significant components include £84 million of programme contingency and centrally held budget which were not required and could not be spent elsewhere due to their ringfenced nature. Also there were £27 million of additional receipts from British Business Bank and Green Investment Bank.

Capital DEL
The Estimate was £10.9 billion. The capital DEL outturn was £391 million lower than budget. A significant proportion of the underspends is attributed to limited capital calls by financial institutions under the Enterprise Financial Guarantees schemes operated by the British Business Bank on behalf of the Department. The extent of annual capital calls is not wholly predictable, as it is intrinsically linked to the financing needs of the underlying business.

Resource AME
The Estimate was £85.7 billion, and outturn was £75.1 billion. The majority of our resource AME costs in 2017-18 relate to:

i. increases to the NDA nuclear provision (£72.9 billion) and Coal Authority provision (£1.5 billion), largely arising from changes to the long-term discount rate used for provisions. The underspend of £4.4 billion compared to the budget, which reflects the estimate uncertainty when budgeting for these provisions, represents less than 6% of the total increase

ii. increases in CfD liabilities (£3.6 billion). This was £5.3 billion lower than budgeted due to higher than expected wholesale electricity price projections, which translates into lower CfD costs for the Department

Capital AME
The £347 million underspend on capital AME is almost entirely due to lower than expected demand by Post Office Limited for working capital funding.

## Our charging policy

Our core Department provides only a limited number of services for which it charges fees. Any such fees are set to comply with the cost allocation and charging requirements set out in HM Treasury and Office of Public Sector Information guidance.

The Insolvency Service sets its fees to recover costs. It has a range of fees covering three areas:

- case administration, where fees reflect the average costs of administering bankruptcy cases and compulsory company liquidation cases and also the average cost of completing debt relief orders
- insolvency practitioner regulation, where fees include the cost of authorising and monitoring insolvency practitioners and registering individual voluntary arrangements
- estate accounting, where fees reflect the cost of financial transactions on insolvency cases using the Insolvency Service account

Details of charging policies relating to partner organisations may be found in their respective published accounts.

## Expenditure on Official Development Assistance

Under agreed statistical reporting methodology, expenditure on Official Development Assistance (ODA) is reported on a calendar year and cash basis. BEIS provided £769 million of ODA in 2017.

### Provisional expenditure by DAC 5 sector code

| 3 digit code | Sector | Provisional 2017 net ODA (£,000) |
|---|---|---|
| 111 | Education, Level Unspecified | 13,221 |
| 113 | Secondary Education | 1,636 |
| 114 | Post-Secondary Education | 7,004 |
| 121 | Health, General | 83,804 |
| 122 | Basic Health | 204 |
| 151 | Government and civil Society-General | 1,402 |
| 160 | Other Social Infrastructure and Services | 507 |
| 210 | Transport and storage | 1,932 |
| 231 | Energy Policy | 19,520 |
| 232 | Energy Generation, Renewable Sources | 15,229 |
| 250 | Business and other Services | 266 |
| 311 | Agriculture | 60,871 |
| 312 | Forestry | 72,867 |
| 313 | Fishing | 1,175 |
| 321 | Industry | 11,877 |
| 410 | General Environment Protection | 80,591 |
| 430 | Other Multisector | 387,624 |
| 910 | Administrative Costs of Donors | 8,919 |
| | **Total** | **768,649** |

**Notes**

1. The split between different funds may not sum due to rounding
2. DAC 5 sector code: http://www.oecd.org/dac/stats/purposecodessectorclassification.htm
3. Further information on the Department's ODA expenditure in 2017 may be found in the publication Provisional UK Official Development Assistance as a Proportion of Gross National Income available at: https://www.gov.uk/government/statistics/statistics-on-international-development-provisional-uk-aid-spend-2017

In 2017 we delivered £326 million of climate and energy related ODA. This includes £318 million invested in international climate finance including:

- £123 million through large-scale multilateral funds such as the Green Climate Fund
- £52 million in the UK Sustainable Infrastructure Programme (SIP), a bilateral programme delivered by the Inter-American Development Bank (IDB). SIP will support countries in 'greening' their national infrastructure plans in line with their Nationally Determined Contributions (NDCs) under the Paris Agreement
- £43 million in the REDD+ Early Movers Programme, a results-based programme for the most ambitious and committed efforts to reduce emissions from deforestation
- £5 million on International Carbon, Capture & Storage (CCUS). This will support developing countries and emerging economies to develop both the technical and institutional knowledge necessary to enable CCUS deployment

In 2017 we delivered £443 million in research and innovation related ODA expenditure, including £102 million from the Newton Fund and £181 million from the Global Challenges Research Fund (GCRF). The latter became operational as of April 2016. Our ODA funded research and innovation covered a wide range of social, economic and environmental challenges facing developing countries, with an aim of reducing poverty by generating and putting into use knowledge and technology to address development challenges. This includes: work to introduce parasite resistant crops, support sustainable land management practices in East Africa, improve access to maternal health care, inform policy-making on drugs policy in Columbia, combat antimicrobial resistance and improve access to affordable, clean energy. This expenditure also contributes towards the continued strengths of the UK's research and innovation system, and supports our wider scientific, trade and diplomatic objectives as a globally engaged nation.

# Financial position

The significant increase in the Department's net liability position from the prior year is driven by changes to discount rates and the impact of those changes on nuclear decommissioning provisions. The most significant assumptions and balances underlying the Statement of Financial Position are: (a) Impact of changes in discount rates; (b) Nuclear Decommissioning Authority provisions; and (c) Contracts for Difference. A fuller explanation of the nature of these matters is set out below.

## (a) Impact of changes on discount rates

| Category | 2017-18 | 2016-17 | Rationale |
|---|---|---|---|
| **Nuclear decommissioning provisions** | | | |
| Short term < 5 years | -2.42% | -2.70% | Set by HM Treasury Public Expenditure System (PES) Secretariat 11 Dec 2017 |
| Medium-term 6-10 years | -1.85% | -1.95% | |
| Long-term > 10 years | -1.56% | -0.80% | |
| **CfD financial instruments** | | | |
| Real rate (as contracts are in real terms) | +0.70% | +0.70% | As above |
| **Coal pensions** | | | |
| Real rate + 3% RPI (as contractual figures are in nominal values) | +3.70% | +3.70% | As above: financial instruments discount rate (non-indexed) |
| **Repayable Launch Investments** | | | |
| Higher of the implicit rate of return or the financial instrument's rate | +3.50% + RPI 2.45% | +3.50% + RPI 2.55% | Risk-free rate for government investment appraisal set by HM Treasury Green Book, adjusted for inflation |

Some of our priorities carry obligations that are very long-term and will involve expenditure over decades to come. The eventual costs of these long-term projects are uncertain but we are required to present a single number in the annual accounts. This single number is based on our best estimate of costs, technology and other relevant factors, adjusted to reflect the changing value of money over time.

The worth of the Department's future cash flows are calculated at present value in accordance with accounting standards. This present value reflects the time value of money. The accounts use a number of different discount rates depending on the nature of the transaction and the regulation applicable.

In the past, the time value of money has usually been positive which means money could be invested in the present for a return in the future that would exceed the rate of inflation – this is known as a positive 'real' return. Government bonds are seen as a low risk form of investments. Usually, therefore, government bonds bring a lower rate of return than other investments. As bonds pay a fixed cash amount when they mature, the higher the price paid for the bonds now, the lower the rate of return is considered to be. Following the global financial crisis, demand for lower–risk investments increased, particularly government bonds. As a result, the price of government bonds rose. This has resulted in government bonds providing a negative 'real' return. The long-term discount rate has been negative since 2015.

When negative discount rates are applied to the Department's long-term obligations, this has the effect of significantly increasing the reported value of the liabilities, even when the cash the Department expects to pay has not changed. But not all rates are negative. For investment appraisal government continues to use positive rates, to ensure that projects are correctly appraised and generate future benefits. Our accounts use positive discount rates to determine the present value of future income generated from assets and investments. When positive rates have been used to discount future cash receipts, then the present value of them is lower than the cash the department will receive. The following tables sets out the specific material balances in our accounts that have been discounted. The impact of the discounting can be assessed by comparing the discounted value with the undiscounted value.

Impact on assets

Assets have been discounted at positive rates. For financial instruments we are required to use the prescribed HM Treasury discount rate of 0.7% real and 3.7% nominal, or the rate of return implicit in the contract if higher. For the repayable launch investments, we assessed the implicit rate to be 3.5% plus RPI; 2017-18: RPI was 2.45% (2016-17: RPI was 2.55%) giving an implicit rate of 5.95% (2016-17: 6.05%).

| Category | 2017-18 Discounted assets | 2017-18 Undiscounted assets | 2017-18 Impact of discounting | 2016-17 Discounted assets | 2016-17 Undiscounted assets | 2016-17 Impact of discounting |
|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m |
| Repayable launch investments | 1,047 | 1,540 | (493) | 1,205 | 1,836 | (631) |
| Coal pensions | 1,033 | 1,207 | (174) | 331 | 377 | (46) |

Impact on provisions

Both the Nuclear Decommissioning Authority and the Coal Authority have long-term provisions relating to the expected future cost of managing the energy legacy. The negative discount rates have increased the present value of future cash flows significantly.

| Category | 2017-18 Discounted liability | 2017-18 Undiscounted liability | 2017-18 Impact of discounting | 2016-17 Discounted liability | 2016-17 Undiscounted liability | 2016-17 Impact of discounting |
|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m |
| NDA nuclear provision | 233,282 | 120,165 | 113,117 | 163,135 | 118,128 | 45,008 |
| Coal Authority provision | 4,328 | 1,902 | 2,426 | 2,818 | 1,884 | 934 |

Impact on financial instruments

The fair value of the Contracts for Difference (CfD) obligation disclosed in the accounts is adjusted using the 0.7% real term discount rate. Each year, the fair value of the CfD is reassessed to reflect changes in the expected cash payments that will be made over the life of the contracts, and then the updated expected cash payments are discounted.

| Category | 2017-18 Discounted liability | 2017-18 Undiscounted liability | 2017-18 Impact of discounting | 2016-17 Discounted liability | 2016-17 Undiscounted liability | 2016-17 Impact of discounting |
|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m |
| CfD liability | 39,201 | 41,603 | (2,402) | 31,413 | 33,388 | (1,975) |

## (b) Nuclear Decommissioning Authority provisions

NDA is responsible for 17 nuclear licensed sites across the country, with a range of facilities including former nuclear power stations, research facilities and nuclear fuel fabrication and reprocessing facilities. Some of these sites date from the earliest days of nuclear power. Unlike modern nuclear facilities, decommissioning of these sites was not built into plans or designs.

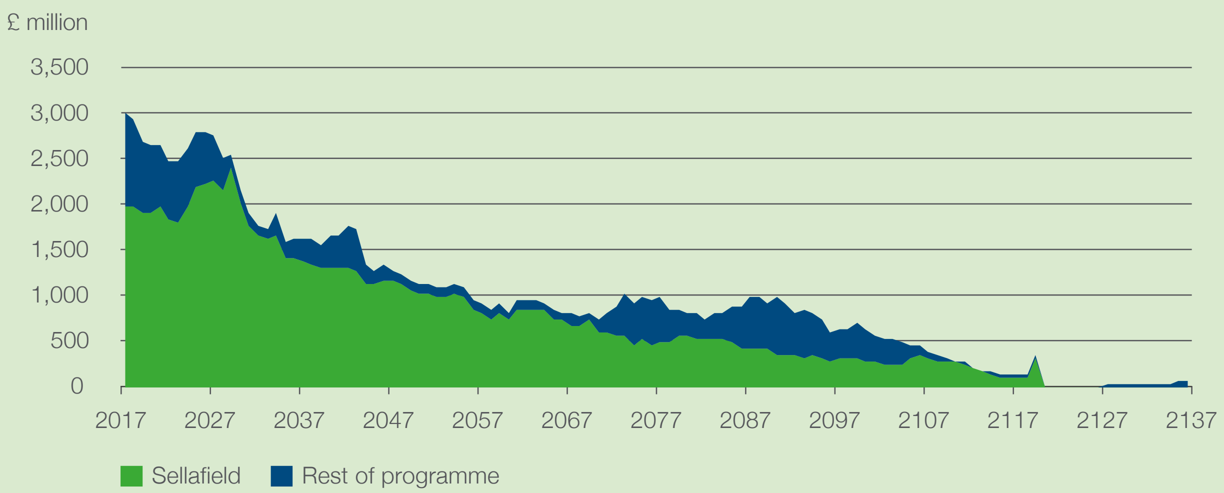
Decommissioning of sites will take many decades. In part, this is because plans often include periods of 'care and maintenance', where sites are made safe and put into an interim state, allowing residual amounts of radioactive material to decay over time. By doing this, the final stages of decommissioning will be easier and safer to complete.

NDA's best estimate of the future costs of the estate over the next 100+ years on an undiscounted basis is £120.2 billion.

This figure is based on dealing with an assumed inventory of materials with varied radiological characteristics, and using the extant strategy for retrieval and disposal of the resulting materials over several decades. Each of these elements is uncertain in its own right – the cost of developing the necessary technology and plants to deal with these activities is also uncertain. The quality of the forecast becomes less certain the longer the projection.

NDA has reviewed the methodologies used in the calculation, taking into account HM Treasury Green Book guidance and the need to remove optimism bias. Projects like these could typically have a range of estimates from -50% to +300%. In light of uncertainties in the estimate, NDA considers it prudent to present a credible range of outcomes. The range presented for the current year is for undiscounted costs of £97 billion to £222 billion.

**NDA provision: forecast undiscounted expenditure**



## (c) Contracts for Difference

CfD are designed to incentivise investment in a mix of low carbon electricity generation technologies which will help the UK meet its renewable and decarbonisation targets. CfDs do this by agreeing with a generator a strike price for electricity supplied, thereby providing certainty needed for private investment, while protecting consumers from having to continue to pay higher support costs when electricity prices are high. The support payments paid (or repaid) in future will be calculated from the difference between the strike price and the market reference price prevailing at the time.

Low Carbon Contracts Company (LCCC)
Difference payments under the CfDs are funded through a levy paid by licensed energy suppliers. The LCCC is the company established by Government to collect this levy, manage the CfDs and pay or receive the contracted difference payments. Currently the LCCC is managing all 56 recognised CfD contracts, following the novation of the last biomass contract from the core Department in December 2016.

Accounting for fair value (FV)
In order to comply with the relevant accounting standards, the Department is required to estimate the 'fair value' of future CfD payments. Difference payments under CfDs can be positive (an asset) or negative (a liability) and are currently recognised as a liability. The matching asset arising from the statutory obligation on suppliers is not recognised under accounting standards. The CfD liability figure is calculated using a model that forecasts the rate of generation, expected demand for electricity and electricity prices over the term of the contract. The figures in the financial statements represent management's best current estimate within a range of scenarios and will be subject to change over time.

In accordance with accounting standards the initial fair value of any contract is deferred i.e. not recognised in the accounts. The total deferred fair value of CfDs disclosed in the accounts was £23.3 billion on 31 March 2018.

The CfD contract for Hinkley Point C was signed in September 2016, but it has not been recognised in the accounts for reasons explained in note 9 to the accounts. The Department's best estimate of fair value at 31 March 2018 was £36.6 billion.

The Department recognises all subsequent movements of fair value on CfD contract recognised in the accounts, whose cumulative value was £39.2 billion by 31 March 2018, through the Statement of Comprehensive Net Expenditure; and recognises a liability, which was £15.9 billion as at 31 March 2018, on the Statement of Financial Position. The movements in year are presented in the tables below. Further details on the CfDs can be found in note 9 on page 156.

### Movements in fair value of CfDs recognised in the Accounts

| | 2017-18 | 2016-17 |
|---|---|---|
| | £ bn | £ bn |
| **1 April** | **31.4** | **30.6** |
| Changes in FV on existing contracts | 3.7 | (0.8) |
| Additions | 4.6 | – |
| CfD reinstated | – | 1.7 |
| Payments made for generation | (0.5) | (0.1) |
| **31 March** | **39.2** | **31.4** |

### Effect on the Statement of Financial Position

| | 2017-18 | 2016-17 |
|---|---|---|
| | £ bn | £ bn |
| **1 April** | **12.3** | **12.6** |
| Changes in FV on existing recognised contracts | 3.7 | (0.8) |
| Reinstatement of CfDs | – | 0.6 |
| Payments made for generations | (0.5) | (0.1) |
| Deferred difference recognised | 0.4 | – |
| **31 March** | **15.9** | **12.3** |

# Directors' report: departmental board and our leadership team

## Biographies: Ministers

**The Rt Hon Greg Clark MP**
Secretary of State for Business, Energy & Industrial Strategy
Greg Clark was appointed Secretary of State for Business, Energy and Industrial Strategy on 14 July 2016. Prior to this Greg served as Secretary of State for Communities and Local Government from May 2015. He was elected Conservative MP for Royal Tunbridge Wells in 2005. Before entering politics, Greg worked for the Boston Consulting Group, one of the world's top business strategy firms. He was posted to the USA, Mexico, South America and Iceland, as well as working for clients in the UK. He was also Head of Commercial Policy at the BBC.

**The Rt Hon Claire Perry MP**
Minister of State for Energy and Clean Growth
Claire Perry was appointed Minister of State at the Department for Business, Energy and Industrial Strategy on 12 June 2017. She was elected Conservative MP for Devizes in 2010. During her political career Claire has been a member of the Justice Select Committee, a Government Whip and Parliamentary Under Secretary of State for Transport from 2014 to 2016. Claire was educated at Nailsea Comprehensive School, Oxford University, and Harvard Business School where she received a MBA. She has worked for Bank of America, McKinsey and Company, and Credit Suisse before starting her own small business offering online financial advice to women.

**Richard Harrington MP**
Parliamentary Under Secretary of State, Minister for Business and Industry
Richard Harrington was appointed Parliamentary Under Secretary of State at the Department for Business, Energy and Industrial Strategy on 14 June 2017. He served as Parliamentary Under Secretary of State at the Department for Work and Pensions from 17 July 2016 to 14 June 2017. He was elected as Conservative MP for Watford in May 2010. Richard attended Leeds Grammar school and was awarded a scholarship to Oxford University, studying law at Keble College. His business career started with the John Lewis Partnership and he eventually ran a business, which at its peak had 2,000 employees in 7 countries.

**Sam Gyimah MP**
Minister of State for Universities, Science, Research and Innovation
Sam Gyimah was appointed as a joint Minister at the Department for Business, Energy and Industrial Strategy and the Department for Education on 9 January 2018. He was elected as Conservative MP for East Surrey in 2010. Sam studied philosophy, politics and economics at Somerville College, Oxford. Sam spent 5 years working for Goldman Sachs and then went on to help build and develop a number of small businesses in the training, recruitment and internet sectors.

**Andrew Griffiths MP**
Parliamentary Under Secretary of State, Minister for Small Business, Consumers and Corporate Responsibility
Andrew Griffiths was appointed as a Parliamentary Under Secretary of State at the Department for Business, Energy and Industrial Strategy on 9 January 2018. He was a Government Whip (Lord Commissioner of HM Treasury) from 17 July 2016 to 8 January 2018. He was elected Conservative MP for Burton in May 2010.

**The Rt Hon Lord Henley**
Parliamentary Under Secretary of State
Lord Henley was appointed as a Parliamentary Under Secretary of State at the Department for Business, Energy and Industrial Strategy on 27 October 2017. He was a Parliamentary Under Secretary of State at the Department for Work and Pensions from 21 December 2016 to 15 June 2017, and a Lord in Waiting (Government Whip) from 21 November 2016 to 15 June 2017. He is a Conservative member of the House of Lords. He was educated at Clifton College, Bristol and Durham University. He was called to the Bar in 1977.

# Biographies: Executives

### Alex Chisholm
Permanent Secretary

Alex Chisholm became Permanent Secretary for the Department of Business, Energy and Industrial Strategy in September 2016, having previously served as Permanent Secretary for DECC. Prior to this Alex was the Chief Executive for the Competition and Markets Authority, and before that, Commissioner and Chair at ComReg, Ireland's Communications Regulator. Alex has held senior executive positions in the media and technology sectors, including Pearson plc, The Financial Times Group, and eCountries Inc. He has an MA from Oxford and an MBA from INSEAD.

### Sam Beckett
Director General, EU Exit and Analysis

Sam has been Director General, EU Exit and Analysis since April 2017. Prior to this she was Director General for International, Growth and Analysis. She has over 25 years' experience in BIS, the Cabinet Office and HM Treasury, in roles spanning micro- and macro-economics, strategy, policy and corporate services delivery.

### Gareth Davies
Director General, Business and Science

Gareth Davies has been Director General, Business and Science since December 2016. Prior to this he was a Director General in BIS. Over the last decade Gareth has worked in Downing Street as the Prime Minister's lead adviser on welfare reform, been Head of the Prime Minister's Strategy Unit and was an Executive Board member of both the Cabinet Office and the Department for Innovation Universities and Skills.

### Sarah Harrison MBE
Director General, Corporate Services

Sarah Harrison became Director General, Corporate Services in February 2018. Sarah was the Chief Executive of the Gambling Commission from October 2015. Prior to joining the Commission, Sarah was at the UK energy regulator, Ofgem, where she was an Executive Board member and held a number of senior roles. Before that Sarah was the first Chief Executive of ICSTIS, the premium phone services regulator. Sarah's earlier career was in government and public relations consultancy.

### Jeremy Pocklington
Director General, Energy and Security

Jeremy Pocklington has been Director General, Energy and Security since December 2016. Prior to this he was Director General of Markets and Infrastructure at DECC. Jeremy spent many years at HM Treasury, culminating in his role as Director of the Enterprise and Growth Unit. From 2009 to 2012 he also served as Director of the Economic and Domestic Secretariat at the Cabinet Office. From September 2018, Jeremy Pocklington will be taking up the position of Director General, Housing at the Ministry of Housing, Communities and Local Government.

### Jaee Samant
Director General, Market Frameworks

Jaee Samant has been Director General, Market Frameworks since March 2017.
Prior to this she was Director General for Skills, Deregulation and Local Growth at BIS. Jaee has been a civil servant for almost 25 years and has worked at the Department of Employment, the Department for Education and Employment and the Cabinet Office before joining the Home Office in 2004. She has also worked on secondment to the Big Lottery Fund and the BBC.

**Professor John Loughhead CB OBE FReng FTSE**
BEIS Chief Scientific Adviser
Professor Loughhead was previously the Chief Scientific Adviser at DECC. Before joining DECC, John was Executive Director at the UK Energy Research Centre. Prior to that, he was Corporate Vice-President of Technology and Intellectual Property at Alstom's head office in Paris. John is a Chartered Engineer, graduating in Mechanical Engineering from Imperial College, London, where he also spent 5 years in computational fluid dynamics research. He is Past-President of the UK's Institution of Engineering and Technology, Fellow of both the UK and Australian national Academies of Engineering, Professor of Engineering at Cardiff University and Fellow of Queen Mary University of London.

**Julian Critchlow**
Director General, Energy Transformation & Clean Growth
Julian Critchlow is Director General, Energy Transformation and Clean Growth. Julian was a Director at Bain & Company, strategy consultants, based in their London office. He led Bain's Global Utilities and Alternative Energy Practice, working with senior executives in leading utilities around the world on their key strategic, operational and organisational issues. Julian has 30 years of consulting experience in the UK and internationally.

**Nick Chism**
Director General, Enterprise
Nick Chism is Director General, Enterprise. Nick was previously Global Chair of Infrastructure, Government and Healthcare at KPMG. As Deputy Head of Global Clients and Markets, he was also responsible for KPMG's sectors programme. Throughout his career, Nick has promoted better collaboration between the public and private sectors around the world. His professional background is in corporate finance. He is a Fellow of the Institute of Chartered Accountants in England and Wales, and an Associate Member of the Institution of Civil Engineers.

**Tom Taylor**
Chief Financial Officer
Tom Taylor is Director of Finance and Portfolio, and Chief Financial Officer, of the Department for Business, Energy and Industrial Strategy, which he joined in January 2017. Tom has worked in several government departments in a career spanning economics, policy, operations and finance roles. Tom is a CIPFA qualified accountant.

**Caleb Deeks**
Director, Policy, Delivery & Private Office
Caleb Deeks joined the Department as Director for Policy, Delivery and Private Office in April 2017. Prior to that he held senior roles in the Treasury and the Cabinet Office, spanning economic and social policy and public spending.

# Biographies: Non-Executives

**Archie Norman**

Lead Non-Executive Director and Deputy Chair of the Departmental Board

Archie Norman was appointed lead non-executive board member at the Department for Business, Energy and Industrial Strategy in October 2016. Archie is Chairman of Lazards and Marks & Spencer, as well as a former Asda Chief Executive and ITV Chairman. He was previously a management consultant at McKinsey, and director at GEEST, Railtrack, and Kingfisher. In 1997 he became Conservative MP for Tunbridge Wells and in 2000 he was appointed Shadow Secretary of State for Environment, Transport and the Regions.

**Professor Dame Ann Dowling DBE**

Non-Executive Director and Chair of the Nominations Committee

Ann Dowling is President of the Royal Academy of Engineering and Professor of Mechanical Engineering at the University of Cambridge, where she was Head of the Department of Engineering from 2009 to 2014. She ran the University Gas Turbine Partnership with Rolls-Royce from 2001 to 2014. Ann is a non-executive director of BP. She has served on a number of industry and government advisory committees and chaired the Royal Society/Royal Academy of Engineering study on nanotechnology. She was appointed CBE by the Queen for services to mechanical engineering in 2002, and DBE for services to science in 2007.

**Charles Randell CBE**

Non-Executive Director and Chair of the Audit and Risk Assurance Committee

Charles Randell was an independent member of the Bank of England's Prudential Regulation Committee, which has responsibilities for the prudential supervision of UK banks, insurance companies and large investment firms, until the end of March 2018. He became Chair of the Financial Conduct Authority on 1 April 2018. Prior to joining the Prudential Regulation Authority he was a senior partner in the law firm Slaughter and May, where he specialised in corporate finance law, with much of his work involving the energy and public sectors. Charles was also a Non-Executive Director of DECC from October 2014.

**Stephen Carter**

Non-Executive Director

Stephen Carter has a unique combination of skills and insights gained through a career equally divided between the public and private sector. Now the CEO of Informa, a FTSE100 company, he brings previous business experience at Alcatel Lucent, NTL (now Virgin Media) and JWT UK and Ireland. His public sector experience includes being the founding CEO of Ofcom, and time as the Minister for Communications, Technology and Broadcasting, when he produced the Digital Britain Blueprint.

**Dame Carolyn McCall DBE**
Non-Executive Director
Carolyn McCall is CEO of ITV and has extensive experience in business with a wealth of understanding of the transportation and media industries. Prior to ITV, she was Chief Executive of EasyJet and the Guardian Media Group. She has been a great champion of diversity, demonstrated through EasyJet's commitment to increase the number of female pilots it trains and employs.

**Kathryn Parsons**
Non-Executive Director
Kathryn Parsons is the co-founder and CEO of DeCoded. She brings with her valuable expertise from the digital enterprise community sitting on the London Mayor's Business Advisory Board and the Government's Cyber Security Board. She also chairs the Digital Skills and Innovation Fund. She has helped over 500 organisations – from FTSE100 companies to Government departments and start-ups – to think and act differently in the digital world.

**Stuart Quickenden**
Non-Executive Director
Stuart Quickenden has had a 20-year career at Boston Consulting Group, a leading global management consultancy, culminating in becoming Managing Partner. He is a leading expert on organisational change, advising large organisations to help drive better performance at lower cost.

**Rachel Campbell**
Non-Executive Member – Nominations Committee
Rachel Campbell is the Global Head of People, Performance and Culture for KPMG International. She is responsible for the firm's global people strategy and communications. Previously she was Head of People and a board member for both KPMG and Europe LLP firms. Rachel is a chartered accountant and has operated as an audit partner for the firm, working predominantly with global fast-moving consumer goods clients. She is a Fellow of the Chartered Institute of Personnel and Development. Rachel previously served as Non-Executive Director for DECC from September 2014.

**Claire Davies**
Non-Executive Member – Audit and Risk Assurance Committee
Claire Davies is an experienced solicitor, company secretary and compliance professional with more than 30 years' experience in the retail banking and financial services sectors acquired from senior roles with Legal and General Group, Ernst & Young, Lloyds Banking Group, the Co-Operative Group, and Barclays.

**Bryan Ingleby**
Non-Executive Member – Audit and Risk Assurance Committee
Bryan Ingleby is a highly experienced chartered accountant. Following a career as an external auditor in the public sector, Bryan now has a portfolio of non-executive and independent roles in several sectors including the NHS, education, housing, and local government. Bryan brings experience in sound financial management, risk management, and strong corporate governance.

**Myriam Madden**
Non-Executive Member
– Audit and Risk Assurance Committee

Myriam Madden is a leader in the field of accountancy and is a Board member of the international standards-setting body, IESBA, which is responsible for Ethics and Conduct standards for professional accountants globally. She is an experienced Executive Director specialising in business transformation, operational re-structuring and finance, in the UK, US and Europe. She previously served as the Chairman of the Chartered Institute of Management Accountants and Board member of the American Institute of Certified Public Accountants, both global accounting bodies.

**Lucy Shannon**
Non-Executive Member
– Audit and Risk Assurance Committee

Lucy Shannon is a creative IT professional with experience in cyber security, IT outsourcing, pursuit management, service delivery leadership, and business process automation. As a senior account director with MWR InfoSecurity she has helped many organisations to address cyber security and protect their networks and services. She has also co-founded the Women's Network at Xerox with the aims of inspiring and developing women, connecting externally with clients and internally to support diversity.

# Our leadership team

**Key to committee membership**

| | | | |
|---|---|---|---|
| **DB** | Departmental Board | **POC** | People and Operations Committee |
| **NC** | Nominations Committee | **PFRC** | Performance Finance and Risk Committee |
| **ARAC** | Audit and Risk Assurance Committee | **PIC** | Projects and Investment Committee |
| **EC** | Executive Committee | **SPRC** | Strategic Policy Review Committee |
| | | **TPB** | Transition Programme Board |

## Our ministers

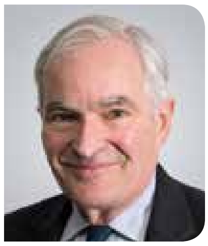
**The Rt Greg Clark MP**
**DB** chair

**The Rt Claire Perry MP**
12 June 2017
**DB**

**Richard Harrington MP**
14 June 2017
**DB**

**Sam Gyimah MP**

**Andrew Griffiths MP**



**The Rt Hon Lord Henley**

## Our management: executives

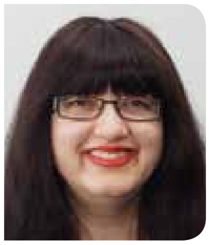
**Alex Chisholm**
**DB, NC, EC**

**Sam Beckett**
**EC, PFRC**

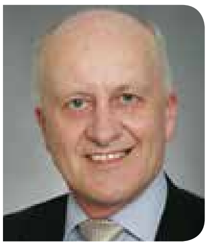
**Gareth Davies**
**EC, PIC**

**Sarah Harrison**
February 2018
**DB, ARAC, EC, POC, PFRC, TPB**

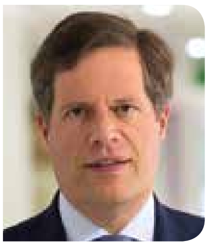
**Jeremy Pocklington**
**EC, PIC**



**Jaee Samant**
**DB, EC, POC, TPB**



**Professor John Loughhead CB OBE FReng FTSE**
**EC, SPRC**



**Julian Critchlow**
May 2018
**EC**

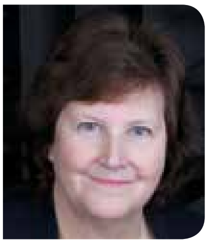
**Nick Chism**
June 2018
**EC**

**Tom Taylor**
**DB, EC, PFRC, PIC, ARAC**

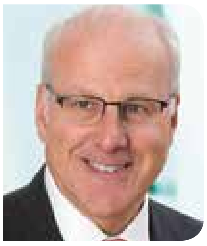
**Caleb Deeks**
**SPRC**

## Our management: non-executives

**Archie Norman**
**DB**

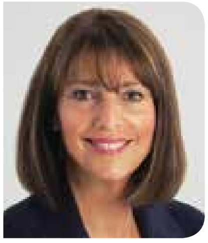


**Professor Dame Ann Dowling DBE**
**DB,NC**



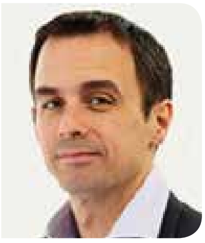
**Charles Randell CBE**
**DB, ARAC**

**Stephen Carter**
**DB**



**Dame Carolyn McCall DBE**
**DB**

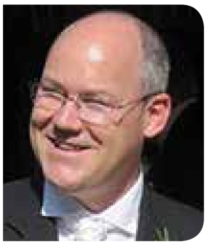
**Kathryn Parsons**
**DB**



**Stuart Quickenden**
**DB**

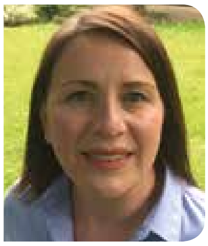
**Rachel Campbell**
**NC**

**Claire Davies**
**ARAC**



**Bryan Ingleby**
**ARAC**

**Myriam Madden**
**ARAC**



**Lucy Shannon**
**ARAC**

## Left the department

**Margot James**
Left 8 Jan 2018
**DB**

**Lord Prior of Brampton**
Left 26 October 2017 **DB**

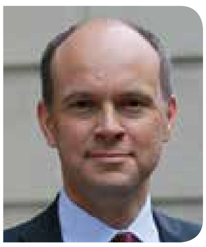
**Nick Hurd**
Left 12 June 2017
**DB**

**Jo Johnson MP**
Left 8 Jan 2018

**Jessie Norman MP**
Left 14 June 2017

**Angie Ridgwell**
Left Dec 2017
**DB, EC, PFRC, POC, TPB**

**Professor Tim Dafforn**
Left October 2017
**EC, SPRC**



**Clive Maxwell**
Left Nov 2017
**EC, SPRC**

**Nigel Johnson**
Left June 2017
**ARAC**

# Governance statement

## Introduction

This Governance Statement sets out the governance, risk management and internal control arrangements for the Department, in accordance with HM Treasury guidance. It applies to the financial year 1 April 2017 to 31 March 2018 and up to the date of approval of the Annual Report and Accounts. It integrates information about the Department's non-departmental public bodies (NDPBs) included in the consolidated group accounts. Evidence is provided throughout the statement on how governance has been aligned with Departmental vision and objectives.

## Report of the lead non-executive director

**Archie Norman**
Lead Non-Executive Director

The BEIS Board aims to be amongst the best in Government, fully engaged with both the officials and ministerial team in both the project to transform the Department and where appropriate on policy issues.

The last year has seen another very full programme as a result. We have focused our time on the major challenges facing BEIS. Our objective is to help forge a Department, closely engaged with the enterprise community and fully committed to implementing Industrial Strategy and its regulatory responsibilities in a post Brexit world. Amongst other subjects the Board has contributed importantly to:

- supporting the development of the Industrial Strategy and the launch of the White Paper
- considering the varied needs of business in relation to the UK's exit from the EU
- assessing the readiness of the Clean Growth Strategy for launch
- challenging BEIS to go further and faster in its transformation programme and ambition to be a top Whitehall Department

Beyond the four objectives for the Department it is pleasing to see that BEIS has moved from a Limited assurance rating last year to a Moderate rating for 2017-18. This is significantly a result of the good work from the Audit and Risk Assurance Committee, under the leadership of Charles Randell.

BEIS also seeks to be a leader in corporate governance and has made great steps in applying the policy and best practices of private companies to itself. My thanks to the Nominations and Governance Committee under the leadership of Ann Dowling for ensuring BEIS will soon have a shadow Executive Committee with a wide range of employee representation and a direct link to the Board itself.

Charles and Ann stepped down from the Board in June and we have appointed two new top flight Non-Executive Members who will also take on the Chairs for Audit and Risk Assurance, and Nominations and Governance Committees. Enormous thanks are due to Charles and Ann for their excellent contributions to both BEIS and to BIS and DECC respectively. I am delighted to welcome in their place Nigel Boardman and Leena Nair. I am certain our new members will add to a very high calibre and diverse Board and strengthen the experience and challenge we can offer to BEIS.

Looking to the future my challenge for the Board is to ensure that BEIS moves forward rapidly in its intent to be truly business-facing and supporting and to build on the work we have done so far to address the objectives of the Department. Ministers and officials give their full commitment to the Board and I am confident that we will continue to offer the right mix of challenge and support to help BEIS deliver its best for business, consumers and workers.

**Archie Norman**
Lead Non-Executive Director

## Our governance structure


## Departmental Board and its committees

**The Rt Hon Greg Clark MP**
Chair of Departmental Board

**Departmental Board** is chaired by the Secretary of State, supported by our lead non-executive Board member Archie Norman, and includes ministers, non-executive Board members and senior officials. It provides collective strategic leadership and challenge, with responsibilities for performance, risk and delivery, including appropriate oversight of partner organisations.

All Board members are required to declare any personal or business interests which may influence their judgement in discharging their obligations, or which may be perceived to do so by a reasonable member of the public. These interests include, without limitation, personal direct and indirect pecuniary interests and any such interests of close family members or of people living in the same household as the Board member. We collect this information yearly from executive and non-executive Board members and on the appointment of new members. We also ask Board members to update the department on any changes in their circumstances which could be or be perceived as a conflict of interest. Where a Board member has a specific conflict of interest, additional mitigations are put in place. Typically, this means not taking part in related discussions at the Board or other meetings. Three conflicts of interest were raised this year and were managed in line with the relevant procedures.

The Board held 5 meetings in 2017-18 and aims to hold 6 meetings a year as standard. The board is committed to assessing and improving performance and has implemented a full review for 2017-18, with a view to having an independent review in 2020.

| | Discussion | Action | Progress |
|---|---|---|---|
| Strategy | **Industrial Strategy** | The Board has provided the Department with challenge and advice on the development and implementation of the Industrial Strategy. The Board also considered how we should measure the effectiveness and impact of the Industrial Strategy. | The Board provided a range of steers, including how to engage the business community further with the Strategy's grand challenges. |
| | **EU Exit** | EU Exit is a standing item at the Board. The Board has considered how the Department can best represent the views of business in the negotiations, the impact of EU Exit on customs and the movement of people and approaches to regulatory divergence. | BEIS is undertaking more detailed planning on how to ensure businesses are prepared for EU Exit. |
| | **Clean Growth Strategy** | The Board provided advice on support on how to make the vision of the Clean Growth Strategy into reality. | The Board asked for some further work to understand the costs and trade-offs and where might be best to invest in a world of finite resources. |
| | **Smart Metering Implementation Programme** | The Board considered the challenges of the Smart Metering Implementation Programme and how the Department could encourage consumers to take up the offer of a smart meter. | Board members followed up on this area outside of the Board meeting and the item will come back to the Board in 2018/19. |
| | **Better Regulation** | The Board considered how we should implement our better regulation strategy to best realise our objectives; and where we should focus next in relation to EU Exit and regulation. | The Board provided steers on how BEIS should implement regulation effectively, with a focus on ensuring productivity. |
| | **Taylor Review of Modern Employment** | The Board encouraged the Taylor Review to start a conversation around what 'good work' entails. | The Board will come back to this item at a later stage to consider progress and next steps. |
| Governance and risk | **Objectives and priorities for the Department** | The Board provided challenge on BEIS' forward work programme for 2018 and asked the Department to consider what it should achieve over a longer timeframe. | The work programme for 2018 has been revised in line with the steers from the Board. |
| | **Single Departmental Plan (SDP)** | The Board's broader discussion of objectives and priorities for the Department has supported the development of the SDP. The Departmental Board had sight of the SDP and the opportunity to provide additional challenge. | The Lead Non-Executive Board member has worked to feed into the development of the SDP. |
| | **Departmental risk appetite and management** | The Board directed the Audit and Risk Assurance Committee to ensure that the proposed Departmental Risk Framework was robust, with the right levels of senior ownership and effectively implemented within the Department. | The Departmental risk framework has been implemented with the support of the Audit and Risk Assurance Committee. |
| Operations | **People Survey** | The Board pushed the Department for further progress in making BEIS the most attractive Department to work for and for more opportunities for staff to engage with ministers. The Board welcomed the progress made on staff pay and advocated for more progress to be made on this issue over the coming year. | A programme of ministerial assemblies for staff has been set up from March 2018. |
| | **Transformation Programme** | The Board set out a vision for the Department to work even more closely with the businesses it serves. The Board also provided input on a range of areas of the transformation programme. | A strategy for BEIS to become more business focused has been set and is being implemented. |

**Charles Randell CBE**
Chair, Audit and Risk Assurance Committee

**Audit and Risk Assurance Committee (ARAC)** is chaired by Charles Randell, Non-Executive Board Member. Charles stepped down as Chair in June 2018. This follows his appointment as Chair of the Financial Conduct Authority that was announced in January 2018. His successor will be Nigel Boardman.

The role of ARAC is to support the Departmental Board and Accounting Officer in their responsibility to ensure that the Department is a financially sound and efficient organisation which makes effective use of its resources in pursuit of its strategic objectives.

Specifically, ARAC reviews the effectiveness of the risk management framework established by management to identify, assess and manage risk, thereby playing an important role in supporting our ambition to excel in financial and risk management.

ARAC met 8 times last year. This included 2 sessions which provided dedicated challenge and assurance on the EU Exit Programme. Furthermore, the Chair held a conference of audit and risk assurance committee chairs from the Department's partner organisations to share knowledge and best practice, and enhance engagement across the BEIS Group.

In addition, ARAC has focused on:

i. supporting and challenging the development of a long-term strategy for renewable heat

ii. examining and challenging the overall control environment including the risk and governance arrangements to support the Accounting Officer in his stewardship of departmental resources

iii. scrutinising the Annual Report and Accounts to ensure the Department's performance and financial status are appropriately reflected

iv. shaping the approach to a new assurance framework so that the systems and processes are best fit for the Department

v. reviewing and improving the risk management framework, and testing the embedding of the framework in Directorates within the Department

vi. assuring the cyber and information security, and counter fraud and whistleblowing practices

**Professor Dame Ann Dowling DBE**
Chair, Nominations and Governance Committee

**Nominations and Governance Committee** is chaired by Ann Dowling, Non-Executive Board Member. Ann stepped down as Chair in May 2018. Her successor will be Leena Nair.

Its role is to support the Departmental Board, by providing assurance and input to key decisions and processes. Its purpose is to scrutinise the Department's strategies and plans for talent management; succession planning; capability building; Board appointments; senior performance management; incentives and rewards; and the implementation of corporate governance policy.

It met 2 times in the year, in May and October 2017. Over the course of these 2 meetings it has focused on:

i. scrutinising systems for identifying and developing talented senior civil servants

ii. reviewing plans for orderly succession of appointments to the Board and Director General roles, in order to maintain an appropriate balance of skills and experience

iii. assessing incentives and rewards for executive Board members and Directors General, and advising on the extent to which these arrangements are effective at improving performance

iv. working in conjunction with ARAC to bring an emphasis on effective risk management into the BEIS performance management processes

v. ensuring that BEIS has taken a leading role in implementing its own corporate governance policy and improving employee engagement on Boards

# Executive Committee and its delegated committees

**Alex Chisholm**
Chair, Executive Committee

**Executive Committee (ExCo)** is chaired by our Permanent Secretary, Alex Chisholm. ExCo brings together the senior leadership team to support the Permanent Secretary in leading the Department, and as Accounting Officer.

It sets out the Department's vision, oversees the delivery of strategy with particular emphasis on corporate delivery and cross-cutting issues, as well as overseeing the monthly performance report review (with advice from the Performance, Finance and Risk Committee), regular risk review, and discussion of emerging priority issues.

It met 40 times last year. Its focus has been the Department's Transformation programme, business planning, Single Departmental Plan, Diversity and Inclusion Strategy, the People Survey, performance management, and business continuity planning. There has been attendance from senior officials in other Government departments and external organisations for discussions on the EU Exit programme, performance and risk, cyber security, public enquiries, and crisis management. Areas of focus on policy have included the Industrial Strategy, the Cities and Local Growth agenda, and EU Exit.

Over the last year, ExCo has held regular dedicated meetings on the Department's EU Exit Programme and related issues. The Executive Committee holds additional meetings each fortnight to focus on EU Exit Programme business due to the scale and importance of this programme. These meetings ensure that BEIS is effectively managing the EU Exit related issues that it has identified. It makes decisions on issues ranging from negotiation preparedness measures to delivery plans. A key tool of the Committee is the EU Exit Programme dashboard which brings together reporting on the progress of priority issues, business intelligence and risk assessment.

The Committee receives additional assurance on its EU Exit work from a range of external partners including the National Audit Office, the Cabinet Office, the Infrastructure and Projects Authority and the Government Internal Audit Agency. These independent reviews of the Department's preparations for EU Exit ensure that BEIS continues to build and strengthen its capacity and capability to deliver all 72 issues.

**Jaee Samant**
Co-Chair, People and Operations Committee

**Sarah Harrison**
Co-Chair, People and Operations Committee

**People and Operations Committee (POC)** is chaired by Jaee Samant and Sarah Harrison (Sarah Harrison took over from Angie Ridgwell in February 2018). Its role is to decide on matters relating to departmental staff capability, management and engagement. The Committee also oversees and monitors staff diversity and is responsible for overseeing delivery of accommodation and IT. As BEIS is undergoing a Transformation Programme the Committee also aligns its work with that of the transformation programme. The chairs are the same for both governance bodies, helping to ensure effective alignment.

The Committee is supported in its role by a shadow committee. This initiative has been in place throughout the year and has a pool membership drawn from a mix of grades and roles across the Department. The shadow committee discusses the majority of papers and the chair attends the People and Operations Committee to inform them of the outputs from its meeting. This has proven to be both an effective way to gain wider staff views and to strengthen the overall decision making from the Committee.

It met 10 times last year and focused on:

i. establishing a new Performance Management system informed by BEIS staff for implementation in 2018-19
ii. reviewing pay policy to address the gender pay gap and ensure equality
iii. setting attendance management policy
iv. reviewing the health and safety policy
v. overseeing and approving both the leadership and management and learning and talent offer in the Department

**Sam Beckett**
Co-Chair, Performance, Finance and Risk Committee

**Sarah Harrison**
Co-Chair, Performance, Finance and Risk Committee

**Performance, Finance and Risk Committee (PFR)** is chaired by Sam Beckett and Sarah Harrison (Sarah Harrison took over from Angie Ridgwell in February 2018). The Committee has responsibility for providing high-level oversight of business planning, budgets and financial management, performance reporting and risk monitoring. The Committee also leads on planning for major fiscal events, the development of the annual report and accounts, and the planning and response to GIAA led internal audits.

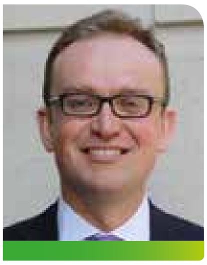
It is supported in its work by a Challenge Panel that focuses on the monthly performance and risk report. The panel provides an initial review of the data and sets out recommendations on next steps and where the Committee should focus its attention. The role of the Challenge Panel is under review to further strengthen the value it could add beyond the assessment of the monthly report.

It met 10 times last year, and focussed on:

i. the transition to a new IT system in order to monitor the progress of planning and implementation
ii. agreeing the monthly Performance and Risk Report
iii. overseeing the financial management of the Department and allocating resources as appropriate
iv. reviewing and agreeing the Departmental Risk Framework and Risk Register; monitoring the Department's diversity and inclusion data
v. reviewing and considering any business cases that fell outside of the Projects and Investment Committee remit

Given the size and scale of the EU Exit programme, its programme board escalates risks directly to the Executive Committee instead of using the usual Performance, Finance and Risk route. It maintains a separate risk register and has governance boards on corporate services, trade and negotiations as well as engagement fora for SROs and sectors.

**Gareth Davies**
Co-Chair, Projects and Investment Committee



**Jeremy Pocklington**
Co-Chair, Projects and Investment Committee

**Projects and Investment Committee (PIC)** is co-chaired by Gareth Davies and Jeremy Pocklington. PIC has responsibility for deciding whether planned investments with a whole-life cost of £20 million or above, or that are considered risky, novel or contentious, are ready to pass each of the relevant business case stages: Strategic Outline; Outline; and Final. For each case the Committee focuses on five key areas of evidence: strategic; economic; financial; commercial; and management, supported by a keyholder review process.

The Committee acts in accordance with HM Treasury guidance on Managing Public Money.

It met 19 times and focused on the following areas:

i. refining the business case process so that these are expedited through the pipeline with no remedial action required

ii. supporting the development of business cases so that these are robust and receive approval at the first review in order for the Department to meet its strategic objectives with minimal disruption

iii. expediting EU Exit related business cases to ensure prompt approval

iv. aligning the UK Research and Innovation's investment approval process with BEIS' own governance guidance

**John Loughhead**
Chair, Strategic Policy Review Committee

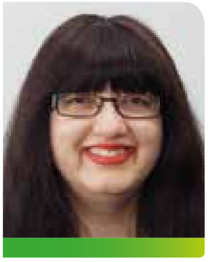
**Strategic Policy Review Committee** is chaired by John Loughhead (John took over from Clive Maxwell in November 2017). Its role is to consider strategic policy issues that would benefit from wider perspectives across the Department and add value to policy development and implementation.

The Committee cross-cutting issues where several parts of the Department have a role to play and/or where other areas of Government may be involved. It is an advisory group and does not have specific decision-making powers. It met 6 times and its focus has been on:

i. economic indicators and readiness for different scenarios

ii. the BEIS offer to local English regions and devolved administrations

iii. considering the Department's approach to the Industrial Strategy including the places pillar and the Clean Growth Grand Challenge



**Jaee Samant**
Co-Chair, Transformation Programme Board

**Sarah Harrison**
Co-Chair, Transformation Programme Board

**Transformation Programme Board** is co-chaired by Sarah Harrison and Jaee Samant (Sarah Harrison took over from Angie Ridgwell in December 2017). Its aim is to turn BEIS into a high performing and high impact Department – delivering real world outcomes for business and consumers.

It is responsible for:

i. shaping and overseeing the transformation strategy

ii. Ensuring objectives, milestones and benefits of the Transformation Programme are delivered, as detailed in the Project Initiation Documents (PIDs)

iii. ensuring the Transformation Programme supports the delivery of the BEIS vision and remains aligned to future drivers of change

iv. effective Programme budget management

v. effective risk management.

It has focused on shaping plans for year 2 of the programme across the 6 transformation workstreams: vision and values; understanding business; partner organisations; skills and capabilities; technology and ways of working and improving processes.

# Board and committee attendance

The table below sets out attendance for the key governance forums within the department. Where members were unable to attend meetings in person, they have been able to share their views in advance to the chair person.

| | Departmental board | Audit and risk assurance committee | Nominations and governance committee | Executive committee |
|---|---|---|---|---|
| Number of meetings held | 5 | 6 | 2 | 40 |
| **Ministers** | | | | |
| Greg Clark | 5/5 | | | |
| Claire Perry | 4/5 | | | |
| Richard Harrington | 2/3 | | | |
| Lord Prior of Brampton (Left October 2017) | 1/2 | | | |
| Margot James (Left January 2018) | 3/3 | | | |
| Nick Hurd (Left June 2017) | 0/0 | | | |
| **Management** | | | | |
| Alex Chisholm | 5/5 | 3/6 | 2/2 | 36/40 |
| Sarah Harrison (Appointed March 2018) | | 1/1 | | 3/3 |
| Gareth Davies | | | | 34/40 |
| Jeremy Pocklington | | | | 32/40 |
| Sam Beckett | | | | 36/40 |
| Jaee Samant | 5/5 | | | 36/40 |
| Tom Taylor | 2/2 | 6/6 | | 11/11 |
| Caleb Deeks | | | | 30/35 |
| Angie Ridgwell (Left December 2017) | 3/3 | 4/4 | | 29/30 |
| Clive Maxwell (Left November 2017) | | | | 21/25 |
| Professor John Loughhead | | | | 29/40 |
| Professor Tim Dafforn (Left October 2017) | | | | 3/30 |
| Archie Norman | 5/5 | | | |
| Professor Dame Ann Dowling | 4/5 | | 2/2 | |
| Charles Randell | 5/5 | 6/6 | | |
| Stephen Carter | 3/5 | | | |
| Carolyn McCall | 4/5 | | | |
| Kathryn Parsons | 4/5 | | | |
| Stuart Quickenden | 5/5 | | | |
| Rachel Campbell | | | 1/2 | |
| Claire Davies | | 6/6 | | |
| Bryan Ingleby | | 6/6 | | |
| Myriam Madden | | 6/6 | | |
| Lucy Shannon | | 5/6 | | |
| Nigel Johnson (Left June 2017) | | 3/3 | | |

## Compliance with the corporate governance code

During the course of 2017-18 the governance arrangements for the Department were audited by the Government Internal Audit Agency. This audit concluded that the governance structure and layouts are in line with the Cabinet Office's Corporate Governance in Central Government Departments: Code of Good Practice. The audit did highlight three areas of divergence from the code: the balance of representatives on the Board; the absence of risk appetite/tolerance levels from the Board; and the absence of a formal Board Operating Framework.

The Code advises on having an even split in Board membership between ministers, non-executives and executives. Based on the number of ministers, and executive members, there are a disproportionate number of non-executives within BEIS. This is because the Department has actively sought this balance to ensure that it has access to the right level of skills and experience in alignment with its strategic priorities and the diverse nature of UK businesses.

The BEIS Departmental Board agreed when it was formed in 2016 that risk appetite and tolerance levels would emerge through the early decisions on major strategic issues, and the areas it chose to focus on, rather than an explicit exercise to define risk appetite in itself. As a result the Board has primarily focused its views in relation to risk over the last 12 months on the Industrial Strategy, the UK's exit from the EU, achieving clean growth and transforming BEIS as a Department.

The Board Operating Framework for the Departmental Board has not been titled as such. Instead there has been a terms of reference for the Board that was agreed at its formation in 2016. This has been reviewed in light of the audit report and alongside the first full evaluation the Board, to set out a new operating framework that will be introduced in July 2018.

In addition, the Audit and Risk Assurance Committee only has one Non-Executive Board Member. It has 4 Non-Executive members, providing the appropriate level of skills and experience.

## Board's evaluation of its own effectiveness

All Departments are requested by Cabinet Office to carry out an annual Board Effectiveness Evaluation. BEIS did not do this for the period 2016-17 due to the newness of the Department and its Board. 2017-18 saw the first full evaluation of the Board.

Overall the Board has proven to be successful with clear agreement that having strong engagement with ministers has helped to ensure that the Board and its members could make a meaningful contribution throughout the year. The quality of inputs to the Board were highlighted as being of a good standard, in particular: the Performance Report; the Permanent Secretary's update; and wherever a substantial challenge has been presented to the Board for debate. The non-executive Board members further highlighted that the positive one-to-one engagement with ministers and Directors General outside of the Board setting had ensured that they were able to make a continuous impact throughout the year.

As part of the evaluation process, the Board also considered the work of its two supporting committees: Audit and Risk Assurance (ARAC); and Nominations and Governance (NGC). The Board highlighted ARAC's considerable support to BEIS in achieving a Moderate assurance rating,[16] up from last year's Limited rating,[17] and NGC's leadership on the way that BEIS will implement its own policy of improving employee engagement on Boards. Alongside the Board's own evaluation BEIS has two additional sources of evaluation evidence to consider:

- the Government Internal Audit Agency (GIAA) reported on BEIS Corporate Governance and Departmental Structures offering a Moderate

16 Moderate assurance means some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control.

17 Limited assurance means there are significant weaknesses in the framework of governance, risk management and control such that it could be or could become inadequate and ineffective.

assurance. The report noted that overall there was a good level of compliance to the Cabinet Office's recently re-issued guidance 'Corporate Governance in Central Government Departments: Code of Good Practice'. The report noted that the BEIS Corporate Governance team is working proactively to meet and, where possible, exceed the overall requirements of the Code as an exemplar of good practice. The GIAA report also described how there are divergences to the Code that, if retained, should be explained within the BEIS Governance Statement. These issues relating to the Code have been addressed in the Compliance section of this Governance Statement

- the UCL study of non-executives on Whitehall Boards conducted in 2017 praised the BEIS Board and its non-executives as a particularly effective example of a Whitehall Board. The study noted that ministerial and wider Departmental buy-in enabled BEIS non-executives to 'make challenge a reality, and take the trouble to assess and record their impact'

As a result of this process the Board has agreed to address the following points for improving its effectiveness:

- increase the amount of Board time spent considering the efficiency, performance and effectiveness of BEIS as a whole
- ensure non-executives can deepen their knowledge of key strategic areas that BEIS is working on
- move to a digital solution for sharing papers with both Board Members and between the Board, ARAC and NGC
- improve links between non-executives and other senior officials in BEIS who are not Board members, especially Directors General
- consider the balance of focus on risk between ARAC and the Board to ensure this is effective
- strengthen the membership of NGC with additional non-executive representation

The governance team will support the Board in implementing these improvements and the impact will be considered as part of the 2018-19 Board Effectiveness Evaluation.

# Board appointments and diversity

In January 2018, two of BEIS non-executive board members, Ann Dowling and Charles Randell confirmed that they would stand down from the Board by July 2018. Ann and Charles were BEIS' longest-serving non-executives and had previously been on the boards for BIS and DECC respectively. Ann was the Chair for the Nominations and Governance Committee (NGC), while Charles was the Chair for the Audit and Risk Assurance Committee (ARAC).

In order to find two new non-executives to replace them, the Department conducted an open recruitment process leading to 50 applications. The Department sought applicants who could offer the following skills and experience:

- proven leadership in large and complex organisations in the private (FTSE 250), public or voluntary sectors
- risk, performance and financial management expertise
- leadership of major projects from initiation, through development and to delivery
- an understanding of the key challenges faced by the public sector
- the ability to contribute and inspire confidence with a wide range of internal and external partners
- sound judgement with a high level of integrity

Following this exercise, the Secretary of State was pleased to confirm the appointment of Nigel Boardman to the role of ARAC chair and Leena Nair to the role of NGC Chair. Both will have attended their first formal Board meeting in July 2018.

As a result of these appointments the Board exceeds the 33% target for women on boards, set by Lord Davies, with 6 out of the 14 standing members being women (43%). The Board also has two members from a black, Asian and minority ethnic (BAME) background, exceeding the target of one member set for the private sector in the Sir John Parker review.

All new Board members have received an induction to the Department, including briefing on the Board itself, the role of Board members, propriety matters, the work of the Department, and more specific information to support their understanding of issues brought before them.

## Ministerial directions

Ministerial directions are formal, technical instructions from the Secretary of State which allow the Department to proceed with a spending proposal in a situation where the Accounting Officer has raised an objection. The Accounting Officer is accountable to parliament for ensuring that all expenditure meets he standards under Managing Public Money (MPM) and has a duty to seek a direction if they believe one of the four criteria (regularity, propriety, value for money or feasibility) will not be met. If a direction is given, the Accounting Officer will no longer be challenged by the Public Accounts Committee on why they took forward the policy. However, they might still need to explain the course of action and the minister's reasoning.

During the financial year 2017-18, a Ministerial Direction was given in relation to the market surveillance (product safety) database.

Under the rules set out in MPM, departments are not able to incur expenditure on new services without specific statutory authority. This presents a challenge to a small number of BEIS EU Exit projects that need to incur spend in advance of Royal Assent of the EU Withdrawal Bill. Any delay to these projects could have serious implications and result in disruption. Following the advice from the Chief Secretary to the Treasury in her Written Ministerial Statement of 12 October 2017, a Ministerial Direction was sought to enable urgent spend on this database to proceed.

The Ministerial Direction was given on 19 March 2018 authorising the spending and allowing the planned work to proceed in advance of Royal Assent.

## Cyber security

Denial of service attacks and attacks via malicious software are continuing risks to the Department. These risks are reviewed by our security team and our commercial partners and appropriate mitigations put in place. As part of the drive to improve security as services are bought in-house, the Department is undertaking work to ensure all internal services comply with the ISO27001 security standard. No significant cyber security breaches were reported in 2017-18.

## Information security

No data protection incidents have been reported to the Information Commissioners Office in the year.

General Data Protection Regulation (GDPR)
On 25 May 2018 when new General Data Protection Regulation came into effect, BEIS was compliant in 11 of the `12 steps to take now' published by the Information Commissioner's Office. The one outstanding issue relates to `right to be forgotten' and our ability to delete large volumes of information on the Department's HR systems. Work continues in this area and we expect to be fully compliant by Autumn 2018.

We continue to work closely with our partner organisations. An assurance model is being developed to ensure BEIS continue to be compliant post May. This will include executive agencies for whom BEIS is data controller.

# Risk management and internal controls

Considerable progress has been made over the last twelve months in relation to both risk management and strengthening the Department's internal controls. On risk management BEIS has: established a single departmental risk register and group-level risk registers; established a risk framework; and started embedding risk management at directorate level. This represents a solid beginning to providing a greater degree of control over risk and is supported by the recent internal audit report on Risk Management in BEIS that has provided a moderate rating. As a result, BEIS now has a clearer view of the risks to the Department and is starting to move from a culture of reporting to one of active management and ownership, as well as a greater focus on risk aggregation and on how risks impact on the delivery of outcomes. This improved approach will be driven by continued implementation of the risk framework and supported by Directors General, within their respective spans of control. Our principal risks are described in the Performance Report.

The intelligence from BEIS' risk management framework and registers informs the monthly performance and risk report that is integral to the governance of the Department. Key changes to the risks, including any new or escalated threats, are reviewed each month by the Performance, Finance and Risk (PFR) Committee. The PFR Committee updates the Executive Committee each month on any significant changes to the Departmental risks as part of a broader report also covering Departmental performance, financial management and human resources.

The Department's approach is to make a distinction between strategic risks and operational or delivery risks. The PFR and the Departmental Board drive the identification of high-level strategic risks that are directly aligned to Departmental objectives as formulated through the Single Departmental Plan (SDP). Underneath the strategic risks sit operational and delivery risks relating to the Department's objectives, which take the top risks from group or directorate risk registers. These risks are escalated to the PFR Committee when it appears that they are outside tolerance and threaten the delivery of the objectives in the SDP. This structure allows for movement of risks between levels so that the level of decision-making reflects the impact on the objectives.

In relation to internal controls, following the previous year's machinery of government change BEIS faced a considerable challenge in setting a consistent, core internal control environment. BEIS's Corporate Services team have been working on harmonising and updating these policies, aligning this work with the Department's Transformation Programme. As these administrative policies have been updated, new associated controls are being put in place alongside them, as well as improved management information and reporting. The majority of policies had been set and harmonised by the end of March 2018, with all expected to be in place by the end of June. The planned transition from two shared service providers to one over the course of 2018-19 will further support the Department to operate within the correct control environment and have better quality management information.

To ensure that this work has the best chance of success, senior leaders in the Department are committed to putting in place the required culture change, supported by clear, accessible information to ensure controls are adhered to and are effective. The relevant functional leads will seek to drive the cultural change and will be supported by senior leaders across the Department to ensure that it happens. For this reason, both culture change and management capability are themes of the Transformation Programme going forward.

# Partner organisation governance

### Our work with our partner organisations over 2017-18

The Transformation Programme started in May 2017 and comprised workstreams from right across the department. One aspect of the programme was to improve on our partnership working with our partner organisations in line with the Cabinet Office Code of Practice. The programme of work is based on improving engagement, promoting assurance, strengthening alignment and fostering talent (E-A-S-T) and was shaped by contributions from across the whole BEIS group. We are moving forward on the basis of a common, consistent and collective approach that is transparent, fair and well understood.

### Our new sponsorship model

Our network of partner organisations is one of the largest in government, with a diverse array of bodies and people with a very wide span of policy and operational responsibilities. Over the financial year 2017-18 BEIS had 40 partner organisations (following some Cabinet Office reclassification). Our daily dialogue across the group can cover a vast array of topics – from upcoming appointments, parliamentary business and media notices to emerging policies and operational issues. Getting these conversations right – and by extension, our relationships – is something we need to do well to a clear and consistent standard.

We have been working on this over the last 12 months as a part of our wider Transformation Programme. The appetite for change is shared with our partners who have fed back with support and constructive challenge. We have been working with chairs and chief executives – alongside our policy sponsors, sponsor teams and corporate services teams – to build a consensus on what and how we 'do' sponsorship in BEIS. The challenge was to identify a model that works consistently for every partner organisation – regardless of function, size, type, spend and degree of autonomy – whilst been flexible enough to meet their individual needs.

We identified 3 key needs:

- a transparent, fair, rational and well-understood sponsorship model
- tailored support that recognises individual complexities
- effective and efficient processes and systems

For each partner organisation we identified key individuals and their roles, the overall aim of which is to help us engage with each other in a consistent and co-ordinated way:

- Ministerial Champion – providing ministerial oversight and support for key priorities
- Policy Champion – accountable for our overall relationship with partner organisations
- Policy Sponsor – day to day liaison and management of our relationship with partners
- Corporate Governance Sponsor – introducing some additional corporate governance support for each of our policy groups. This includes supporting public appointments; tailored reviews; performance management; risk and assurance; classifications and delegations; wider public bodies reform work with Cabinet Office; and oversight of the ongoing transformation of BEIS/partner organisation ways of working

## Counter-fraud and error

The Department and our partner organisations have refreshed our fraud risk register and are rolling out an updated action plan building on best practice on counter-fraud. We have collectively been assessed as 'green' in complying with HM Government's counter-fraud standards and continue to work closely through the BEIS Group Counter-Fraud Network to leverage our collective capacity, expertise and data to manage the risks specific to internal and external fraud and error.

We have delivered a fraud awareness programme to BEIS staff and will build on that in the coming year. We have also looked again at how we can support whistle-blowers who report fraud and abuse of BEIS funds. As in previous years, cyber-enabled fraud remains a key cross-cutting threat but we and our partner organisations have successfully prevented a number of fraud losses during the year. We are also working with colleagues across government and in law enforcement on several on-going fraud investigations and supporting the wider fight against economic crime.

## Tailored Reviews

We have worked closely with the Cabinet Office on its programme of Tailored Reviews. In June, BEIS launched our programme to review 24 of in-scope partner organisations. The emphasis will be on assessing the status, form and function of our partner organisations, exploring potential efficiencies and whether the right governance is in place. The reports on two of the reviews have been published on www.GOV.UK; a further two reports are expected to be published by June 2018. This programme will help to strengthen our sponsorship and governance processes as the new sponsorship model is implemented.

## Significant issues

A number of common themes have been identified as significant issues across several individual governance statements.

- Research Councils' transition to UK Research and Innovation (UKRI): The transition has caused some initial uncertainty around governance and operating arrangements. The challenges include ensuring balanced representation of each council within UKRI, and managing change and resources.
- General Data Protection Regulation (GDPR) – its introduction on 25 May 2018 brings about substantial changes. The emphasis is on striving for compliance, rather than achieving full compliance on day one.
- Cyber security threat remains severe and thus requires constant monitoring and vigilance.
- EU Exit – Long-term uncertainty around future availability of EU funding and wider research. Also, risks in recruitment and retention of international staff because of uncertainty surrounding immigration arrangements. We are engaging with partner organisations to help them understand and respond to impacts and opportunities arising from EU Exit.
- A BEIS announcement on 17 April noted that Sir John Kingman has been commissioned to conduct an independent review of the Financial Reporting Council (FRC). The review's scope will include the FRC's governance and transparency; the avoidance of conflicts of interest, as well as its independence, oversight and accountability; and its impact, resources and capacity. The review will include public consultation and stakeholder engagement. It will conclude at the end of 2018.

# Review of the effectiveness of governance, risk management and internal controls

An annual review of the effectiveness of the system of governance, risk management and internal control has been informed by officials, internal audit and comments made by the NAO. The Audit and Risk Assurance Committee also provided further assurance.

The governance controls have improved over the last year as the Department has evidently tackled the issues identified during the last review of effectiveness, covering 2016-17. These issues were: the need to develop a risk management framework; provide a suite of unified and defined priority internal policies; and implement a new methodology to engage and work with our partner organisations.

The risk management framework has been set, with support from the Audit and Risk Assurance Committee, and communicated through the Department. Directors General have introduced group-level risk registers as a result, though more can be done to improve the consistency with which the framework is applied. Risk management was subject to an internal audit and achieved a moderate level of assurance.

Internal control corporate policies have been prioritised, mapped and harmonised, removing the inconsistencies that arose from the Machinery of Government change. As these administrative policies have been updated, new associated controls are being put in place alongside them.

Further work is required to ensure that policies are being followed and a new Control Assurance Record is planned for implementation in 2018-19, requiring action and ownership at Deputy Director level. This will improve the 'first line of defence' and inform the directors general bi-annual internal control statements.

The Department has introduced a new approach to working with partner organisations through a sponsorship model. Roles have been established to allow for consistent and co-ordinated engagement including a Ministerial Champion, Policy Champion, Policy Sponsor and Corporate Governance Sponsor for each partner organisation. In addition the Department has provided further clarification of the classification of partner organisations and the concurrent controls they are subject to. Organisational remits are set out in a framework document or similar agreements and these are being reviewed and revised as appropriate. The internal audit on partner organisation Governance and Sponsorship Arrangements was completed in March 2018 and this area achieved a moderate level of assurance. Work has begun and will be continued over 2018/19 to strengthen the process and the quality of partner organisations' risk assessments and to ensure partner organisations can realise the benefits of the sponsorship model.

The leadership of the Department responded well to the challenges set in 2016-17 and took action to ensure that risk management, clearance of audit actions and the implementation of internal control policies, all showed improvement. There was also strong evidence of staff engagement focused on creating groups that have an identity and that are part of BEIS, rather than the legacy departments. Many important questions within the annual people survey showed significant levels of improvement. To add context, recruitment and retention of staff has been a challenge throughout the year as the Department has brought in additional resource to deliver its priorities, especially supporting the UK's withdrawal from the European Union.

Over the coming year the leadership team will focus on a greater degree of consistency across: risk management; internal controls; and partner organisation relations. This is clearly in line with the recognised need to embed newly introduced systems, improve the line of sight into partner organisations and strengthen the 'second line of defence'.

In addition, over the course of the year, the NAO have conducted a number of value for money reports and there have been several subsequent PAC hearings. The Department considers it has implemented appropriate actions against all recommendations that it could reasonably be expected to during 2017-18.

### Internal audit review

In his Annual Report and Opinion, the Group Chief Internal Auditor (GCIA) has provided an overall 'moderate' opinion on the framework of governance, risk management and control within the Department for 2017-18. This represents a step up from the 'limited' level of assurance received by the Department for 2016-17.

The strengthened assurance rating recognises the good progress made and initiatives taken across the Department to further develop the governance, risk management and control environment. This has included continuing the transformation to a single department and the introduction of new risk management and contract management frameworks. The GCIA recognised this has been achieved alongside a challenging scale of policy and programme work that the Department has been able to deliver concurrently.

The GCIA highlighted some areas where further effort and focus could be expected to strengthen the Department's position:

- the second line of defence would benefit from further clarification of roles, responsibilities and accountabilities alongside greater monitoring of compliance with policies
- the good work done to introduce new IT systems or the intention to move to shared single shared service provider will need to maintain momentum and engagement with staff if longer-term, positive culture change is to be achieved
- taking steps to ensure corporate knowledge is retained will be necessary as the Department continues to increase the capacity and capability of it staff

Overall, the Department has improved on its previous rating, with no audits in 2017-18 receiving an unsatisfactory rating. The Department has been able to achieve this while: increasing headcount and the proportion of new starters; introducing a new IT platform for all staff; responding successfully to emerging challenges such as the Grenfell fire disaster; and introducing new control measures supported by a new internal controls team. This has been a credit to all staff and to the senior leadership team in BEIS.

## Other governance activity

### Group statements on governance, risk management and internal control

Directors general provide a statement on the effectiveness of the system in-year and at the year-end for their group, and an action plan for improvements. The Head of Internal Audit and non-executive members of the Audit and Risk Assurance Committee review each statement with the relevant Director General and discuss the key findings with the Permanent Secretary.

These discussions have highlighted:

- good progress in group People Survey results from the previous year supported by leadership actions to build a sense of identity and purpose to being in BEIS
- an increased focus on risk management, in line with the new departmental framework, leading to robust group level views on risk
- increased evidence of wider application of internal controls as more internal policies have been set for the Department
- strong levels of governance and stakeholder management, with evidence of lessons learned and applied through the year

Looking to the future there is recognition of:

- the continued challenge to ensure that the skills and capability required to deliver can be met within existing headcount controls and can be properly supported by recruitment systems
- the work required to embed systems and controls that have been introduced in the 2017-18, ensuring consistency and compliance
- the need to make the most of the opportunity offered to the Department by the new Cirrus IT platform, especially for improving knowledge management
- the need to ensure that actions resulting from internal audit reports are integral to group internal control management and action planning

Work has started in 2017-18 to further improve the internal control process for the Department and will be implemented in 2018-19.

## Effectiveness of our whistleblowing arrangements

Internal whistleblowing arrangements

We have a well-established policy and procedures to support internal whistle-blowers in the core Department. Our procedures offer 6 different routes for employees to raise concerns, including via an external whistleblowing hotline. We have a low number of whistleblowing concerns raised each year. There are no common themes nor specific risks identified across the cases. In the 2017 BEIS People Survey, a clear majority of staff responded that they had confidence that any concerns they raised under the Civil Service Code would be properly investigated.

External whistleblowing arrangements

We are developing a suite of measures to improve the end-to-end management of external whistle-blowers, taking account of good practice across government. We will be using behavioural insights to prompt more whistle-blowers to come forward. We will also support them through a better triage referral process, while also managing expectations about timescales and reporting arrangements. All the concerns raised during the year have been and are being investigated by working in collaboration with partners inside and outside the Department.

### Shared service assurance

We used 2 shared service centres in 2017-18.

UK Shared Business Services Ltd (UK SBS), one of our partner organisations, provides services to former-BIS parts of our core Department and to UKRI. We receive quarterly assurance reports from UK SBS on the design and effectiveness of their internal control framework. Overall, while noting a need to invest in a new system solution, UK SBS has reported that its HR, payroll and finance services are operating effectively. Further narrative is available in the Governance Statement for UK SBS, which is published separately as part of its Annual Report and Accounts.

Our second shared service provider, Shared Services Connect Ltd (SSCL), provides services to former-DECC parts of our core Department. We have received assurance from the Cabinet Office over the processes and controls operated by SSCL, including the results of the annual ISAE3402 report. This report confirmed the majority of key controls are operating effectively and meet the control objectives. Since last year's report, SSCL has addressed key findings and reduced the exceptions significantly. Having reviewed these exceptions, we are satisfied that none are likely to be fundamental to our financial statements or governance statement.

### Project management

Over the last year BEIS has made considerable effort to increase both the Department's capacity and capability for managing projects. We have doubled the number of project delivery professionals to meet the emerging challenges of exiting the EU and to support the implementation of the Industrial Strategy. We have sought to assess our capability and an external benchmarking exercise has shown our portfolio function to be above average. We have also taken direct action to improve by:

- implementing recommendations from both the Infrastructure and Projects Authority and GIAA
- introducing a risk management framework with an active champions network
- piloted a new keyholder and sponsor approach to support the effective preparation and assessment of business cases for clearance through the Project and Investment Committee

All projects with a lifetime cost in excess of £20 million or those carrying substantial risk are assessed at the three key business case stages, and lessons learned are assessed, shared and utilised to strengthen future delivery.

### Single Departmental Plan

Internally, the Department will monitor its progress against its objectives through the Single Departmental Plan. This is a document establishing an internal accounting framework, based on policy milestones and indicators, to enable on-going monitoring of policy delivery.[18]

### Local government

The Department has provided grants to local authorities totalling £8.9 million during the year under Section 31 of the Local Government Act 2003.

### Quality assurance modelling

BEIS has had a single modelling quality assurance (QA) process since 4 April 2017. This process complies with the AQuA book.

The Modelling Integrity Team co-ordinates a network of analysts within groups who maintain quality assurance logs for their models, plans to bring these to the appropriate level of quality and provide independent assurance for each other's models. The Modelling Integrity Team has trained over 100 analysts in the process and made the tools widely available via BEIS intranet and GOV.UK. Groups in BEIS identified 77 analytical models in use to support their business in the Modelling Integrity Team model tracking log. This records the progress made in quality assuring the models. 60% reached appropriate QA compliance scores and the remainder have plans to achieve these in 2018-19. Our partner organisations that undertake modelling give assurance that they have AQuA compliant QA processes in place via their respective Accounting Officer's statements.

## Accounting Officer's conclusion

In the 2016-17 Annual Report and Accounts my conclusion accepted that the Department had a 'limited' level of assurance and that more work was required to strengthen the Department's levels of control. I highlighted three actions to support this: develop the risk management framework; provide a suite of unified and defined priority internal policies; and implement a new methodology to engage and work with our partner organisations. Over the course of 2017-18, each of these three commitments has been delivered with new systems and processes introduced to the Department with the clear support of the senior leadership team.

I have considered the evidence provided regarding the production of the annual Governance Statement and the independent advice and assurance provided by the Audit and Risk Assurance Committee. I conclude that the Department has now achieved a 'moderate' level of assurance and that this assessment is strongly supported by the wide range of internal audits undertaken throughout the year.

During the course of 2018-19, we will:

- embed the new systems introduced in the last year, focusing on risk management, assurance mapping, performance management, IT and internal controls
- improve the line of sight into partner organisations commensurate to their respective levels of risk
- strengthen the clarity and consistency provided through the Department's second line of defence

Delivering against these in 2018-19 will enable the Department to build on the good progress made over the last year and keep the Department moving towards its aspiration of achieving a 'substantial' level of assurance in the future.

**Alex Chisholm**
Permanent Secretary
and Principal Accounting Officer

3 July 2018

18 https://www.gov.uk/government/publications/department-for-business-energy-and-industrial-strategy-single-departmental-plan/department-for-business-energy-and-industrial-strategy-single-departmental-plan

# Staff report

## Sickness and absence data

Average working days lost to sickness absence for the core Department, UK Space Agency, and Insolvency Service for the 12 months to 31 March 2018 was 2.7, 5.3 and 8.1 respectively. BEIS is committed to supporting the physical and mental health of its people and fostering employee wellbeing is a key element of our focus. We have in place an employee assistance provider to offer additional support to our people.

## Staff with disabilities

The Department is committed to ensuring equality of opportunity for all disabled employees. As we make clear in our job application process, disabled candidates who apply for a post in BEIS (under the Guaranteed Interview Scheme) automatically go forward to the interview stage, provided they satisfy the minimum criteria.

We also promote external vacancies in a range of diversity media. All staff are encouraged to take additional training on disability awareness and are expected to undertake unconscious bias to increase overall awareness. In recent months, we have achieved Disability Confident Leader Level 3.

## Recruitment practices

Recruitment into BEIS, and the Civil Service, is regulated by the Civil Service Commission. We continue to abide by the principles of the external recruitment freeze announced in May 2010. Within that context, the Department's Executive Committee agrees limits for each group, and respective Directors General are responsible for headcount control.

To meet the significant challenges of the Department's delivery, including EU Exit and Industrial Strategy, we review deployment of our people and our strategies on recruitment and resourcing. In line with the Civil Service more widely, in April 2017 we adopted the new Civil Service Recruitment Framework to enable effective business delivery and build capability in key areas. Diversity and inclusion remains a high priority for BEIS, so our recruitment and attraction strategy include a range of actions to develop an ever-increasing level of diversity within BEIS.

## Building capability

Policy making capability has been a priority for BEIS. We successfully piloted our internal 'Policy Excellence' programme in 2017, which will be rolled out throughout 2018. The programme uses a mixture of case studies, interactive learning, practical application, and expert support to bring the policy making process to life and the role of policy professionals. All new BEIS joiners to the policy profession are invited to attend this course, and around 200 have attended to date. It is also open to existing policy professionals. We are developing a higher level programme aimed at Grades 7 and 6 who lead and manage policy teams. At the highest level, we have sponsored an additional 4 senior policymakers to take the 2-year Executive Master of Public Policy.

On project delivery, our senior project leaders have again participated in the centrally-run programmes that do much to strengthen project delivery capability: Major Projects Leadership Academy (MPLA); Project Leadership Programme (PLP); and Orchestrating Major Projects (OMP). These programmes have been supported throughout 2017-18 by internal expert-led sessions from our portfolio office, and the bespoke Policy to Delivery programme established by BEIS to ensure that policy intent has the best possible chance of being delivered successfully. The latter intervention was successfully transferred to the Cabinet Office and is now accessible to the wider Civil Service.

With BEIS playing a central role in Britain's exit from the EU, the need to raise EU-specific knowledge and skills has been, and remains, important. An offer comprising online resources, e-learning, classroom learning, and internal expert-led sessions provides introductory and intermediate level development. 2018 will see trials of a negotiations course and expert-led practical session, and more work to identify existing capability gaps and addressing them.

We recognise the importance of developing managers at all levels. Our ambition is to nurture coaching culture in the department and to equip all our managers with the confidence, knowledge and tools to get the best from their people through personal development planning, support for professional development and career and talent discussions. In-house workshops covering coaching skills and setting expectations have run alongside new programmes for new managers, aspiring managers and experienced managers.

As part of our commitment to invest in our talent and enable everyone to reach their potential, we participate in the Civil Service High Potential Talent Schemes. This includes: Individual Development Programme (IDP) for Directors Generals; the High Potential Development Scheme (HPDS) for Directors; Senior Leaders Scheme (SLS) for Deputy Directors; and Future Leaders Scheme (FLS) for Grades 6 and 7. It also includes the Civil Service positive action programmes: Crossing Thresholds for women and Positive Action Pathways for women, BAME, disabled and LGBT+ staff.

To complement the Civil Service-wide talent programmes, in 2017-18, we launched our internal leadership programmes for SEOs, HEOs and Grades 6 and 7. An additional internal programme for Deputy Directors is in development. We also offer apprenticeships across grades in a range of professions, including finance, digital, project delivery, HR, policy, and leadership and management.

## People survey 2017

The second Departmental People Survey was undertaken in October 2017. The response rate of 90% was well above the Civil Service average of 67%. The survey returned an engagement index of 56%, an increase of 3% on the previous year's results.

The survey showed progress in 2 of our 3 priority areas for improvement. 'Organisational objectives and purpose' scored 75%, an increase of 23% and 'leadership and managing change' scored 51%, an increase of 10% from the previous year.

The result for 'pay and benefits', our third priority area, was static at 25%. This is not something the Department is content with and remains a high priority for BEIS.

For the 'diversity and inclusion' indicator, the survey returned a score of 80%, and for 'learning and development', 59%. For both indicators, BEIS is amongst high performers of survey participants.

The questions with the highest positive scores included, I am interested in my work (90%), I am trusted to carry out my job effectively (88%), and I am treated with respect by the people I work with (88%).

Our transformation programme has continued to deliver changes in response to the survey. In September, BEIS Story was launched bringing together our vision, objectives and values. Our values – brilliant, enterprising, inclusive, skilled were developed with staff and were positively received.

## Diversity and inclusion

As the department responsible for creating an 'economy that works for everyone', BEIS focuses heavily on diversity and inclusion (D&I).

In recent months we have:

- undergone our first Stonewall Workplace Equality Index assessment
- worked with SCS women to identify key challenges for progression
- hosted the first Civil Service wide EU Nationals staff conference
- worked in partnership with Business in the Community on the creation of the Best Employers for Race accreditation

Since the launch of our first diversity and inclusion strategy in February 2017, we have maintained the aim of becoming a role model for business and the rest of the Civil Service. We are in a positive position, but there is still work to do. Areas of priority moving into 2018-19 are:

- increasing representation of women at SCS2 and above; BAME representation at Grade 7 and above; and disabled people at all grades
- performance management outcomes for disabled staff and older workers
- 'inclusive by design' equality analysis in all our key decision-making processes.

We continue to have targets for diversity of representation, unconscious bias training, and diversity data return. Every year, we undertake the Summer Diversity Internship Programme to encourage greater diversity of staff. We have also achieved a high success rate across diversity groups for Senior Leaders Scheme and Future Leaders Scheme.

We have 12 diversity networks, and nearly 60 chairs and champions supporting them. The diversity and inclusion strategy is monitored quarterly by the Executive Committee and is sponsored by 2 directors general and the Permanent Secretary. The aim of the strategy is to ensure D&I is embedded within our objectives and delivered to benefit staff as well as the public. Thus, all directorates in BEIS have pledged actions to improve diversity and inclusion outcomes which reflect their local aspirations.

During the year 40 employees took advantage of the Government's Shared Parental Leave Scheme.

Details of the Department's Gender Pay Gap at 31 March 2017 together with the actions it is committed to take can be found at: https://www.gov.uk/government/publications/beis-gender-pay-gap-report-and-data-2017. A report for 2018 will be published later this year.

## Staff composition as at 31 March 2018[16]

### Gender

| | Directors[17] | All BEIS senior civil servants | All BEIS employees | All BEIS employees (%) |
|---|---|---|---|---|
| Male | 6 | 114 | 1,737 | 52% |
| Female | 3 | 100 | 1,570 | 48% |
| **Total** | **9** | **214** | **3,307** | **100%** |

### Disability

**6%** Yes

**50%** No

**2%** Prefer not to say

**42%** Unknown

### Ethnicity

**8%** BAME

**38%** White

**2%** Prefer not to say

**51%** Unknown

### Sexual orientation

**4%** LGB

**48%** Straight

**5%** Prefer not to say

**43%** Unknown

## The Department is a proud member of the following schemes:

16 The data on this page is compiled using ONS methodology with the exception of the 'Gender' table, which is FTE on payroll.
17 The term 'Directors' refers to the BEIS executive board members, not the grade.

## Employee consultation

We conducted an organisation-wide consultation to develop the new approach to performance management at BEIS, to take effect from April 2018. We had 1,250 survey responses and over 300 colleagues attended face-to-face sessions. Our aims are to use the new process as a vehicle to improve our people management and build our skills capability. This involves empowering managers to have regular, future-focused one-to-ones using coaching for development. We have developed a full range of support materials to assist managers in this area.

We have opened-up the governance activity within BEIS to allow for a greater representation of views from different levels of the organisation, on issues that impact all of our people.

The shadow People and Operations Committee has been running successfully all year providing valuable insight and support to senior decision makers. As a result we have taken steps to expand this initiative and will have a shadow Executive Committee in place during 2018-19 with a direct link to the Departmental Board. We continue to communicate with our employees using a range of channels including: workshops, town-hall style meetings, intranet blogs and webchats.

Over the year we have also focused on strengthening our relationship with Departmental Trade Union Side (DTUS). This includes engaging in timely and meaningful consultation and facilitating regular discussions on areas that notably have the biggest effect on staff: HR, finance and estates. This has created positive employee relations environment.

## Health, safety and wellbeing

We consider the wellbeing of staff to be paramount. We have a strong record in providing a safe and supportive work environment. There have been no reported accidents in accordance with the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013. Health, safety and wellbeing is monitored quarterly by the Health and Safety Committee.

An audit was carried out by Government Internal Audit Agency in November 2017, which received an overall 'moderate' rating. The auditors also found BEIS actively promoted the 5 priorities from the Civil Service Health and Well-Being Strategy. We work within the framework of the Civil Service Health and Wellbeing Strategy. The focus is mental health, musculoskeletal health and a healthy lifestyle. In recent months, we have invested significantly in mental health training for all staff.

## Health service

Our occupational health services are independent and confidential. Individuals are asked for their consent for a referral to the Department's medical advisers. They offer an assessment on fitness for work, and help the department consider reasonable adjustments in accordance with our duty under the Equality Act 2010. To ensure staff have the best opportunity to continue in employment, we provide dedicated information and counselling support service through our employee assistance programmes.

## Number of SCS staff by pay band

The following table shows the number of senior civil servants in the core Department by pay range as at 31 March 2018. Bonuses are not included and salary ranges represent full-time equivalent rates. These pay ranges cover those staff employed on open-ended and fixed term contracts.

The remuneration of the senior civil servants who are not members of the Departmental Board or Executive Committee is based on a combination of the performance ratings determined by Permanent Secretary and Director Generals, and the award amounts determined by the Executive Committee. The members of Executive Committee for 2017-18 are presented in the box.

| Pay range | No. of SCS staff within range as at 31 March 2018 | No. of SCS staff within range as at 31 March 2017 |
|---|---|---|
| Below £59,999 | – | – |
| £60,000 - £64,999 | 2 | 3 |
| £65,000 - £69,999 | 77 | 73 |
| £70,000 - £74,999 | 43 | 36 |
| £75,000 - £79,999 | 18 | 22 |
| £80,000 - £84,999 | 6 | 5 |
| £85,000 - £89,999 | 18 | 22 |
| £90,000 - £94,999 | 16 | 6 |
| £95,000 - £99,999 | 6 | 4 |
| £100,000 - £104,999 | 5 | 7 |
| £105,000 - £109,999 | - | 1 |
| £110,000 - £114,999 | 2 | 5 |
| £115,000 - £119,999 | 2 | 2 |
| £120,000 - £124,999 | 7 | 4 |
| £125,000 - £129,999 | 2 | 3 |
| £130,000 - £134,999 | 2 | 2 |
| £135,000 - £139,999 | 1 | – |
| £140,000 - £144,999 | 2 | 5 |
| £145,000 - £149,999 | 2 | 2 |
| £150,000 - £154,999 | – | – |
| £155,000 - £159,999 | – | – |
| £160,000 - £164,999 | – | – |
| £165,000 - £169,999 | – | – |
| £170,000 - £174,999 | – | – |
| £175,000 - £179,999 | – | – |
| £180,000 - £184,999 | 1 | 2 |
| £185,000 - £189,999 | – | – |
| £190,000 - £194,999 | – | – |
| £195,000 - £199,999 | 1 | – |
| **Total** | **213** | **204** |

Executive Committee members
1 April 2017 to 31 March 2018

**Alex Chisholm**
BEIS Permanent Secretary

**Sam Beckett**
Director General, EU Exit and Analysis

**Gareth Davies**
Director General, Business and Science

**Caleb Deeks**
Director, Policy, Delivery and Private Office (from 23 May 2017)

**Prof John Loughhead**
Chief Scientific Advisor (fixed term contract to 30 April 2020)

**Clive Maxwell**
Director General, Energy Transformation (to 20 November 2017)

**Jeremy Pocklington**
Director General, Energy and Security

**Angie Ridgwell**
Director General, Corporate Services (to 31 December 2017)

**Sarah Harrison**
Director General, Corporate Services (from 28 February 2018)

**Jaee Samant**
Director General, Market Frameworks

**Tom Taylor**
Director, Finance and Portfolio & Chief Financial Officer (from 15 January 2018)

# Staff numbers

Audited information.

The average number of full time equivalent persons employed during the year is shown in the table below.

| | 2017-18 | | | | | 2016-17 restated |
|---|---|---|---|---|---|---|
| Number of staff by category | Permanent employed staff | Others | Ministers | Special advisers | Total | Total |
| Core | 3,131 | 239 | 6 | 2 | **3,378** | **3,162** |
| Agency | 1,558 | 54 | – | – | **1,612** | **1,589** |
| Non departmental public bodies (NDPBs) | 12,522 | 1,264 | – | – | **13,786** | **14,544** |
| **Total** | **17,211** | **1,557** | **6** | **2** | **18,776** | **19,295** |
| Of which: | | | | | | |
| Core Department and agencies | 4,689 | 293 | 6 | 2 | **4,990** | **4,751** |
| NDPBs and other designated bodies | 12,522 | 1,264 | – | – | **13,786** | **14,544** |
| **Total** | **17,211** | **1,557** | **6** | **2** | **18,776** | **19,295** |

# Staff costs

Audited information.

During the year, £13,932,358 of staff costs were capitalised (2016-17: £13,459,098) and 294 employees (2016-17: 233 employees) in the Departmental Group were engaged on capital projects during the reporting period.

Staff severance costs for current and prior year are included in wages and salaries. Further detail on exit packages is included on page 84.

Included within the total net costs of other staff shown below are ministers' total net costs of £344,959 (2016-17: £340,369) and special advisors' total net cost of £181,693 (2016-17: £354,978).

| | 2017-18 | | | 2016-17 restated |
|---|---|---|---|---|
| | Permanently employed staff £m | Others £m | Total £m | Total £m |
| Wages and salaries | 719 | 60 | 779 | 784 |
| Social security costs | 81 | – | 81 | 71 |
| Other pension costs | 168 | – | 168 | 145 |
| **Sub total** | **968** | **60** | **1,028** | **1,000** |
| Less recoveries in respect of outward secondments | (3) | – | (3) | (4) |
| **Total net costs** | **965** | **60** | **1,025** | **996** |
| Of which: | | | | |
| Core Department and agencies | 255 | 18 | 273 | 282 |
| NDPBs and other designated bodies | 710 | 42 | 752 | 714 |
| **Total net costs** | **965** | **60** | **1,025** | **996** |

# Principal Civil Service Pension Scheme (PCSPS)

The Principal Civil Service Pension Scheme (PCSPS) and the Civil Servant and Other Pension Scheme (CSOPS) – known as 'Alpha' – are an unfunded multi-employer defined benefit Scheme in which the Department is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the PCSPS as at 31 March 2012. You can find details in the Cabinet Office resource accounts: www.civilservicepensionscheme.org.uk/.

For 2017-18, employer contributions of £55,532,213 were payable to the PCSPS (2016-17: £48,603,369) at one of four rates in the range 20.0% to 24.5% (2016-17: 20.0% to 24.5%) of pensionable pay, based on salary bands.

The Scheme's actuary reviews employer contributions, usually every four years, following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2017-18 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. Employers' contributions of £1,023,802 (2016-17: £896,929) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 8% to 14.75%. Employers also match employee contributions up to 3% of pensionable earnings. In addition, employer contributions of £15,704 (2016-17: £6,638), 0.5% (2016-17: 0.5%) 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.

Contributions due to the partnership pension providers at 31 March 2018 were £27,666 (2016-17: £11,440). Contributions prepaid at that date were nil (2016-17: nil)

In 2017-18, 28 people (2016-17: 34 people) across the Departmental Group retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £1,749,313 (2016-17 restated: £1,418,078).

### Other pension schemes

Employer contributions to other pension schemes in the year amounted to £234,198,424 (2016-17 restated: £246,753,334). Employer contributions include employers' contributions, current service costs and, where appropriate, past service costs of funded pension schemes. Further details can be found in the accounts of the Department's NDPBs and other designated bodies. A list of these bodies is provided in note 27.

# Nuclear site companies: staff numbers and costs

Nuclear site licence staff costs are disclosed separately as they are included in the amounts shown for utilisation in the Nuclear Decommissioning provision in note 19 rather than being reported as staff costs in the Statement of Comprehensive Net Expenditure.

| | 2017-18 | | | 2016-17 |
|---|---|---|---|---|
| | Permanently employed staff | Others | Total | Total |
| Number of staff (full-time equivalent) | 14,816 | 1,347 | 16,163 | 16,522 |
| | | | | |
| Wages and salaries (£m) | 789 | 46 | 835 | 883 |
| Social security costs (£m) | 90 | – | 90 | 90 |
| Other pension costs (£m) | 135 | – | 135 | 130 |
| Less recoveries in respect of outward secondments (£m) | – | – | – | – |
| **Total (£m)** | **1,014** | **46** | **1,060** | **1,103** |

# Exit packages

Audited information

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year that the departure is agreed and are based on the expected cost in relation to that financial year. Where the department has agreed early retirements, the additional costs are met by the department and not by the Civil Service pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

| | Number of compulsory redundancies | | Number of other departures agreed | | Total number of exit packages by cost band | |
|---|---|---|---|---|---|---|
| **Exit package cost band** | **2017-18** | **2016-17** | **2017-18** | **2016-17** | **2017-18** | **2016-17** |
| Less than £10,000 | 6 | 23 | 41 | 102 | 47 | 125 |
| £10,000 - £25,000 | 17 | 23 | 77 | 105 | 94 | 128 |
| £25,000 - £50,000 | 21 | 8 | 89 | 83 | 110 | 91 |
| £50,000 - £100,000 | – | 3 | 124 | 112 | 124 | 115 |
| £100,000 - £150,000 | – | – | 39 | 6 | 39 | 6 |
| £150,000 - £200,000 | – | – | 11 | 5 | 11 | 5 |
| More than £200,000 | – | – | 11 | 10 | 11 | 10 |
| **Total number of exit packages** | **44** | **57** | **392** | **423** | **436** | **480** |
| Of which: | | | | | | |
| Core Department and agencies | – | – | 10 | 91 | 10 | 91 |
| NDPBs and other designated bodies | 44 | 57 | 382 | 332 | 426 | 389 |
| **Total number of exit packages** | **44** | **57** | **392** | **423** | **436** | **480** |
| **Total cost (£)** | **1,046,881** | **1,040,737** | **23,457,006** | **17,273,787** | **24,503,887** | **18,314,524** |
| Of which: | | | | | | |
| Core Department and agencies | – | – | 594,655 | 5,152,252 | 594,655 | 5,152,252 |
| NDPBs and other designated bodies | 1,046,881 | 1,040,737 | 22,862,351 | 12,121,535 | 23,909,232 | 13,162,272 |
| **Total** | **1,046,881** | **1,040,737** | **23,457,006** | **17,273,787** | **24,503,887** | **18,314,524** |

In November 2016, an amendment to the Civil Service Compensation Scheme introduced a new lower tariff for all exit schemes (Voluntary Exit, Voluntary Redundancy and Compulsory Redundancy). This amendment was subsequently challenged under a Judicial Review, which resulted in the quashing of the amendment in 2017-18, and adjustments were required to some awards made under the November 2016 terms. The Department had no exit packages paid in 2016-17 that were impacted by the Judicial Review, and had three exit packages paid in 2017-18 that required an additional payment.

Any organisations that are covered by the Civil Service Pension Scheme are subject to the £95,000 cap on exit payments. As the cap is only a guideline rather than legislation, organisations can apply to pay over the cap subject to Cabinet Office approval. During 2017-18, there was one exit package above £95,000 awarded by organisations subject to the cap. The value of this exit package was £108,054 and it was awarded by the core Department.

## Consultancy expenditure

Expenditure on consultancy in 2017-18 was £63.0 million (2016-17: £50.4 million), of which £41.4 million (2016-17: £37.3 million) was related to Site Licence Companies. Consultants are hired to work on projects in a number of specific situations: where the Department does not have the skills set required; where the particular requirement falls outside the core business of civil servants; or where an external, independent perspective is required. When used appropriately, consultancy can be a cost effective and efficient way of getting the temporary and skilled external input that the Department needs. We are committed to the consistent application of the Cabinet Office's 2010 controls on consultancy and other spending.

## Trade union facility time

The following disclosure for 2017-18 is required for the Department and executive agencies under The Trade Union (Facility Time Publication Requirements) Regulations 2017.

### (a) Relevant union officials

| | Core Department and agencies |
|---|---|
| Number of employees who were relevant union officials | 42 |
| Full-time equivalent employee number | 40.3 |

### (b) Percentage of time spent on facility time

| | Core Department and agencies |
|---|---|
| Percentage of time | Number of employees |
| 0% | 14 |
| 1-50% | 28 |
| 51-99% | 0 |
| 100% | 0 |

### (c) Percentage of pay bill spent on facility time

| | Core Department and agencies |
|---|---|
| Total cost of facility time (£) | 101,413 |
| Total pay bill (£) | 272,242,543 |
| Percentage of total pay bill spent on facility time calculated as: (total cost of facility time ÷ total pay bill) x 100 | 0.04% |

### (d) Paid trade union activities

| | Core Department and agencies |
|---|---|
| Time spent on paid trade union activities as a percentage of total paid facility time hours calculated as: (total hours spent on paid trade union activities by relevant union officials during the relevant period ÷ total paid facility time hours) x 100 | 0% |

# Remuneration report

## Remuneration policy

### Senior salaries review body

The remuneration arrangements for senior civil servants are set by the Prime Minister following independent advice from the Senior Salaries Review Body.

The Review Body provides independent advice to the Prime Minister, the Lord Chancellor, the Secretary of State for Defence, the Secretary of State for Health and the Home Secretary on the pay of senior civil servants, the judiciary. Senior officers of the armed forces, certain senior managers in the NHS, Police and Crime Commissioners and chief police officers.

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
- the Government's inflation target

The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations. Further information about the work of the Review Body can be found at: https://www.gov.uk/government/organisations/review-body-on-senior-salaries.

### Performance and reward

The Senior Civil Service (SCS) pay system consists of relative performance assessments. The highest performing individuals were awarded a non-consolidated performance reward for their performance against objectives in 2016-17 which was paid in 2017-18. These awards varied in amount within an overall cost envelope set by the Senior Salaries Review Body and approved by the Government. Consolidated base pay awards are limited to a 1% increase to the Department's SCS pay bill. No base pay increases were paid to those assessed to be the lowest 10% of performers. Further information about the performance and reward arrangement for senior civil servants can be found at www.gov.uk/government/collections/senior-civil-service-performance-management-and-reward

### Service contracts

The Constitutional Reform and Governance Act 2010 requires Civil Service appointments to be made on merit on the basis of fair and open competition. The Recruitment Principles published by the Civil Service Commission specify the circumstances when appointments may be made otherwise.

Unless otherwise stated below, the officials covered by this report hold appointments which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme. Further information about the work of the Civil Service Commissioners can be found at civilservicecommission.independent.gov.uk

# Ministers: salary and pension entitlements

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. **None of the ministers of the Department received any benefits-in-kind during the year.** The salary and pension entitlements of the ministers of the Department for the year ending 31 March 2018 were as follows:

### Single total figure of remuneration

| Ministers | Salary (£) 2017-18 | Salary (£) 2016-17 | Pension benefits (to nearest £1,000)[1] 2017-18 | Pension benefits (to nearest £1,000)[1] 2016-17 | Total (to nearest £1,000) 2017-18 | Total (to nearest £1,000) 2016-17 |
|---|---|---|---|---|---|---|
| **Secretary of State** | | | | | | |
| Rt Hon Greg Clark MP (from 14 July 2016)[2] | 67,505 | 45,003 | 16,000 | 13,000 | 84,000 | 58,000 |
| **Ministers of State** | | | | | | |
| Rt Hon Claire Perry MP (from 12 June 2017)[3] | 25,432 | – | 7,000 | – | 32,000 | – |
| Sam Gyimah MP (from 10 January 2018)[4] | 5,830 | – | 2,000 | – | 8,000 | – |
| Jo Johnson MP (until 9 January 2018)[5] | 26,400 | 31,680 | 5,000 | 8,000 | 31,000 | 40,000 |
| Rt Hon Nick Hurd MP (from 15 July 2016 until 11 June 2017)[6] | 7,920 | 22,312 | 1,000 | 6,000 | 9,000 | 28,000 |
| **Parliamentary Under-Secretaries of State** | | | | | | |
| Richard Harrington MP (from 14 June 2017)[7] | 16,781 | – | 5,000 | – | 22,000 | – |
| Rt Hon Lord Henley (from 27 October 2017)[8] | 45,194 | – | 7,000 | – | 52,000 | – |
| Andrew Griffiths MP (from 10 January 2018)[9] | 3,993 | – | 1,000 | – | 5,000 | – |
| Margot James MP (from 16 July 2016 until 9 January 2018)[10] | 18,646 | 14,917 | 4,000 | 4,000 | 23,000 | 19,000 |
| Lord Prior of Brampton (from 9 January 2017 until 27 October 2017)[11] | 68,474 | 11,452 | 10,000 | 4,000 | 78,000 | 15,000 |
| Jesse Norman MP (from 16 July 2016 until 14 June 2017)[12] | 5,594 | 14,917 | – | 4,000 | 6,000 | 19,000 |

**Note:**

Salary information above excludes employers' national insurance contributions. None of the ministers of the Department received any benefits-in-kind during the year.

Ministers who transfer from another department continue being paid at the appropriate rate of pay with effect from the first day of the month following the date of appointment. Former ministers who transfer to other departments are paid at their current rate of pay up to the end of the month. Any increase in ministers' salaries on transfer from the date of appointment is paid by their new department.

1. The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) less (the contributions made by the individual). The real increase excludes increases due to inflation or any increase or decrease due to a transfer of pension rights.
2. The full year equivalent salary for 2016-17 is £67,505.
3. The full year equivalent salary for 2017-18 is £31,680.
4. The full year equivalent salary for 2017-18 is £31,680. Joint Minister with the Department for Education from 10 January 2018. Formerly was Parliamentary Under Secretary of State at the Ministry of Justice. Salary from 1 April to 31 January was paid by the Ministry of Justice.
5. The full year equivalent salary for 2017-18 is £31,680. Joint Minister with the Department for Education. Salary from 1 February to 31 March was paid by the Department for Transport.
6. The full year equivalent salary for 2017-18 is £31,680 (2016-17: £31,680). Salary from 1 July to 31 March was paid by the Home Office.
7. The full year equivalent salary for 2017-18 is £22,375. Formerly was Parliamentary Under Secretary of State at the Department for Work and Pensions. Salary from 1 April to 30 June was paid by the Department for Work and Pensions.

8. The full year equivalent salary for 2017-18 is £68,710. Formerly was Parliamentary Under Secretary of State at the Department for Work and Pensions and a Lord in Waiting (Government Whip). Salary from 1 April to 31 October was paid by HM Treasury.
9. The full year equivalent salary for 2017-18 is £22,375. Formerly was Government Whip (Lord Commissioner of HM Treasury). Salary from 1 April to 31 January was paid by HM Treasury.
10. The full year equivalent salary for 2017-18 is £22,375 (2016-17: £22,375). Salary from 1 February to 31 March was paid by Department for Digital, Culture, Media and Sport.
11. The full year equivalent salary for 2017-18 is £68,710 (£2016-17: £68,710). Includes Lords Office-Holders Allowance. £17,177 was paid as contractual severance pay in addition to the amount shown for 2017-18 above.
12. The full year equivalent salary for 2017-18 is £22,375 (2016-17: £22,375). Salary from 1 July to 31 March was paid by the Department for Transport.

## Pension benefits

| Ministers | Accrued pension at age 65 at 31 March 2018 | Real Increase in pension at age 65 | CETV[1] at 31 March 2018 | CETV at 31 March 2017 | Real increase in CETV |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| **Secretary of State** | | | | | |
| Rt Hon Greg Clark MP (from 14 July 2016) | 5-10 | 0-2.5 | 111 | 93 | 6 |
| **Ministers of State** | | | | | |
| Rt Hon Claire Perry (from 12 June 2017) | 0-5 | 0-2.5 | 30 | 24 | 3 |
| Sam Gyimah MP (from 10 January 2018)[2] | 0-5 | 0-2.5 | 20 | 19 | – |
| Jo Johnson MP (until 9 January 2018)[3] | 0-5 | 0-2.5 | 39 | 33 | 2 |
| Rt Hon Nick Hurd (from 15 July 2016 until 12 June 2017)[4] | 0-5 | 0-2.5 | 58 | 55 | – |
| **Parliamentary Under-Secretaries of State** | | | | | |
| Richard Harrington MP (from 14 June 2017)[5] | 0-5 | 0-2.5 | 17 | 11 | 3 |
| Rt Hon Lord Henley (from 27 October 2017)[6] | 0-5 | 0-2.5 | 21 | 11 | 7 |
| Andrew Griffiths MP (from 10 January 2018)[7] | 0-5 | 0-2.5 | 3 | 2 | 1 |
| Margot James MP (from 16 July 2016 until 9 January 2018)[8] | 0-5 | 0-2.5 | 10 | 5 | 3 |
| Lord Prior of Brampton (from 9 January 2017 until 27 October 2018) | 0-5 | 0-2.5 | 53 | 40 | 8 |
| Jesse Norman MP (from 16 July 2016 until 14 June 2017)[9] | 0-5 | 0-2.5 | 10 | 8 | (1) |

**Note**

None of the ministers of the Department received any benefits-in-kind during the year.

1. See Notes to the Remuneration Report for further explanations as to how the CETV value is calculated.
2. 1 April - 31 January Salary and Pension details can be found in the Ministry of Justice Annual Report and Accounts.
3. 1 February - 31 March Salary and Pension details can be found in the Department for Transport Annual Report and Accounts.
4. 1 July - 31 March Salary and Pension details can be found in the Annual Report and Accounts for the Home Office.
5. 1 April - 30 June Salary and Pension details can be found in the Department for Works and Pensions Annual Report and Accounts.
6. 1 April - 31 October Salary and Pension details can be found in the HM Treasury Annual Report and Accounts.
7. 1 April - 31 January Salary and Pension details can be found in HM Treasury Annual Report and Accounts.
8. 1 February - 31 March Salary and Pension details can be found in the Department for Digital, Culture, Media and Sports Annual Report and Accounts.
9. 1 July - 31 March Salary and Pension details can be found in the Department for Transport Annual Report and Accounts.

# Senior managers: salary and pension entitlements

Audited information.

The salary and pension entitlements of the most senior managers of the Department are set out in the table below which includes all those who held membership of the Departmental or Executive Boards during 2017-18. None of the officials of the Department received any benefits-in-kind during the year.

**Single total figure of remuneration[1]**

| Officials | Salary (£'000) | | Bonus payments (£'000) | | Pension benefits (to nearest £1,000)[2] | | Total (to nearest £'000) | |
|---|---|---|---|---|---|---|---|---|
| | 2017-18 | 2016-17 | 2017-18 | 2016-17 | 2017-18 | 2016-17 restated | 2017-18 | 2016-17 restated |
| Alex Chisholm (from 4 July 2016)[3] | 180-185 | 120-125 | – | – | 69,000 | 51,000 | 245-250 | 170-175 |
| Angie Ridgwell (until 31 December 2017)[4] | 105-110 | 140-145 | – | 10-15 | – | – | 105-110 | 155-160 |
| Caleb Deeks (from 23 May 2017)[5] | 75-80 | – | – | – | 68,000 | – | 140-145 | – |
| Clive Maxwell (until 19 November 2017)[6] | 105-110 | 145-150 | – | – | 30,000 | 56,000 | 135-140 | 200-205 |
| Gareth Davies[7] | 125-130 | 125-130 | 10-15 | 10-15 | 38,000 | 69,000 | 175-180 | 205-210 |
| Jaee Samant (from 4 April 2016)[8] | 125-130 | 95-100 | – | 10-15 | 160,000 | 98,000 | 285-290 | 205-210 |
| Jeremy Pocklington | 120-125 | 115-120 | 10-15 | – | 43,000 | 79,000 | 170-175 | 195-200 |
| John Loughhead | 130-135 | 130-135 | – | – | 57,000 | 52,000 | 185-190 | 180-185 |
| Sam Beckett | 125-130 | 125-130 | 10-15 | 0-5 | 32,000 | 90,000 | 165-170 | 220-225 |
| Sarah Harrison (from 28 February 2018)[9] | 10-15 | – | – | – | 3,000 | – | 10-15 | – |
| Tom Taylor (from 15 January 2018)[10] | 25-30 | – | – | – | 7,000 | – | 30-35 | – |

1. Salary information above excludes employers' national insurance contributions.
2. The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increases exclude increases due to inflation or any increase or decreases due to transfers of pension rights.
3. 2016-17 full year equivalent salary is 180-185.
4. 2017-18 full year equivalent salary is 145-150.
5. 2017-18 full year equivalent salary is 85-90.
6. 2017-18 full year equivalent salary is 145-150.
7. 2016-17 pension benefits revised due to retrospective update to service history
8. 2017-18 full year equivalent salary is 120-125 (2016-17: full year equivalent salary: 105-110). 2017-18 pay includes a pay adjustment relating to 2016-17 service.
9. 2017-18 full year equivalent salary is 140-145.
10. 2017-18 full year equivalent salary is 120-125.

## Pension benefits

| Officials | Accrued pension at pension age as at 31 March 2018 and related lump sum | Real increase in pension and related lump sum at pension age | CETV at 31 March 2018 | CETV at 31 March 2017 Restated | Real increase in CETV | Employer contribution to partnership pension account |
|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | Nearest £100 |
| Alex Chisholm (from 04 July 2016) | 20-25 | 2.5-5 | 246 | 193 | 32 | – |
| Angie Ridgwell (until 31 December 2017)[1] | – | – | – | – | 0 | – |
| Caleb Deeks (from 23 May 2017) | 20-25 | 2.5-5 | 239 | 194 | 29 | – |
| Clive Maxwell (until 19 November 2017) | 50-55 plus lump sum of 120-125 | 0-2.5 plus lump sum of 0 | 771 | 721 | 8 | – |
| Gareth Davies[2] | 40-45 | 0-2.5 | 504 | 459 | 11 | – |
| Jaee Samant (from 4 April 2016) | 40-45 plus lump sum of 100-105 | 7.5-10 plus lump sum of 12.5-15 | 719 | 564 | 114 | – |
| Jeremy Pocklington | 40-45 plus lump sum of 20-25 | 2.5-5 plus lump sum of 0 | 536 | 486 | 15 | – |
| John Loughhead | 10-15 | 2.5-5 | 169 | 119 | 42 | – |
| Sam Beckett | 45-50 plus lump sum of 115-120 | 0-2.5 plus lump sum of 0 | 818 | 756 | 10 | – |
| Sarah Harrison (from 28 February 2018) | 45-50 | 0-2.5 | 773 | 733 | 37 | – |
| Tom Taylor (from 15 January 2018) | 40-45 plus lump sum of 90-95 | 0-2.5 plus lump sum 0 | 605 | 599 | 2 | – |

**Note**

Where senior managers left during the course of the year, their CETV closing balance will be as at their leaving date.

1. Chose not to be covered by the Civil Service Pension arrangements for the reporting year.
2. 2016-17 pension benefits revised due to retrospective update to service history.

# Notes to the Remuneration Report

### Salary and pension entitlement for minsters of the core Department

The information relates only to the core Department. Similar information relating to the Chief Executives and most senior managers of the executive agencies and other bodies of the BEIS family is given in the separate accounts of those bodies.

- 'Salary' includes: gross salary; 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. This report is based on accrued 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 an MP (£67,060 from 1 April 2014; £74,000 from 8 May 2015) 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. This total remuneration, as well as the allowances to which they are entitled, is paid by the Department and is therefore shown in full in the figures above
- Bonuses are based on performance levels attained and are made as part of the appraisal process. Bonuses relate to the performance in the year in which they become payable to the individual. The bonuses reported in 2017-18 relate to performance in 2016-17 and the comparative bonuses reported for 2016-17 relate to the performance in 2015-16
- None of the most senior managers of the core Department received any benefits-in-kind during the year

### Ministerial pensions

Pension benefits for ministers are provided by the Parliamentary Contributory Pension Fund (PCPF). The scheme is made under statute and the rules are set out in the Ministers' etc. Pension Scheme 2015, available at http://qna.files.parliament.uk/ws-attachments/170890/original/PCPF MINISTERIAL SCHEME FINAL RULES.doc

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). A new MP's pension scheme was introduced from May 2015, although members who were aged 55 or older on 1 April 2013 have transitional protection to remain in the previous final salary pension scheme.

Benefits for ministers are payable from State Pension age under the 2015 scheme. Pensions are re-valued annually in line with Pensions Increase legislation both before and after retirement. The contribution rate from May 2015 is 11.1% and the accrual rate is 1.775% of pensionable earnings.

The figure shown for pension value includes the total pension payable to the member under both the pre- and post-2015 Ministerial pension schemes.

### The cash equivalent transfer value (CETV) for ministerial pensions

This 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 pension benefits they have accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total ministerial service, not just their current appointment as a minister. CETVs are calculated in accordance with The Occupational Pension Schemes (Transfer Values)

(Amendment) Regulations 2008 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.

### The real increase in the value of the CETV

This is the element of the increase in accrued pension funded by the Exchequer. It excludes increases due to inflation and contributions paid by the minister. It is worked out using common market valuation factors for the start and end of the period.

### Civil Service pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or Alpha, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date all newly appointed civil servants, and the majority of those already in service, joined Alpha. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections: Three providing benefits on a final salary basis (classic, premium or classic plus) with a normal pension age of 60 and one providing benefits on a whole career basis (nuvos) with a normal pension age of 65.

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus, nuvos and alpha are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 will switch into alpha sometime between 1 June 2015 and 1 February 2022. All members who switch to alpha have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes.) Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary-related and range between 3% and 8.05% of pensionable earnings for members of classic (and members of alpha who were members of classic immediately before joining alpha) and between 4.6% and 8.05% for members of premium, classic plus, nuvos and all other members of alpha. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial 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 for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on his pensionable earnings during their 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 uprated in line with Pensions Increase legislation. Benefits in alpha build up in a similar way to nuvos, except that the accrual rate in 2.32%. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% up to 30 September 2015 and 8% and 14.75% from 1 October 2015 (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. 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 up to 30 September 2015 and 0.5% of pensionable salary from 1 October 2015 to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

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, 65 for members of nuvos, and the higher of 65 or State Pension Age for members of alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages.)

Further details about the Civil Service pension arrangements can be found at civilservicepensionscheme.org.uk

### CETV for Civil Service pensions

A 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 member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 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

This reflects the increase in CETV that is funded by the employer. 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.

### Compensation for loss of office

No senior managers have received compensation for loss of office.

# Fair pay disclosure

Audited information.

The pay multiples disclosure is subject to audit. Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the organisation's workforce.

The banded remuneration of the highest paid director, including any bonuses, in the Department for Business, Energy and Industrial Strategy in the financial year 2017-18 was £180,000 to £185,000 (2016-17: £180,000 to £185,000). This was 4.91 times (2016-17: 4.92) the median remuneration of the workforce, which was £37,200 (2016-17: £37,092).

In 2017-18: one (2016-17: 2) person received remuneration in excess of the highest paid director. Remuneration ranged from £18,200 to £204,992 (2016-17: £11,670 to £185,111).

Total remuneration includes salary, non-consolidated performance-related pay and benefits-in-kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

# Fees entitlements for non-executive board members

Audited information.

Below are the banded fee entitlements of non-executive members of the Departmental Board in 2017-18.

| Non-executive member | Fee entitlement for 2017-18 | Fee entitlement for 2016-17 |
|---|---|---|
| | **£000** | **£000** |
| Archie Norman (from 3 October 2016)[1] | 20-25 | 10-15 |
| Professor Dame Ann Dowling | 20-25 | 20-25 |
| Carolyn McCall (from 1 February 2017)[2] | 15-20 | 0-5 |
| Charles Randell[3] | 20-25 | 20-25 |
| Kathryn Parsons (from 1 February 2017)[4] | 15-20 | 0-5 |
| Stephen Carter (from 1 February 2017)[5] | 15-20 | 0-5 |
| Stuart Quickenden (from 1 February 2017)[6] | 15-20 | 0-5 |

1. Full year equivalent fee entitlement for 2016-17 is 20-25.
2. Full year equivalent fee entitlement for 2016-17 is 15-20.
3. Waived fee entitlement with effect from 1 March 2017. Fee paid in 2016-17 was in range of 15-20
4. Full year equivalent fee entitlement for 2016-17 is 15-20.
5. Full year equivalent fee entitlement for 2016-17 is 15-20; fee for 2017-18 and 2016-17 paid to nominated charity at member's request.
6. Full year equivalent fee entitlement for 2016-17 is 15-10; waived fee for 2017-18 and 2016-17.

## Off-payroll engagements

As part of the Review of Tax Arrangements of Public Sector Appointees published by the Chief Secretary to the Treasury on 23 May 2012, departments have been asked to report on their off-payroll engagements and related tax arrangements for the periods and scope outlined by HM Treasury. This data is shown in tables (a) to (c) below.

The Government's review of the tax arrangements of public sector appointees highlighted the possibility for artificial arrangements to enable tax avoidance. BEIS continues to take a robust approach and its tax assurance policy has been promulgated and implemented across the BEIS family. Tax assurance evidence is sought and scrutinised to ensure it is sufficient from all off-payroll appointees. Assurance of compliance with this tax policy has also been sought from our partner organisations. Monitoring has shown we are broadly compliant across BEIS and action has been taken to address any slight deviations from this policy.

### (a) Off-payroll engagements as of 31 March 2018, for more than £245 per day and that last longer than 6 months by organisation

| | | At time of reporting, number that have existed for: | | | | |
|---|---|---|---|---|---|---|
| **Organisation** | **Total number** | **Less than one year** | **Between one and two years** | **Between two and three years** | **Between three and four years** | **Four or more years** |
| **Core Department and agencies** | | | | | | |
| Core Department | 78 | 41 | 34 | 1 | 2 | 0 |
| Insolvency Service | 4 | 3 | 1 | 0 | 0 | 0 |
| UK Space Agency | 5 | 3 | 2 | 0 | 0 | 0 |
| **Consolidated Departmental group** | | | | | | |
| Advisory Conciliation and Arbitration Service | 7 | 7 | 0 | 0 | 0 | 0 |
| British Business Bank plc | 18 | 9 | 6 | 3 | 0 | 0 |
| *The Start-Up Loans Company* | 2 | 2 | 0 | 0 | 0 | 0 |
| Coal Authority | 1 | 0 | 1 | 0 | 0 | 0 |
| Civil Nuclear Police Authority | 8 | 7 | 1 | 0 | 0 | 0 |
| Competition Service | 1 | 0 | 0 | 0 | 0 | 1 |
| Diamond Light Source Limited | 9 | 1 | 2 | 1 | 0 | 5 |
| Medical Research Council | 4 | 1 | 2 | 1 | 0 | 0 |
| The Natural Environment Research Council | 2 | 2 | 0 | 0 | 0 | 0 |
| Nuclear Decommissioning Authority | 19 | 9 | 6 | 0 | 3 | 1 |
| *Radioactive Waste Management* | 13 | 10 | 0 | 0 | 3 | 0 |
| Oil and Gas Authority | 2 | 1 | 1 | 0 | 0 | 0 |
| The Science and Technology Facilities Council | 22 | 4 | 8 | 5 | 5 | 0 |
| United Kingdom Atomic Energy Authority | 38 | 9 | 10 | 1 | 3 | 15 |
| UK Shared Business Services Limited | 19 | 15 | 4 | 0 | 0 | 0 |
| **Bodies not consolidated in Departmental Group accounts** | | | | | | |
| British Hallmarking Council | 2 | 2 | 0 | 0 | 0 | 0 |
| Groceries Code Adjudicator | 1 | 0 | 1 | 0 | 0 | 0 |
| Pubs Code Adjudicator | 2 | 1 | 1 | 0 | 0 | 0 |

### (b) New off-payroll engagements, or those that reached 6 months in duration, between 1 April 2017 and 31 March 2018, for more than £245 per day and that last longer than 6 months by organisation

| Organisation | Total number | Number assessed as caught by IR35 | Number assessed as not caught be IR35 | Number engaged directly (via PSC contracted to BEIS) and are on the BEIS payroll | No. of engagements reassessed for consistency/assurance purposes during the year | No. of engagements that saw a change to IR35 status following the consistency review |
|---|---|---|---|---|---|---|
| **Core Department and agencies** | | | | | | |
| Core Department | 69 | 8 | 61 | 0 | 13 | 0 |
| Insolvency Service | 23 | 21 | 2 | 0 | 23 | 0 |
| UK Space Agency | 5 | 3 | 2 | 0 | 4 | 1 |
| **Consolidated Departmental group** | | | | | | |
| Advisory Conciliation and Arbitration Service | 24 | 0 | 24 | 0 | 0 | 0 |
| The Arts and Humanities Research Council | 2 | 2 | 0 | 0 | 0 | 0 |
| British Business Bank plc | 10 | 1 | 9 | 0 | 0 | 0 |
| *The Start-Up Loans Company* | 2 | 1 | 1 | 0 | 0 | 0 |
| Civil Nuclear Police Authority | 4 | 0 | 4 | 0 | 4 | 0 |
| Diamond Light Source Limited | 2 | 0 | 2 | 0 | 2 | 0 |
| Low Carbon Contracts Company Limited | 6 | 4 | 2 | 0 | 0 | 0 |
| Medical Research Council | 2 | 1 | 1 | 0 | 3 | 3 |
| The Natural Environment Research Council | 2 | 0 | 2 | 0 | 0 | 0 |
| Nuclear Decommissioning Authority | 7 | 3 | 4 | 0 | 0 | 0 |
| *Radioactive Waste Management* | 10 | 0 | 10 | 0 | 0 | 0 |
| Oil and Gas Authority | 2 | 1 | 1 | 0 | 0 | 0 |
| The Science and Technology Facilities Council | 27 | 27 | 0 | 0 | 0 | 0 |
| South Tees Site Company Limited | 1 | 1 | 0 | 0 | 0 | 0 |
| United Kingdom Atomic Energy Authority | 15 | 14 | 1 | 0 | 1 | 0 |
| UK Shared Business Services Limited | 22 | 0 | 22 | 0 | 0 | 0 |
| **Bodies not consolidated in Departmental Group accounts** | | | | | | |
| Aerospace Technology Institute | 2 | 0 | 2 | 0 | 0 | 0 |
| British Hallmarking Council | 3 | 1 | 2 | 0 | 3 | 0 |
| Pubs Code Adjudicator | 2 | 1 | 1 | 0 | 0 | 0 |

### (c) Off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, between 1 April 2017 and 31 March 2018 by organisation

| | Number of off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, during financial year | Total number of individuals on payroll and off-payroll that have been deemed 'board members, and/or others with significant financial responsibility' during the financial year |
|---|---|---|
| **Core Department and agencies** | | |
| Core Department | 0 | 16 |
| Insolvency Service | 0 | 9 |
| UK Space Agency | 0 | 5 |
| **Consolidated Departmental group** | | |
| Advisory Conciliation and Arbitration Service (ACAS) | 1 | 7 |
| *Central Arbitration Committee* | 0 | 1 |
| *Certification Office for Trade Union and Employers' Associations* | 0 | 2 |
| The Arts and Humanities Research Council | 0 | 3 |
| British Business Bank plc | 0 | 15 |
| *British Business Bank Investments Ltd* | 0 | 4 |
| *British Business Finance Ltd* | 0 | 11 |
| *British Business Financial Services Ltd* | 0 | 11 |
| *British Business Aspire Holdco Ltd* | 0 | 2 |
| *Capital for Enterprise Fund Managers Limited* | 0 | 3 |
| *Capital for Enterprise (GP) Limited* | 0 | 2 |
| *Capital for Enterprise Limited* | 0 | 3 |
| *The Start-Up Loans Company (SULC)* | 1 | 3 |
| The Biotechnology and Biological Sciences Research Council | 0 | 21 |
| Coal Authority | 0 | 10 |
| Competition and Markets Authority | 0 | 2 |
| Civil Nuclear Police Authority | 0 | 9 |
| Competition Service | 0 | 5 |
| Diamond Light Source Limited | 0 | 7 |
| The Engineering and Physical Sciences Research Council | 0 | 4 |
| The Economic and Social Research Council | 0 | 4 |
| The Financial Reporting Council Limited | 0 | 3 |
| Innovate UK | 0 | 8 |
| Low Carbon Contracts Company Limited (LCCC) | 1 | 10 |
| Medical Research Council (MRC) | 1 | 17 |
| The Natural Environment Research Council | 0 | 7 |
| Nuclear Decommissioning Authority | 0 | 16 |
| *Radioactive Waste Management* | 1 | 3 |
| Oil and Gas Authority | 0 | 1 |
| The Science and Technology Facilities Council | 0 | 21 |
| South Tees Site Company Limited | 0 | 9 |
| UK Green Infrastructure Platform Limited | 0 | 5 |

| | Number of off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, during financial year | Total number of individuals on payroll and off-payroll that have been deemed 'board members, and/or others with significant financial responsibility' during the financial year |
|---|---|---|
| UK Green Investment Bank Limited | 0 | 2 |
| *UK Green Investment Bank Financial Services Limited* | 0 | 2 |
| United Kingdom Atomic Energy Authority (UKAEA) | 1 | 12 |
| *AEA Insurance Ltd (AEAIL)* | 2 | 3 |
| UK Shared Business Services Limited (UKSBS) | 2 | 3 |
| **Bodies not consolidated in Departmental Group accounts** | | |
| Aerospace Technology Institute | 0 | 4 |
| British Hallmarking Council (BHC) | 1 | 1 |
| Committee on Climate Change | 0 | 17 |
| Groceries Code Adjudicator | 0 | 1 |
| Pubs Code Adjudicator | 0 | 1 |
| Small Business Commissioner | 0 | 1 |

The remaining organisations within the reporting boundaries of the Department have neither employees nor staff costs.

Details of the exceptional circumstances that led to the above off-payroll engagements and the length of time each of these engagements lasted:

**ACAS:** From February 2017 to July 2017 – the post holder was appointed to cover the period when a permanent replacement was being recruited.

**AEAIL:** AEAIL is a captive insurance company that is registered in the Isle of Man (IoM) and subject to IoM tax and NI legislation. It has no employees and three directors, two of which are paid a small fee by AEAIL. The remaining director is a director of UKAEA and on UKAEA pay roll.

**BHC:** From April 2017 to present – The post holder is exempt from National Insurance. Assurance has been received by BHC that the appropriate tax liabilities for the post holder have been met. The remuneration arrangement for the post holder is currently under review.

**LCCC:** From December 2016 to May 2017 – The post holder was appointed to cover the period when a permanent replacement was being recruited.

**MRC:** From January 2017 to March 2018 – The post holder was a secondment from a university which was a temporary role to support and lead on key strategic areas for the CEO until the formation of UK Research and Innovation.

**RWM:** From April 2014 to present – The post holder has unique capabilities and expertise that are relevant to the business. The Cabinet Office was consulted and approved the off-payroll arrangement. The original contract was for a three-year period, which has been extended annually thereafter.

**SULC:** From February 2018 to April 2018 – The post holder was appointed for the Start Up Loans Company. BBB are looking to recruit a permanent post holder to fill the current temporary position as soon as possible.

**UKAEA:** From January 2018 to April 2018 – This is a short-term engagement of a retiring Board member at the end of his tenure to cover the period up to the appointment of a replacement.

**UKSBS:** From October 2015 to September 2018 for the first post holder, and from December 2014 to October 2017 for the second post holder – UKSBS has recruited a new post holder since April 2018 and are currently exploring various payroll options with the post holder.

# Nuclear site companies: off-payroll engagements

The Nuclear Decommissioning Authority (NDA) delivers work through Site Licence Companies. These operate with a high degree of autonomy, but are included within the departmental accounting boundary. Due to the specialised, project-driven nature of this work there is a need to bring in unique skills and experience which cannot be found in-house, and sometimes to operate these arrangements for extended periods. Workers contracted under these arrangements represent a small proportion of the overall workforce.

The number of off-payroll engagements of nuclear site licence companies are disclosed below:

**(a) Off-payroll engagements by organisation, as at 31 March 2018, for more than £245 per day and that last longer than 6 months**

| | | At time of reporting, number that have existed for: | | | | |
|---|---|---|---|---|---|---|
| Organisation | Total number | Less than one year | Between one and two years | Between two and three years | Between three and four years | Four or more years |
| Dounreay Site Restoration Limited | 50 | 11 | 3 | 15 | 9 | 12 |
| LLW repository Limited | 50 | 16 | 12 | 22 | 0 | 0 |
| Magnox Limited | 261 | 92 | 58 | 15 | 16 | 80 |
| Sellafield Limited | 238 | 57 | 27 | 48 | 22 | 84 |
| **Total** | **599** | **176** | **100** | **100** | **47** | **176** |

Magnox Limited

Magnox Limited currently engages a large number of contingent labour. However, the staff number will be reducing over the decommissioning programme.

Sellafield Limited

Agency Supplied Workers (ASWs) are provided to Sellafield Limited via Capita. The longest contract is for a duration of 12 months. However, as many of the projects are driven by time-bound deliverables that flex in duration and schedule due to funding, safety or technological issues, some ASWs are engaged for repeated 12 month contracts.

Many ASWs are rotated onto different projects in different roles utilising their unique nuclear industry and Sellafield specific skill-set. So whilst the year-on-year contracts may infer length of service in one role, it is in fact a number of different assignments being undertaken across the vast Sellafield portfolio. There is a predicted downturn in the employed headcount within Sellafield Limited as projects are accelerated and delivered ahead of schedule. Utilising ASWs enables Sellafield Limited to have the flexibility to achieve this, and ASWs will be released not only when projects are delivered by also when Sellafield Limited's employed resources become available through efficiencies to be redeployed into roles previously undertaken by ASWs.

There are a small number of case-by-case justifications made where ASWs are made offers of employment with Sellafield Limited. These are not based on the length of service, but are skills and capability related, and are offered at the competitive 'new' terms and conditions which were implemented in 2016. These new terms and conditions demonstrate value for money for the taxpayer.

### (b) New off-payroll engagements by, or those that reached 6 months in duration, between 1 April 2017 and 31 March 2018, for more than £245 per day and that last longer than 6 months by organisation

| Organisation | Total number | Number assessed as caught by IR35 | Number assessed as not caught be IR35 | Number engaged directly (via PSC contracted to BEIS) and are on the BEIS payroll | No. of engagements reassessed for consistency/ assurance purposes during the year | No. of engagements that saw a change to IR35 status following the consistency review |
|---|---|---|---|---|---|---|
| Dounreay Site Restoration Limited (DSRL) | 3 | n/a | n/a | 0 | 0 | 0 |
| LLW repository Limited '(LLWR) | 23 | n/a | n/a | 0 | 0 | 0 |
| Magnox Limited | 53 | n/a | n/a | 0 | 0 | 0 |
| Sellafield Limited | 207 | 0 | 182 | 0 | 82 | 64 |
| **Total** | **286** | **0** | **182** | **0** | **82** | **64** |

DSRL, LLWR, Magnox Limited

The entities are not in scope of the IR35 tax legislation for public sector.

Sellafield Limited

The total number of 207 includes 25 new off-payroll engagements that started before 1 April 2017 and reached 6 months in duration between 1 April 2017 and 31 March 2018. They are out of scope of the IR35 tax legislation that came into effect from 1 April 2017 and were only applicable to these ASWs engaged from 1 April 2017.

### (c) Off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, between 1 April 2017 and 31 March 2018 by organisation

| | Number of off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, during financial year | Total number of individuals on payroll and off-payroll that have been deemed 'board members, and/or others with significant financial responsibility' during the financial year |
|---|---|---|
| Dounreay Site Restoration Limited | 0 | 19 |
| LLW repository Limited | 2 | 6 |
| Magnox Limited | 0 | 2 |
| Sellafield Limited | 0 | 1 |
| **Total** | **2** | **28** |

LLW Repository Limited
From April 2013 to March 2018 – The post holders were supplied by the parent body organization with advance agreement approved by Nuclear Decommissioning Authority. They have been appointed for a second term.

Magnox Limited
Magnox Limited is owned by Cavendish Fluor Partnership (CFP) who manage Magnox Ltd on behalf of the Nuclear Decommissioning Authority (NDA). As such, the Magnox Limited board is made up of CFP board members and three non-executive directors.

# Statement of Parliamentary Supply

Statement of Parliamentary Supply and related notes are subject to audit.

In addition to the primary statements prepared under IFRS, the Government Financial Reporting Manual (FReM) requires the Department to prepare a Statement of Parliamentary Supply (SoPS) and supporting notes to show resource and capital outturn against the supply estimate presented to Parliament, in respect of each budgetary control limit.

## Summary of resource and capital outturn in 2017-18

| | | | | | | | | 2017-18 | 2016-17 |
|---|---|---|---|---|---|---|---|---|---|
| | | | Estimate | | | | Outturn | Voted outturn compared with estimate: saving/ (excess) | Outturn restated |
| | SoPS note | Voted | Non-voted | Total | Voted | Non-voted | Total | | Total |
| | | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Departmental expenditure limit** | | | | | | | | | |
| Resource | 1.1 | 3,195,828 | (1,194,000) | 2,001,828 | 2,895,368 | (1,175,606) | 1,719,762 | 300,460 | 1,945,274 |
| Capital | 1.2 | 10,856,477 | – | 10,856,477 | 10,464,492 | – | 10,464,492 | 391,985 | 10,849,120 |
| **Annually managed expenditure** | | | | | | | | | |
| Resource | 1.1 | 85,376,541 | 369,000 | 85,745,541 | 74,864,231 | 259,815 | 75,124,046 | 10,512,310 | 3,563,950 |
| Capital | 1.2 | 771,549 | (1,621,095) | (849,546) | 424,306 | (1,621,078) | (1,196,772) | 347,243 | (14,507) |
| Total Budget | | 100,200,395 | (2,446,095) | 97,754,300 | 88,648,397 | (2,536,869) | 86,111,528 | 11,551,998 | 16,343,837 |
| **Total** | | **100,200,395** | **(2,446,095)** | **97,754,300** | **88,648,397** | **(2,536,869)** | **86,111,528** | **11,551,998** | **16,343,837** |
| Total Resource | 1.1 | 88,572,369 | (825,000) | 87,747,369 | 77,759,599 | (915,791) | 76,843,808 | 10,812,770 | 5,509,224 |
| Total Capital | 1.2 | 11,628,026 | (1,621,095) | 10,006,931 | 10,888,798 | (1,621,078) | 9,267,720 | 739,228 | 10,834,613 |
| **Total** | | **100,200,395** | **(2,446,095)** | **97,754,300** | **88,648,397** | **(2,536,869)** | **86,111,528** | **11,551,998** | **16,343,837** |

Voted Budgets are those approved by Parliament through the Supply Estimates process. Non-voted Budgets generally comprise CFERs (Consolidated Fund Extra Receipts) that represent operating income or expenditure financed directly from the Consolidated Fund as a standing service or from the National Insurance Fund. Non-voted expenditure does not require additional Parliamentary authority, but is included within Budgets set by HMT for completeness.

# Net cash requirement 2017-18

| | | 2017-18 | | | 2016-17 |
|---|---|---|---|---|---|
| | SoPS Note | Estimate | Outturn | Voted outturn compared with estimate: saving /(excess) | Outturn |
| | | £'000 | £'000 | £'000 | £'000 |
| Net cash requirement | 3 | 15,689,414 | 13,694,514 | 1,994,900 | 13,504,477 |

# Administration costs 2017-18

| | 2017-18 | | 2016-17 |
|---|---|---|---|
| | Estimate | Outturn | Outturn |
| | £'000 | £'000 | £'000 |
| Total administration costs | 429,238 | 383,295 | 392,033 |

- Figures in the areas outlined in bold are voted totals subject to Parliamentary control. In addition, although not a separate voted limit, any breach of the administration budget will also result in an excess vote
- Explanations of the significant variances between Estimate and outturn are given in the Financial Review of the Directors' Report on pages 42 to 49
- Prior year outturn is restated to reflect the changes as result of the Machinery of Government changes in 2016-17
- The notes on pages 104 to 110 form part of these Accounts
- Consolidated Fund income shown in SoPS note 4.1 does not include any amounts collected by the Department where it was acting as agent for the Consolidated Fund rather than as principal. Full details of income collected as agent for the Consolidated Fund are in the Department's Trust Statement published separately from but alongside these financial statements

# SoPS 1.1. Analysis of net resource outturn by section

| | | 2017-18 | | | | | | | | | | 2016-17 restated |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Outturn | | | | | | | Estimate | | | Outturn |
| | | Administration | | | Programme | | | | | | | |
| | | Gross | Income | Net | Gross | Income | Net | Total | Net Total | Net total compared with estimate | Net total compared with estimate, adjusted for virements | Total |
| | | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Spending in Departmental Expenditure Limit by section** | | | | | | | | | | | | |
| Voted | | | | | | | | | | | | |
| A | Deliver an ambitious industrial strategy | – | – | – | 389,316 | (6,430) | 382,886 | 382,886 | 363,846 | (19,040) | – | 425,590 |
| B | Maximise investment opportunities and bolster UK interests | – | – | – | 40,218 | – | 40,218 | 40,218 | 44,000 | 3,782 | 3,782 | 25,651 |
| C | Promote competitive markets and responsible business practices | 814 | – | 814 | 98,285 | (12,869) | 85,416 | 86,230 | 89,140 | 2,910 | 2,910 | 73,792 |
| D | Delivering affordable energy for households and businesses | – | – | – | 32,529 | (148) | 32,381 | 32,381 | 49,415 | 17,034 | 17,034 | 36,365 |
| E | Ensuring that our energy system is reliable and secure | – | – | – | 10,652 | (6,451) | 4,201 | 4,201 | 16,876 | 12,675 | 12,675 | 5,823 |
| F | Taking action on climate change and decarbonisation | – | – | – | 91,076 | – | 91,076 | 91,076 | 34,779 | (56,297) | – | 27,236 |
| G | Managing our energy legacy safely and responsibly | – | – | – | 266,349 | (597) | 265,752 | 265,752 | 270,275 | 4,523 | – | 291,203 |
| H | Science and Research | 2 | – | 2 | 5,090 | (4) | 5,086 | 5,088 | 3,950 | (1,138) | – | (1,985) |
| I | Capability | 324,979 | (44,757) | 280,222 | 46,892 | (6,813) | 40,079 | 320,301 | 488,395 | 168,094 | 55,884 | 307,082 |
| J | Government as Shareholder | 4,077 | (201) | 3,876 | 207,796 | (98,772) | 109,024 | 112,900 | 156,965 | 44,065 | 44,065 | 156,140 |
| K | Deliver an ambitious industrial strategy (ALB)[1] net | 2,296 | – | 2,296 | 19,009 | – | 19,009 | 21,305 | 20,596 | (709) | – | 5,489 |
| L | Promote competitive markets and responsible business practices (ALB) net | 8,735 | – | 8,735 | 42,913 | – | 42,913 | 51,648 | 53,398 | 1,750 | 1,750 | 48,127 |

1. Arm's length body

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| M | Ensuring that our energy system is reliable and secure (ALB) net | – | – | – | (1,628) | – | (1,628) | (1,628) | 1 | 1,629 | 1,629 | 1,707 |
| N | Taking action on climate change and decarbonisation (ALB) net | 3,447 | – | 3,447 | 1,387 | – | 1,387 | 4,834 | 3,476 | (1,358) | – | 2,399 |
| O | Managing our energy legacy safely and responsibly (ALB) net | 7,044 | – | 7,044 | 27,667 | – | 27,667 | 34,711 | 23,804 | (10,907) | 527 | 39,234 |
| P | Science and Research (ALB) net | 1,075 | – | 1,075 | 227,075 | – | 227,075 | 228,150 | 287,750 | 59,600 | 57,104 | 257,357 |
| Q | Capability (ALB) net | 33,635 | – | 33,635 | – | – | – | 33,635 | 4,382 | (29,253) | – | 39,818 |
| R | Government as Shareholder (ALB) net | 27 | – | 27 | (73,099) | – | (73,099) | (73,072) | (15,220) | 57,852 | 57,852 | (56,431) |
| S | NDA and SLC expenditure | 42,121 | – | 42,121 | 1,212,631 | – | 1,212,631 | 1,254,752 | 1,300,000 | 45,248 | 45,248 | 1,287,445 |
| **Total voted** | | **428,252** | **(44,958)** | **383,294** | **2,644,158** | **(132,084)** | **2,512,074** | **2,895,368** | **3,195,828** | **300,460** | **300,460** | **2,972,042** |
| Non-voted | | | | | | | | | | | | |
| T | Nuclear Decommissioning Authority income (CFER)[2] | – | – | – | – | (1,176,795) | (1,176,795) | (1,176,795) | (1,194,000) | (17,205) | (17,205) | (1,026,768) |
| | Nuclear Safeguards Development | – | – | – | 1,189 | – | 1,189 | 1,189 | – | (1,189) | (1,189) | – |
| **Total non-voted** | | **–** | **–** | **–** | **1,189** | **(1,176,795)** | **(1,175,606)** | **(1,175,606)** | **(1,194,000)** | **(18,394)** | **(18,394)** | **(1,026,768)** |
| **Total spending in Departmental Expenditure Limit** | | **428,252** | **(44,958)** | **383294** | **2,645,347** | **(1,308,879)** | **1,336,468** | **1,719,762** | **2,001,828** | **282066** | **282,066** | **1,945,274** |
| **Annually Managed Expenditure by section** | | | | | | | | | | | | |
| Voted | | | | | | | | | | | | |
| U | Deliver an ambitious industrial strategy | – | – | – | 56,046 | (38,598) | 17,448 | 17,448 | 256,556 | 239,108 | 220,241 | 215,413 |
| V | Maximise investment opportunities and bolster UK interests | – | – | – | 1,586 | – | 1,586 | 1,586 | 17,000 | 15,414 | 15,414 | 1,844 |
| W | Promote competitive markets and responsible business practices | – | – | – | 7,000 | – | 7,000 | 7,000 | 7,000 | – | – | 133,000 |
| X | Ensuring that our energy system is reliable and secure | – | – | – | – | (415) | (415) | (415) | 7,123 | 7,538 | 7,538 | (3,204) |
| Y | Managing our energy legacy safely and responsibly | – | – | – | (132,129) | (753,135) | (885,264) | (885,264) | (189,849) | 695,415 | 673,398 | (258,615) |
| Z | Science and Research | – | – | – | 45,578 | – | 45,578 | 45,578 | 67,179 | 21,601 | 21,601 | 41,888 |
| AA | Capability | – | – | – | 13,557 | – | 13,557 | 13,557 | (8,460) | (22,017) | – | (6,012) |
| AB | Government as Shareholder | – | – | – | (67,435) | (6,279) | (73,714) | (73,714) | (43,952) | 29,762 | 29,762 | (12,313) |
| AC | Renewable Heat Incentive | – | – | – | 687,275 | – | 687,275 | 687,275 | 780,000 | 92,725 | 92,725 | 545,426 |
| AD | Deliver an ambitious industrial strategy (ALB) net | – | – | – | 4,867 | – | 4,867 | 4,867 | (14,000) | (18,867) | – | (10,378) |

2. Consolidated fund extra receipt

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| AE | Promote competitive markets and responsible business practices (ALB) net | – | – | – | 87 | – | 87 | 87 | 1 | (86) | – | (59) |
| AF | Taking action on climate change and decarbonisation (ALB) net | – | – | – | 3,558,227 | – | 3,558,227 | 3,558,227 | 8,900,000 | 5,341,773 | 5,239,857 | 1,065,496 |
| AG | Managing our energy legacy safely and responsibly (ALB) net | – | – | – | 1,507,140 | – | 1,507,140 | 1,507,140 | 2,559,156 | 1,052,016 | 1,052,016 | 2,025 |
| AH | Science and Research (ALB) net | – | – | – | 94,631 | – | 94,631 | 94,631 | (7,199) | (101,830) | – | 90,936 |
| AI | Government as Shareholder (ALB) net | – | – | – | (25,628) | – | (25,628) | (25,628) | 45,986 | 71,614 | 71,614 | 14,081 |
| AJ | Nuclear Decommissioning Authority | – | – | – | 69,911,856 | – | 69,911,856 | 69,911,856 | 73,000,000 | 3,088,144 | 3,088,144 | 2,850,516 |
| | Taking action on climate change and decarbonisation (ALB) net | – | – | – | – | – | – | – | – | – | – | (1,337,205) |
| | Capability (ALB) net | – | – | – | – | – | – | – | – | – | – | (400) |
| **Total voted** | | **–** | **–** | **–** | **75,662,658** | **(798,427)** | **74,864,231** | **74,864,231** | **85,376,541** | **10,512,310** | **10,512,310** | **3,332,439** |
| Non voted | | | | | | | | | | | | |
| AK | Government as Shareholder | – | – | – | 259,815 | – | 259,815 | 259,815 | 369,000 | 109,185 | 109,185 | 231,511 |
| AL | Government as Shareholder (CFER) | – | – | – | – | – | – | – | – | – | – | – |
| **Total non-voted** | | **–** | **–** | **–** | **259,815** | **–** | **259,815** | **259,815** | **369,000** | **109,185** | **109,185** | **231,511** |
| **Total spending in Annually Managed Expenditure** | | **–** | **–** | **–** | **75,922,473** | **(798,427)** | **75,124,046** | **75,124,046** | **85,745,541** | **10,621,495** | **10,621,495** | **3,563,950** |
| **Total DEL and AME resource** | | **428,252** | **(44,958)** | **383,294** | **78,567,820** | **(2,107,306)** | **76,460,514** | **76,843,808** | **87,747,369** | **10,903,561** | **10,903,561** | **5,509,224** |

Explanations of the significant variances between the outturn and estimate are included in the Financial Review of the Directors' Report on pages 42 to 49.

## SoPS 1.2. Analysis of net capital outturn by section

| | | | | 2017-18 | | | 2016-17 restated |
|---|---|---|---|---|---|---|---|
| | Outturn | | | Estimate | | | Outturn |
| | Gross | Income | Net | Net | Net total compared with estimate | Net total compared with estimate, adjusted for virements | Net |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Spending in Departmental Expenditure Limit by section** | | | | | | | |
| Voted | | | | | | | |
| A Deliver an ambitious industrial strategy | 343,705 | (128,769) | 214,936 | 206,347 | (8,589) | – | 371,491 |
| B Maximise investment opportunities and bolster UK interests | 289,791 | – | 289,791 | 294,994 | 5,203 | 5,203 | 303,527 |
| C Promote competitive markets and responsible business practices | 2,375 | – | 2,375 | 2,770 | 395 | 395 | 376 |
| D Delivering affordable energy for households and businesses | 43,976 | (343) | 43,633 | 43,651 | 18 | 18 | 42,201 |
| E Ensuring that our energy system is reliable and secure | 60 | – | 60 | 24 | (36) | – | (548) |
| F Taking action on climate change and decarbonisation | 55,806 | (4,228) | 51,578 | 66,741 | 15,163 | 15,163 | 39,569 |
| G Managing our energy legacy safely and responsibly | 8,475 | (531) | 7,944 | 8,160 | 216 | – | 7,747 |
| H Science and research | 2,640,719 | (5,907) | 2,634,812 | 2,686,432 | 51,620 | 13,178 | 2,596,657 |
| I Capability | 30,965 | (12,188) | 18,777 | 44,910 | 26,133 | 23,006 | 10,181 |
| J Government as shareholder | 98,186 | (59,485) | 38,701 | 225,756 | 187,055 | 150,905 | 8,535 |
| K Deliver an ambitious industrial strategy (ALB) net | 957,626 | – | 957,626 | 1,008,280 | 50,654 | 42,065 | 803,985 |
| L Promote competitive markets and responsible business practices (ALB) net | 1,377 | – | 1,377 | 1,559 | 182 | 182 | 1,027 |
| M Ensuring that our energy system is reliable and secure (ALB) net | – | – | – | – | – | – | 1,005 |
| N Taking action on climate change and decarbonisation (ALB) net | 39 | – | 39 | 179 | 140 | 140 | 601 |
| O Managing our energy legacy safely and responsibly (ALB) net | 13,559 | – | 13,559 | 10,295 | (3,264) | – | 8,778 |
| P Science and research (ALB) net | 3,803,928 | – | 3,803,928 | 3,765,486 | (38,442) | – | 3,453,704 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Q | Capability (ALB) net | 43 | – | 43 | – | (43) | – | 480 |
| R | Government as Shareholder (ALB) net | 334,300 | – | 334,300 | 432,893 | 98,593 | 134,743 | 1,229,109 |
| S | NDA and SLC expenditure | 2,051,013 | – | 2,051,013 | 2,058,000 | 6,987 | 6,987 | 1,970,695 |
| **Total voted** | | **10,675,943** | **(211,451)** | **10,464,492** | **10,856,477** | **391,985** | **391,985** | **10,849,120** |
| Non-voted | | | | | | | | |
| T | Nuclear Decommissioning Authority Income (CFER) | – | – | – | – | – | – | – |
| **Total non-voted** | | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| **Total spending in Departmental Expenditure Limit** | | **10,675,943** | **(211,451)** | **10,464,492** | **10,856,477** | **391,985** | **391,985** | **10,849,120** |
| **Annually Managed Expenditure by section** | | | | | | | | |
| Voted | | | | | | | | |
| U | Deliver an ambitious industrial strategy | – | – | – | – | – | – | – |
| V | Maximise investment opportunities and bolster UK interests | – | – | – | – | – | – | – |
| W | Promote competitive markets and responsible business practices | – | – | – | – | – | – | – |
| X | Ensuring that our energy system is reliable and secure | – | – | – | – | – | – | – |
| Y | Managing our energy legacy safely and responsibly | 662,792 | (51,000) | 611,792 | 600,311 | (11,481) | – | (38,273) |
| Z | Science and research | 864 | – | 864 | – | (864) | – | 834 |
| AA | Capability | – | – | – | – | – | – | – |
| AB | Government as shareholder | 7,106,463 | (7,108,372) | (1,909) | 349,000 | 350,909 | 280,788 | 129,181 |
| AC | Renewable Heat Incentive | – | – | – | – | – | – | – |
| AD | Deliver an ambitious industrial strategy (ALB) net | (3,474) | – | (3,474) | – | 3,474 | 3,474 | 84,962 |
| AE | Promote competitive markets and responsible business practices (ALB) net | – | – | – | – | – | – | – |
| AF | Taking action on climate change and decarbonisation (ALB) net | – | – | – | – | – | – | – |
| AG | Managing our energy legacy safely and responsibly (ALB) net | – | – | – | – | – | – | – |
| AH | Science and research (ALB) net | (63,845) | – | (63,845) | – | 63,845 | 62,981 | (61,276) |
| AI | Government as shareholder (ALB) net | (119,122) | – | (119,122) | (177,762) | (58,640) | – | (129,935) |
| AJ | Nuclear Decommissioning Authority | – | – | – | – | – | – | – |
| **Total Voted** | | **7,583,678** | **(7,159,372)** | **424,306** | **771,549** | **347,243** | **347,243** | **(14,507)** |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Non-voted | | | | | | | | |
| AK | Government as shareholder | – | – | – | – | – | – | – |
| AL | Government as shareholder (CFER) | – | (1,621,078) | (1,621,078) | (1,621,095) | (17) | (17) | – |
| **Total non-voted** | | **–** | **(1,621,078)** | **(1,621,078)** | **(1,621,095)** | **(17)** | **(17)** | **–** |
| **Total spending in Annually Managed Expenditure** | | **7,583,678** | **(8,780,450)** | **(1,196,772)** | **(849,546)** | **347,226** | **347,226** | **(14,507)** |
| **Total** | | **18,259,621** | **(8,991,901)** | **9,267,720** | **10,006,931** | **739,211** | **739,211** | **10,834,613** |

Explanations of the significant variances between the outturn and estimate are included in the Financial Review of the Directors' Report on pages 42 to 49.

# SoPS 2: reconciliation of net resource outturn to net operating expenditure

| | Note | 2017-18 Outturn | 2016-17 restated Outturn |
|---|---|---|---|
| Total resource outturn in Statement of Parliamentary Supply | SoPS 1.1 | 76,843,808 | 5,509,223 |
| **Add:** | | | |
| NDA remedial decommissioning costs which are capital in budgets but taken through the SoCNE | | 2,051,013 | 1,970,695 |
| Capital grants | | 1,351,725 | 1,695,299 |
| Share of profit/loss of joint ventures and associates | | (951) | 242 |
| Other non-budget | | 72,174 | 28,090 |
| Share of minority interest | | 5,263 | 4,604 |
| Research and development costs | | 6,903,841 | 6,190,998 |
| **Less:** | | | |
| Non-budgetary income | | (103,858) | (35,559) |
| Profit on disposal of shares | | (190,915) | – |
| Non-budget, non voted items in respect of BIS (Postal Services Act 2011) Company Limited | | (74,305) | (88,164) |
| Expected return on pension scheme assets | | (36,510) | (42,266) |
| Gains/(losses) on defined benefit scheme | | (5,219) | (14,260) |
| NDA income scored in SOPS only | | 114,345 | 61,348 |
| Capital income in SoCNE | | (10,765) | (73,115) |
| Amortisation of financial guarantees | | – | (7,768) |
| Research and development income | | (411,290) | (342,822) |
| **Other:** | | | |
| Impact of intra group transactions | | (26,135) | (65,772) |
| Other differences | | 6,313 | 16,423 |
| **Net Expenditure for the period in Consolidated Statement of Comprehensive Net Expenditure** | | **86,488,534** | **14,807,196** |

# SoPS 3: reconciliation of net resource outturn of net cash requirement

| | 2017-18 | | |
|---|---|---|---|
| | Estimate | Outturn | Net total outturn compared with estimate: saving/(excess) |
| | £'000 | £'000 | £'000 |
| Resource Outturn | 87,747,369 | 76,843,808 | 10,903,561 |
| Capital Outturn | 10,006,931 | 9,267,720 | 739,211 |
| | **97,754,300** | **86,111,528** | **11,642,772** |
| **Accruals to cash adjustments:** | | | |
| Adjustments to remove non-cash items: | | | |
| Depreciation | (215,611) | (20,547) | (195,064) |
| New provisions and adjustments to previous provisions | (155,081) | (156,157) | 1,076 |
| Other non-cash items | 1,049 | (254,513) | 255,562 |
| **Adjustments for ALBs:** | | | |
| Remove voted resource and capital | (93,261,061) | (82,458,826) | (10,802,235) |
| Add cash in grant-in-aid | 8,447,578 | 8,179,472 | 268,106 |
| Add share additions and loans | – | 350,368 | (350,368) |
| Add asset held for sale purchase | – | 50,000 | (50,000) |
| Less share capital repayment | – | (6,876) | 6,876 |
| **Adjustments to reflect movements in working balances:** | | | |
| Increase/(decrease) in receivables | 1,000,000 | 739,343 | 260,657 |
| (Increase)/decrease in payables | (640,000) | (160,843) | (479,157) |
| Use of provisions | 312,145 | 284,330 | 27,815 |
| Financial guarantees called in | – | 11,359 | (11,359) |
| Removal of non-voted budget items | – | (1,079) | 1,079 |
| Other adjustments: | 2,446,095 | – | 2,446,095 |
| Net amounts regarding proceeds from disposal of assets held for sale and other assets that were paid to the Consolidated Fund as CFERs | – | 1,638,747 | (1,638,747) |
| Mineworkers' Pension scheme receivable | – | (611,792) | 611,792 |
| **Net cash requirement** | **15,689,414** | **13,694,514** | **1,994,900** |

# SoPS 4: Income payable to the consolidated fund

## SoPS 4.1: Analysis of income payable to the Consolidated Fund

In addition to income retained, the following income was payable to the Consolidated Fund. Cash receipts are shown in italics.

| | | 2017-18 | | 2016-17 |
|---|---|---|---|---|
| | | Outturn | | Outturn |
| | Income | *Receipts* | Income | *Receipts* |
| | £000 | £000 | £000 | £000 |
| Operating income of the NDA within the Ambit | 851,538 | *863,000* | 756,394 | *762,000* |
| Operating income outside the Ambit of the Estimate | 1,821,194 | *1,821,194* | 242,526 | *242,851* |
| **Total income payable to the Consolidated Fund** | **2,672,732** | ***2,684,194*** | **998,920** | ***1,004,851*** |

# Parliamentary accountability disclosures

## Losses and special payments

Audited information.

The disclosures in this note are in accordance with Managing Public Money, the official guidance on handling public funds.

### Losses Statement

| | 2017-18 | | 2016-17 | |
|---|---|---|---|---|
| | Core and agencies | Departmental group | Core and agencies | Departmental group |
| **Total number of losses** | **6,396** | **8,521** | **7,460** | **7,827** |
| RPS receivable impairment (£m) | 267 | 267 | 249 | 249 |
| Other losses (£m) | 15 | 19 | 39 | 40 |
| **Total value of losses (£m)** | **282** | **286** | **288** | **289** |

Details of cases over £300,000: claims abandoned: core Department
Redundancy Payment Service (RPS) receivable impairment: most of the redundancy payments made from the National Insurance Fund (NIF) are in respect of employees of insolvent companies. Repayment of debt is recovered from the sale of the assets of the insolvent company. A small part of the debt is preferential but most ranks with ordinary creditors. Therefore, most of the debt is irrecoverable. HMRC record the impairment of the RPS receivable in NIF accounts. The RPS receivable impairment for 2017-18 is £267 million (2016-17: £249 million).

Details of cases over £300,000: constructive losses: core Department
The core Department holds onerous leases for properties on the Department's estate, for which we have provided £126 million (2016-17 £113 million). The payments made during the course of 2017-18 in respect of these leases amounted to £15.2 million (2016-17: £18.8 million).

### Special payments

Special payments include extra-contractual, ex gratia, compensation and special severance payments.

| | 2017-18 | | 2016-17 | |
|---|---|---|---|---|
| | Core and agencies | Departmental group | Core and agencies | Departmental group |
| Total number of special payments | 17 | 21 | 29 | 53 |
| Total value of special payments (£m). | 60 | 60 | 1 | 99 |

Details of cases over £300,000: compensation payments: core Department
The core Department has for several years been facing large claims for damages from solar energy and construction companies affected by changes to Feed-in-Tariffs in 2011. A number of companies from the solar industry initiated legal proceedings in 2012, claiming damages for interference with property rights. Full trial on the facts of the case was scheduled for the first available date after 21 January 2018. The Government always carefully considers whether it is appropriate to settle cases like these. In this case we determined that settling the claims on the terms we secured was in the best interest of taxpayers. Accordingly all claims were settled

before trial, without admission of liability or wrongdoing, for a combined total of £60 million (including the Department's liability to pay a proportion of the claimants' costs from previous hearings).

# Remote contingent liabilities

Audited information.

The Departmental Group has entered into the following contingent liabilities by offering guarantees, indemnities or letters of comfort. None of these is a contingent liability within the meaning of IAS 37, as the likelihood of a transfer of economic benefit in settlement is too remote. However, they are required to be disclosed under the requirements of the Government Financial Reporting Manual and Managing Public Money.

Detail of quantifiable and unquantifiable remote contingent liabilities is presented in the sections below.

### Quantifiable

Measurement of quantifiable contingent liabilities is carried out following the requirements of IAS 39. Managing Public Money requires that the full potential costs of such contracts be reported to Parliament.

| | 1 April 2017 | Increase/ (decrease) in year | Liabilities crystallised in year | Obligations expired in year | 31 March 2018 | Amount reported to Parliament by Departmental minute |
|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m |
| Green Investment Bank has provided indemnities relating to costs of decommissioning and restoring sites once they are no longer in use. | 33 | (33) | – | – | – | – |
| BEIS has indemnified Cornwall Council for European Regional Development Fund (ERDF)-related liability, arising from the transfer of Wave Hub. | 18 | – | – | – | 18 | 18 |
| **Total** | **51** | **(33)** | **–** | **–** | **18** | **18** |

### Unquantifiable: core Department

#### Statutory guarantees

- In the event of BAE Systems plc (BAES) being wound up, other than for the purpose of reconstruction or amalgamation, the Government is liable to discharge any outstanding liability of BAES which vested in them on 01 January 1981 under section 9, British Aerospace Act 1980

#### Statutory indemnities

- Indemnities have been given to UK Atomic Energy Authority by the Secretary of State to cover indemnities given to carriers against certain claims for damage caused by nuclear matter in the course of carriage
- Indemnities have been given to bankers of the Insolvency Service against certain liabilities arising in respect of non-transferable 'account payee' cheques due to insolvent estates and paid into the Insolvency Service's account
- Indemnities have been given to the police at The Police Information Technology Organisation (Home Office) by The Insolvency Service and BEIS to cover any liabilities which they might incur in providing the Criminal Enforcement Team (formerly part of BEIS) with access to data from the Police National Computer (PNC)
- Indemnity have been given to National Grid's liabilities with regards to the interconnector linking the UK and France

### Intellectual property

- A potential liability to European Patent Office may arise under Article 40 of the European Patent Convention of 1973, as the UK is one of the contracting states
- A potential liability to World Intellectual Property Organisation may arise under Article 57 of the Patent Co-operation Treaty, as the UK is one of the contracting states

### Data usage indemnities

- An indemnity has been provided to Pöyry PLC relating to the use of their yield curve data for the sale of Green Investment Bank. The data was an important component of a bidder's due diligence, risk assessment and ultimately the price they were willing to pay. BEIS has indemnified Pöyry PLC for any liability that occurs as a result of using their information in the sale process that may be brought by bidders in relation to the transaction
- An indemnity has been provided to the International Energy Agency (IEA) for any losses arising from the use of its data in the Department's Global Climate Change 2050 Pathways Calculator, limited to a maximum of £100,000

### Legal costs

- A contingent liability exists in relation to ongoing legal cases. The cost is dependent on the outcome of cases which currently cannot be reliably estimated
- A contingent liability arises from the agreement to make a grant payment to the Financial Reporting Council (FRC), in the event that FRC's legal cost fund falls below £1 million in any year, to cover legal costs subsequently incurred in that year

### Indemnities against personal liability

- Indemnities have been given to the directors appointed by the Department to wholly owned subsidiaries. These indemnities are against personal liability following any legal action against the Company
- Indemnities have been given to the directors appointed to the Low Carbon Contracts Company Ltd (formerly CFD Counterparty Company Limited) and to Electricity Settlements Company Ltd. The indemnities are against personal liability following any legal action against the companies. The indemnities make clear that they are the last resort for the companies after all other means have been excluded i.e. company and directors insurance (cover limit of £100 million); and the recovery of costs through the levy. This reduces the Department's potential exposure
- Indemnity provided to Low Carbon Contracts Company Ltd and Electricity Settlements Company Ltd in respect of their officers. The indemnities make clear that they are the last resort for the companies after all other means have been excluded i.e. Company and Directors insurance (cover limit of £100 million); and the recovery of costs through the levy
- Nuclear Liabilities Fund – Indemnities have been given to the trustees of the Fund appointed by the Secretary of State. These indemnities are for personal liability due of potential legal action against the Fund
- Nuclear Liabilities Fund – Indemnities have been given to the British Energy (now EDF Energy) appointed trustees of the Fund. These indemnities are for personal liability due to potential legal action against the Fund. These indemnities can only be benefited following a failed recourse to an indemnity from EDF Energy
- Indemnities have been provided to the Official Receiver relating to their actions as the administrator of SSI Redcar with respect to the administration of the site

### Insurance claims

- A statutory liability will arise in the event of a nuclear accident in the UK for third-party claims in excess of the operator's liability
- A contingent liability exists in relation to incidents and accidents insurance claims for exposure to ionising radiation pursued outside the existing UK Atomic Energy Authority insurance scheme
- The Department has indemnified Elexon Ltd against third-party claims relating to the design and or implementation of contracts for

Difference (CfD) and Capacity Markets (CM) settlement systems which are not covered by insurance and/or guarantees by their sub-contractors.

### Losses or damages under agreements

- An indemnity has been given for any losses or damages caused to other Parties to the Energy Research Partnership consortium agreement
- Under the EU Emissions Trading Scheme, member states are required to appoint a Single Auction Monitor to oversee the auctioning of allowances in Phase III. The Joint Procurement Agreement for the Single Auction Monitor (JPA) provides for member states to indemnify the commission should the commission be required to compensate a third party or another member state for damages which arise in connection with the JPA. The contingent liability shall remain in place until such time as the JPA no longer exists in its current form. The JPA will remain in place for as long as the obligation to jointly appoint an auction monitor remains under the EU Auctioning Regulation. This period is not specified

### Environmental clean-up

- A contingent liability exists in relation to the costs of retrieving and disposing of sealed radioactive sources in the event that a company keeping such sources becomes insolvent under the High Activity Sealed Sources (HASS) Directive: Council Directive 2003/122/EURATOM
- A contingent liability arises in relation to the remediation of land contaminated by a nuclear occurrence as the Secretary of State is deemed to be the appropriate person to bear responsibility under section 9 of The Radioactive Contaminated Land (Modification of Enactments) (England) (Amendment) Regulations 2007 SI 2007/3245
- A constructive obligation was created in 2002 when the Government undertook to underwrite the Nuclear Liabilities Fund in respect of uncontracted and decommissioning liabilities of British Energy (now EDF Energy Nuclear Generation Limited) to the extent that the assets of the Fund fall short. The undiscounted estimated liabilities of £20.5 billion (2016-17: £19.9 billion) have a present value of £57.8 billion (2016-17: £32.8 billion) using the prescribed discount rate from HM Treasury of negative 1.56% (2016-17: negative 0.8%). The value of the Fund is £9.3 billion (2016-17: £9.4 billion) and is likely to increase in the future from investment returns.  It is hard to quantify the extent to which the net position of the Fund might represent a contingent liability or asset given the high level of uncertainty relating to estimation of cash outflows and investment returns over a future period exceeding 100 years. The trustees continue to work with the Department, HM Treasury and UK Government Investments to review the Fund's asset allocation to help ensure sufficient funding to meet expected liabilities. On this basis, the Department believes it would not be appropriate to consider this as either a contingent liability or asset at the current time
- The Department is responsible, under the United Nations Convention on the Law of the Sea (UNCLOS) 1982, OSPAR decision 98/3, the Energy Act 2004 and the Petroleum act 1998, for decommissioning most oil, gas and renewable energy installations in the event that operators are unable to fulfil their decommissioning commitments. The potential cost of these liabilities will vary by site and cannot be reliably forecast

### EU Exit

- In 2016, the UK Government announced that it would guarantee the following EU-funded projects after the UK has left the EU:

  a. all structural and investment fund projects signed before the Autumn Statement 2016

  b. structural and investment fund projects signed after the Autumn Statement and before we leave the EU, so long as they are good value for money and in line with domestic strategic priorities

  c. the payment of awards where UK organisations successfully bid directly to the European Commission on a competitive basis for EU funding projects while we remain in the EU

  d. the current level of agricultural funding under CAP Pillar 1 until 2020

- The financial settlement has now been signed off by both UK and EU Commission negotiators in a draft Withdrawal Agreement and welcomed by the EU-27 at March European Council. The guarantee will therefore only be called in the event that the Withdrawal Agreement is not ratified. As a result, and due to the EU funding the Department is expected to replace in future, an unquantifiable contingent liability is disclosed
- On 29 March 2017, the UK Government submitted its notification to leave the EU and Euratom in accordance with Article 50 of the Treaty on the European Union and the corresponding provision of the Euratom Treaty. The triggering of Article 50 starts a two-year negotiation process between the UK and the EU. Any subsequent changes in legislation, regulation and funding arrangements are subject to the outcome of the negotiations. As a result, an unquantifiable contingent liability is disclosed. In accordance with accounting standards, no contingent assets can be recognised

### Others

- A contingent liability may arise as a non-compliance with the Cogeneration Directive (2004/8/EC) when contractors of the Department incorrectly certify combined heat and power plants
- A contingent liability exists in respect of the risks associated with the core Department assuming responsibility for uplifts in pension contributions for the UK Atomic Energy Authority's non-active pension scheme members
- The Secretary of State Investor Agreement (SOSIA) provides protections in certain scenarios where the Hinkley Point C nuclear plant is shut down for reasons that are political, or due to certain changes in insurance arrangements or certain changes in law. Payments under the SOSIA would be expected in the first instance to be made using funds from the Supplier Obligation but in certain circumstances they could also come direct from the Secretary of State relying on spending powers granted under the relevant Appropriation Act or, if payments were to be made over a period longer than 2 years, seeking a new spending power at the time. The payments could be up to around £22 billion excluding non-decommissioning operational costs that may be incurred after any shutdown. However, the liability to make payments under the SOSIA is almost entirely within the control of HM Government

### Unquantifiable: departmental ALBs

- The Science and Technology Facilities Council (STFC) collaborates with several international partners in the funding, management and operation of technical facilities which it does not own. For each of these facilities STFC may be obliged to contribute to decommissioning costs arising from a decision to discontinue operations. The most significant of these potential liabilities is in respect of CERN and the European Southern Observatory (ESO). These liabilities are unquantifiable due to the nature of the liability and the uncertainties surrounding them
- The NDA has unquantifiable contingent liabilities arising from indemnities given as part of the contracts for the management of the nuclear site license companies. These indemnities are in respect of the uninsurable residual risk that courts in a country which is not party to the Paris and Brussels Conventions on third party liability in the field of nuclear energy may accept jurisdiction to determine liability in the event of a nuclear incident. Indemnities are in place in respect of Magnox, LLWR and Dounreay as set out in the relevant Parent Body Agreements. In addition, indemnities are provided to the previous PBO's of Magnox and Sellafield covering the periods of their ownership

# Other potential or expected liabilities

The Department has also entered into the following arrangements, none of which are a contingent liability requiring disclosure under either IAS 37 or Government Financial Reporting Manual or Managing Public Money, as the obligating events did not exist at the reporting date. However, the following information has been provided in the interests of transparency.

### Microgeneration Certification Scheme (MCS)

The MCS was set up as an industry-led scheme to bring about improvement in industry standards and increase consumer protection in the field of microgeneration products. The government sought to transfer the scheme to an independent body. To that end, an MCS company and charity were established. The transfer agreement was signed in April 2018 transferring the assets, along with oversight of the scheme, to the company and the charity.

The transfer agreement includes an uncapped indemnity to the company and the charity, for liabilities arising as a result of certain actions taken and decisions made prior to transfer, i.e. when government was ultimately responsible for those actions and decisions. The extent of claims is unquantifiable.

As the agreement was signed in 2018-19, a present obligation to the company or charity did not exist at 31 March 2018. A contingent liability was submitted to the Parliament on 19 July 2017 and will be recognised for 2018-19.

### Hinkley Point C Funded Decommissioning Programme (FDP) and Waste Transfer Contracts (WTCs)

The contract with NNB Generation Company Limited (NNB) to build Hinkley Point C (HPC) nuclear power plant includes: a Contract for Difference between NNB and the Low Carbon Contracts Company, and an FDP and associated documents including WTCs between NNB and the core Department.

The FDP and related documents including WTCs require NNB to make prudent provision for their waste and decommissioning liabilities. To meet their liabilities, the operator must set up a fund with an independent governance framework and will pay into it so that it is on track to fund the liabilities that arise from decommissioning and waste management. The fund will report annually to the Secretary of State and a full review will be conducted every five years to ensure that the fund is on track to meet all its liabilities. If it is off track, the operator will be required to take corrective action. These liabilities are strictly the operator’s responsibility and the probability of taxpayers picking up these liabilities is remote.

Alongside the FDP, the Government has entered into two WTCs. These set out terms on which the Government will take title to and liability for the spent fuel and intermediate level waste (ILW) from the site after decommissioning in order to dispose of the waste safely. The WTCs have generally been prepared in line with the Government’s published waste transfer pricing methodology.[19] Although the WTCs provide a default price based on today’s best estimate, they allow the waste transfer price to be set after a specified later date. The final price agreed is subject to a cap, but the likelihood of the future costs exceeding the agreed cap is considered remote.

19 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/42629/3798-waste-transfer-pricing-methodology.pdf

### Capacity agreements

These are statutory arrangements between National Grid, as system operator, and capacity providers. They require the capacity provider to be able to provide a given level of capacity in relevant delivery years when called upon to do so by National Grid. At a capacity auction, applicants who offer the lowest bid can win a capacity agreement. A capacity auction relates to delivery of capacity approximately 4 years ahead (T-4). Most recently, the capacity agreements resulting from the 2017 T-4 capacity auction, held in February 2018, are for the Delivery Year commencing in 2021-22. Also, the capacity agreements resulting from the 2017 T-1 capacity auction, held in January 2018, are for the delivery year commencing in 2019-20. The interim periods are covered by Transitional Arrangements. There have been 8 auctions awarding capacity of 257.8 GW at a first year cost of £3.8 billion. The payments to capacity providers will be funded by a levy on licensed electricity suppliers.

The Department has responsibility for administering the settlement process. This role is carried out by the Electricity Settlements Company (ESC), a company set up and owned by the Department. The obligation for the ESC to make capacity payments only arises when the respective levy is received from licensed suppliers and the generator provides the agreed level of capacity. The potential income and payments arising from these arrangements are set out in the following table.

| | As at 31 March 2018 | | | | As at 31 March 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Due within 1 year | Due within 2 to 5 years | Due over 5 years | Total | Due within 1 year | Due within 2 to 5 years | Due over 5 years | Total |
| | £m | £m | £m | £m | £m | £m | £m | £m |
| Capacity market – ESC | 700 | 3,185 | 1,167 | 5,051 | – | 3,321 | 1,582 | 4,903 |
| Income from levy – ESC | (700) | (3,185) | (1,167) | (5,051) | – | (3,321) | (1,582) | (4,903) |
| **Total Departmental Group** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |

**Alex Chisholm**
Permanent Secretary and
Principal Accounting Officer

3 July 2018

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

## Opinion on financial statements

I certify that I have audited the financial statements of the Department for Business, Energy and Industrial Strategy ("the Department") and of its Departmental Group for the year ended 31 March 2018 under the Government Resources and Accounts Act 2000. The Department comprises the core Department and its agencies. The Departmental Group consists of the Department and the bodies designated for inclusion under the Government Resources and Accounts Act 2000 (Estimates and Accounts) Order 2017. The financial statements comprise: the Department's and Departmental Group's Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them.

I have also audited the Statement of Parliamentary Supply and the related notes, and the information in the Accountability Report that is described in that report as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of the Department's and the Departmental Group's affairs as at 31 March 2018 and of the Department's net expenditure and Departmental Group's net expenditure for the year then ended
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder

## Emphasis of matter – Provisions for nuclear decommissioning and Contracts for Difference (CfDs) derivative

Without qualifying my opinion, I draw attention to the disclosures made in Notes 1.25 and 19.1 to the financial statements concerning the uncertainties inherent in the provisions relating to the costs of dealing with nuclear decommissioning. As set out in these notes, given the complexity of the plants and materials being handled and the very long timescales involved, a considerable degree of uncertainty remains over the value of the liabilities. Significant changes to the liabilities could occur as a result of subsequent information and events which are different from the current assumptions adopted.

Note 19.1 shows the increase in the liability during 2017-18 arising from the changes in the long-term discount rate, underlining the uncertainty inherent in management's estimate associated with the long timescales involved and discount rate assumptions. A further impact of the change to a more negative long-term discount rate for provisions is that the later years, for which there is greater uncertainty over the underlying future costs, constitute a larger proportion of the liability estimate thereby amplifying the overall level of uncertainty.

I also draw attention to the disclosures made in Notes 1.25 and 9 to the financial statements concerning the measurement of liabilities relating to CfDs. As this note describes, the fair value of these liabilities is highly sensitive to assumptions regarding future prices and volumes, particularly in view of the long timescales involved. As disclosed in note 9, the Department has concluded that the uncertainty over the valuation of the CfD for Hinkley Point C is such that the liability does not meet the recognition criteria set out in the Conceptual Framework for Financial Reporting.

## Opinion on regularity

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2018 and shows that those totals have not been exceeded
- the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them

## Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Department in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

## Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of Accounting Officer's responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

## Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000.

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and the Department's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the Department's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the group financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals and that those totals have not been exceeded. The voted Parliamentary control totals are Departmental Expenditure Limits (Resource and Capital), Annually Managed Expenditure (Resource and Capital), Non-Budget (Resource) and Net Cash Requirement. I am also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

## Other Information

The Accounting Officer is responsible for the other information. The other information comprises information included in the annual report, other than the parts of the Accountability Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

## Opinion on other matters

In my opinion:

- the parts of the Accountability Report to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;
- in the light of the knowledge and understanding of the group and the parent and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report or the Accountability Report; and
- the information given in the Performance and Accountability Reports for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Accountability Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

## Report

I have no observations to make on these financial statements.

**Sir Amyas C E Morse**
Comptroller and Auditor General

6 July 2018

National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

# Financial Statements

Port of Felixstowe: we will support businesses to access international markets, drive up exports and improve productivity

# Consolidated Statement of Comprehensive Net Expenditure

### for the year ended 31 March 2018

| Continuing operations | Note | 31 March 2018 Core Department and Agencies | 31 March 2018 Departmental Group | 31 March 2017 restated Core Department and Agencies | 31 March 2017 restated Departmental Group |
|---|---|---|---|---|---|
| | | £m | £m | £m | £m |
| Income from sales of goods and services | 6.1 | (1,023) | (3,341) | (286) | (1,782) |
| **Total operating income** | | **(1,023)** | **(3,341)** | **(286)** | **(1,782)** |
| Staff costs | 3 | 273 | 1,025 | 282 | 996 |
| Purchase of goods and services | 4.1 | 1,620 | 2,895 | 1,629 | 2,700 |
| Depreciation and impairment charges | 4.2 | 91 | 666 | 445 | 862 |
| Provision expense | 4.3 | 182 | 75,433 | 72 | 6,679 |
| Grants | 4.4 | 11,935 | 7,545 | 11,415 | 7,221 |
| Other operating expenditure | 4.5 | (6) | (89) | (19) | (127) |
| **Total operating expenditure** | | **14,095** | **87,475** | **13,824** | **18,331** |
| **Net operating expenditure** | | **13,072** | **84,134** | **13,538** | **16,549** |
| Finance income | 6.2 | (184) | (350) | (168) | (279) |
| Finance expense | 5 | (19) | (1,206) | (29) | (1,265) |
| Contracts for difference derivatives | 9 | – | 4,102 | (1,337) | (181) |
| **Net expenditure for the year from continuing operations** | | **12,869** | **86,680** | **12,004** | **14,824** |
| **Profit on disposal of Green Investment Bank** | **15** | **(186)** | **(202)** | **–** | **–** |
| **Net expenditure for the year from discontinuing operations** | **15** | **–** | **11** | **–** | **(18)** |
| **Net expenditure for the year** | | **12,683** | **86,489** | **12,004** | **14,806** |
| **Other comprehensive income and expenditure** | | | | | |
| Net (gain)/loss on: | | | | | |
| Items that will not be reclassified to net operating expenditure: | | | | | |
| – revaluation of property, plant and equipment | | – | (52) | (1) | (145) |
| – revaluation of intangible assets | | – | (31) | – | 1 |
| Items that may be reclassified subsequently to net operating costs: | | | | | |
| – revaluation of investments | | (114) | (165) | (241) | (91) |
| – actuarial (gains)/losses | | – | (123) | – | 144 |
| – other movements in fair value | | 2 | 15 | (21) | (56) |
| **Total other comprehensive net income and expenditure from continuing operations** | | **(112)** | **(356)** | **(263)** | **(147)** |

| Continuing operations | Note | 31 March 2018 Core Department and Agencies | 31 March 2018 Departmental Group | 31 March 2017 restated Core Department and Agencies | 31 March 2017 restated Departmental Group |
|---|---|---|---|---|---|
| | | £m | £m | £m | £m |
| **Total other comprehensive net income and expenditure from discontinuing operations** | | – | 5 | – | 7 |
| **Total other comprehensive net income and expenditure** | | (112) | (351) | (263) | (140) |
| **Comprehensive net expenditure for the year** | | 12,571 | 86,138 | 11,741 | 14,666 |

All operations are continuing apart from those included in note 15.

Further analysis of staff costs can be found in the Staff report in the Accountability Report on page 76.

The notes on pages 132 to 221 form part of these Accounts.

# Consolidated Statement of Financial Position

## as at 31 March 2018

| | Note | 31 March 2018 Core Department and Agencies | 31 March 2018 Departmental Group | 31 March 2017 restated Core Department and Agencies | 31 March 2017 restated Departmental Group | 1 April 2016 restated Core Department and Agencies | 1 April 2016 restated Departmental Group |
|---|---|---|---|---|---|---|---|
| | | £m | £m | £m | £m | £m | £m |
| **Non-current assets:** | | | | | | | |
| Property, plant and equipment | 7 | 276 | 3,414 | 264 | 3,422 | 264 | 3,916 |
| Investment properties | | 23 | 145 | 31 | 151 | 34 | 100 |
| Intangible assets | 8 | 9 | 145 | 6 | 103 | 9 | 107 |
| Investments and loans in other public sector bodies | 10 | 2,996 | 1,630 | 2,171 | 1,317 | 2,908 | 1,326 |
| Other financial assets | 11 | 1,028 | 4,194 | 1,484 | 4,082 | 1,637 | 4,552 |
| Recoverable contract costs | 12 | – | 3,346 | – | 2,870 | – | 2,799 |
| Derivative financial instruments | | 47 | 78 | 64 | 70 | 54 | 65 |
| Investment in joint ventures and associates | 13 | – | 367 | – | 347 | – | 872 |
| Trade and other receivables | 14 | 932 | 1,090 | 305 | 399 | 356 | 437 |
| **Total non-current assets** | | **5,311** | **14,409** | **4,325** | **12,761** | **5,262** | **14,174** |
| **Current assets:** | | | | | | | |
| Inventories | | – | 31 | – | 33 | – | 47 |
| Non-current assets held for sale | 15 | – | 15 | 1,517 | 2,609 | – | 19 |
| Trade and other receivables | 14 | 544 | 1,343 | 438 | 1,301 | 549 | 1,298 |
| Investments and loans in public bodies | 16 | 732 | 732 | 682 | 682 | 541 | 541 |
| Other financial assets | 11 | 142 | 142 | 1 | 1 | 2 | 2 |
| Derivative financial instruments | | 31 | 31 | 31 | 42 | – | 13 |
| Cash and cash equivalents | 17 | 1,246 | 2,034 | 1,192 | 1,819 | 775 | 1,499 |
| **Total current assets** | | **2,695** | **4,328** | **3,861** | **6,487** | **1,867** | **3,419** |
| **Total assets** | | **8,006** | **18,737** | **8,186** | **19,248** | **7,129** | **17,593** |
| **Current liabilities:** | | | | | | | |
| Trade payables and other liabilities | 18 | (2,283) | (4,954) | (2,248) | (4,894) | (1,488) | (3,765) |
| Provisions for liabilities and charges | 19 | (278) | (3,332) | (289) | (3,582) | (315) | (3,496) |

| | Note | 31 March 2018 Core Department and Agencies | 31 March 2018 Departmental Group | 31 March 2017 restated Core Department and Agencies | 31 March 2017 restated Departmental Group | 1 April 2016 restated Core Department and Agencies | 1 April 2016 restated Departmental Group |
|---|---|---|---|---|---|---|---|
| | | £m | £m | £m | £m | £m | £m |
| Financial guarantees | | (16) | (16) | (18) | (18) | (23) | (23) |
| Derivative financial instruments | | – | (11) | – | – | – | – |
| Non-current liabilities held for sale | 15 | – | – | – | (1,000) | – | – |
| **Total current liabilities** | | **(2,577)** | **(8,313)** | **(2,555)** | **(9,494)** | **(1,826)** | **(7,284)** |
| **Non-current assets plus/less net current assets/ liabilities** | | **5,429** | **10,424** | **5,631** | **9,754** | **5,303** | **10,309** |
| Non-current liabilities: | | | | | | | |
| Trade payables and other liabilities | 18 | (1,203) | (2,901) | (1,023) | (2,460) | (1,138) | (3,272) |
| Provisions for liabilities and charges | 19 | (2,176) | (237,603) | (2,297) | (165,931) | (2,516) | (164,111) |
| Financial guarantees | | (45) | (45) | (43) | (43) | (37) | (37) |
| Derivative financial instruments | 9 | – | (15,904) | – | (12,339) | (1,318) | (12,608) |
| Retirement benefit obligations | 20 | – | (686) | – | (877) | – | (288) |
| **Total non-current liabilities** | | **(3,424)** | **(257,139)** | **(3,363)** | **(181,650)** | **(5,009)** | **(180,316)** |
| **Total assets less liabilities** | | **2,005** | **(246,715)** | **2,268** | **(171,896)** | **294** | **(170,007)** |
| **Taxpayers' equity and other reserves:** | | | | | | | |
| General fund | | 995 | (250,098) | 1,364 | (175,148) | (353) | (173,088) |
| Revaluation reserve | | 1,010 | 2,915 | 904 | 2,813 | 647 | 2,685 |
| Non-current assets held for sale revaluation reserve | | – | – | – | 15 | – | – |
| Charitable funds | | – | 314 | – | 319 | – | 311 |
| Non-controlling interests | | – | 154 | – | 105 | – | 85 |
| **Total equity** | | **2,005** | **(246,715)** | **2,268** | **(171,896)** | **294** | **(170,007)** |

Core Department and Agencies comprise the core Department and the UK Space Agency and Insolvency Service.

The notes on pages 132 to 221 form part of these Accounts.

**Alex Chisholm**
Permanent Secretary and
Principal Accounting Officer.

3 July 2018

# Consolidated Statement of Cash Flows

## for the period ended 31 March 2018

| | Note | 2017-18 Core Department and Agencies | 2017-18 Departmental Group | 2016-17 restated Core Department and Agencies | 2016-17 restated Departmental Group |
|---|---|---|---|---|---|
| | | £m | £m | £m | £m |
| **Cash flows from operating activities** | | | | | |
| Net operating cost | | (12,683) | (86,478) | (12,004) | (14,824) |
| Net operating cost from discontinuing operations | | – | (11) | – | 18 |
| Adjustment for non-cash expenditure | | (60) | 78,517 | (941) | 6,202 |
| (Increase)/decrease in inventories | | – | 2 | – | 14 |
| *Less movements in inventories relating to items not passing through the Consolidated Statement of Comprehensive Net Expenditure* | | – | – | – | (1) |
| (Increase)/decrease in trade and other receivables | 14 | (733) | (733) | 162 | 32 |
| *Less movements in receivables relating to items not passing through the Consolidated Statement of Comprehensive Net Expenditure* | | (7) | (7) | (5) | (66) |
| Increase/(decrease) in trade payables and other liabilities | 18 | 215 | 501 | 645 | 317 |
| *Less movements in payables relating to items not passing through the Consolidated Statement of Comprehensive Net Expenditure* | | (54) | (294) | (394) | 334 |
| Use of provisions | 19 | (284) | (3,238) | (301) | (3,157) |
| Financial guarantees called in | | (11) | (11) | (11) | (11) |
| Expenditure funded by the National Insurance Fund (RPS) | 4.1 | 260 | 260 | 232 | 232 |
| Payments to retirement benefit obligations | | – | (19) | – | (155) |
| ***Net cash outflow from operating activities*** | | **(13,357)** | **(11,511)** | **(12,617)** | **(11,065)** |
| **Cash flows from investing activities** | | | | | |
| Purchase of property, plant and equipment | | (48) | (353) | (25) | (343) |
| Purchase of intangible assets | | (4) | (33) | (3) | (36) |
| Proceeds of disposal of property, plant and equipment | | 11 | 106 | 3 | 25 |
| Proceeds of disposal of investment property | | 11 | 11 | – | – |
| Proceeds of disposal of intangible assets | | – | – | 1 | 1 |
| Proceeds of disposal of assets held for sale | | 1,753 | 1,785 | – | 23 |
| Adjustments for proceeds from disposal of assets held for sale and other assets (surrendered to the Consolidated Fund) | | (1,639) | (1,620) | – | – |
| Loan redeemed from Post Office Limited | 16 | 7,168 | 7,168 | 7,530 | 7,530 |
| Loans made to Post Office Limited | 16 | (7,198) | (7,198) | (7,662) | (7,662) |
| Repayments of loans and investments | | 22 | 431 | 50 | 455 |
| Payments to the Contracts for Difference generators | | – | (544) | – | (92) |
| Other investments and loans made | | (253) | (798) | (173) | (1,355) |
| Launch investment receipts | | 102 | 102 | 144 | 144 |
| Venture capital fund redemptions | | 181 | 110 | 14 | 12 |
| Venture capital fund investments | | (8) | (121) | (13) | (79) |
| Dividends from Joint ventures and associates | | – | – | – | 5 |
| Disposal of Joint venture and associates | | – | 1 | – | 47 |
| Investment in Joint ventures and associates | 13 | – | (7) | – | (186) |
| Investment in asset held for sale | | (50) | (7) | – | – |

| | Note | 2017-18 Core Department and Agencies | 2017-18 Departmental Group | 2016-17 restated Core Department and Agencies | 2016-17 restated Departmental Group |
|---|---|---|---|---|---|
| | | £m | £m | £m | £m |
| Investment in shares | | (393) | (30) | (753) | (37) |
| Repayment of shares | | 7 | – | – | – |
| ***Net cash outflow from investing activities*** | | ***(338)*** | ***(997)*** | ***(887)*** | ***(1,548)*** |
| **Cash flows from financing activities** | | | | | |
| From Consolidated Fund (supply) – current year | | 13,646 | 13,646 | 14,750 | 14,750 |
| From Consolidated Fund (supply) – prior year | | – | – | 153 | 153 |
| To Consolidated Fund (supply) – prior year | | – | – | (909) | (909) |
| Advances from the Contingencies Fund | | 2 | 2 | – | – |
| From the National Insurance Fund | | 260 | 260 | 232 | 232 |
| Payments in respect of National Insurance Fund | | (260) | (260) | (232) | (232) |
| Capital element of payments in respect of finance leases and on-balance sheet PFI contracts | | – | – | – | (1) |
| Capital contributions from non-controlling interests | | – | – | – | 8 |
| Issue of share capital | | – | 3 | – | – |
| Other adjustments relating to financing activities | | – | – | – | 1 |
| ***Net Financing*** | | ***13,648*** | ***13,651*** | ***13,994*** | ***14,002*** |
| Less movements in cash and cash equivalents relating to non-current assets held for sale | | – | – | – | (69) |
| **Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund** | | **(47)** | **1,143** | **490** | **1,320** |
| Receipts due to the Consolidated Fund which are outside the scope of the Department's activities | | 2,684 | 1,655 | 1,005 | 77 |
| Payments of amounts due to the Consolidated Fund | | (2,583) | (2,583) | (1,078) | (1,078) |
| **Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund** | | **54** | **215** | **417** | **319** |
| **Restated cash and cash equivalents opening balance** | | **1,192** | **1,819** | **775** | **1,500** |
| **Cash and cash equivalents at the end of the period** | **17** | **1,246** | **2,034** | **1,192** | **1,819** |

The notes on pages 132 to 221 form part of these Accounts.

# Statement of Changes in Taxpayers' Equity (Core Department and Agencies)

**for the period ended 31 March 2018**

| | Note | General Fund | Revaluation Reserve | Taxpayers' equity | Total Reserves |
|---|---|---|---|---|---|
| | | £m | £m | £m | £m |
| **Balance at 1 April 2016** | | **(353)** | **647** | **294** | **294** |
| Net parliamentary funding – drawn down | | 14,750 | – | 14,750 | 14,750 |
| Net parliamentary funding – deemed | | (269) | – | (269) | (269) |
| National Insurance Fund – RPS | 4.1 | 232 | – | 232 | 232 |
| Supply (payable)/receivable adjustment | 18 | (977) | – | (977) | (977) |
| Income payable to the Consolidated Fund | | (11) | – | (11) | (11) |
| Decrease in RPS receivables | 14 | (5) | – | (5) | (5) |
| Net expenditure for the year | | (12,004) | – | (12,004) | (12,004) |
| **Non-Cash Adjustments:** | | | | | |
| Auditors' remuneration | 4.1 | 1 | – | 1 | 1 |
| **Movements in Reserves:** | | | | | |
| Other comprehensive net expenditure for the year | | – | 263 | 263 | 263 |
| Transfers between reserves | | 2 | (2) | – | – |
| Other movements | | (2) | (4) | (6) | (6) |
| **Balance at 31 March 2017** | | **1,364** | **904** | **2,268** | **2,268** |
| Net parliamentary funding – drawn down | | 13,646 | – | 13,646 | 13,646 |
| Net parliamentary funding – deemed | | 977 | – | 977 | 977 |
| National Insurance Fund – RPS | 4.1 | 260 | – | 260 | 260 |
| Supply (payable)/receivable adjustment | 18 | (928) | – | (928) | (928) |
| Income payable to the Consolidated Fund | | (1,640) | – | (1,640) | (1,640) |
| Decrease in RPS receivables | 14 | (7) | – | (7) | (7) |
| Net expenditure for the year | | (12,683) | – | (12,683) | (12,683) |
| **Non-Cash Adjustments:** | | | | | |
| Auditors' remuneration | 4.1 | 1 | – | 1 | 1 |
| **Movements in Reserves:** | | | | | |
| Other comprehensive net income for the year | | – | 112 | 112 | 112 |
| Transfers between reserves | | 5 | (5) | – | – |
| Other movements | | – | (1) | (1) | (1) |
| **Balance at 31 March 2018** | | **995** | **1,010** | **2,005** | **2,005** |

## Consolidated Statement of Changes in Taxpayers' Equity (Departmental Group)

### for the period ended 31 March 2018

| | Note | General Fund | Revaluation Reserve | Non-current Assets Held for Sale Revaluation Reserve | Taxpayers' equity | Charitable Funds - Unrestricted/ Restricted | Non controlling interest | Total Reserves |
|---|---|---|---|---|---|---|---|---|
| | | £m | £m | £m | £m | £m | £m | £m |
| **Balance at 1 April 2016** | | **(173,088)** | **2,685** | **–** | **(170,403)** | **311** | **85** | **(170,007)** |
| Net parliamentary funding – drawn down | | 14,750 | – | – | 14,750 | – | – | 14,750 |
| Net parliamentary funding – deemed | | (269) | – | – | (269) | – | – | (269) |
| National Insurance Fund – RPS | 4.1 | 232 | – | – | 232 | – | – | 232 |
| Supply (payable)/receivable adjustment | 18 | (977) | – | – | (977) | – | – | (977) |
| Income payable to the Consolidated Fund | | (782) | – | – | (782) | – | – | (782) |
| Decrease in RPS receivables | 14 | (5) | – | – | (5) | – | – | (5) |
| Net expenditure for the year | | (14,806) | – | – | (14,806) | – | – | (14,806) |
| Amounts paid from distributable reserves | | (194) | – | – | (194) | – | – | (194) |
| **Non-Cash Adjustments:** | | | | | | | | |
| Auditors' remuneration | 4.1 | 1 | – | – | 1 | – | – | 1 |
| **Movements in Reserves:** | | | | | | | | |
| Other comprehensive net (expenditure)/ income for the year | | (144) | 284 | – | 140 | – | – | 140 |
| Transfers between reserves | | 127 | (150) | 15 | (8) | 8 | – | – |
| Minority interest | | – | – | – | – | – | 20 | 20 |
| Other movements | | 7 | (6) | – | 1 | – | – | 1 |
| **Balance at 31 March 2017 restated** | | **(175,148)** | **2,813** | **15** | **(172,320)** | **319** | **105** | **(171,896)** |
| Net parliamentary funding – drawn down | | 13,646 | – | – | 13,646 | – | – | 13,646 |
| Net parliamentary funding – deemed | | 977 | – | – | 977 | – | – | 977 |
| National Insurance Fund – RPS | 4.1 | 260 | – | – | 260 | – | – | 260 |
| Supply (payable)/receivable adjustment | 18 | (928) | – | – | (928) | – | – | (928) |
| Income payable to the Consolidated Fund | | (2,489) | – | – | (2,489) | – | – | (2,489) |
| Decrease in RPS receivables | 14 | (7) | – | – | (7) | – | – | (7) |
| Net expenditure for the year | | (86,489) | – | – | (86,489) | – | – | (86,489) |
| Amounts paid from distributable reserves | | (162) | – | – | (162) | – | – | (162) |

## Consolidated Statement of Changes in Taxpayers' Equity (Departmental Group)

**for the period ended 31 March 2018**

| | Note | General Fund | Revaluation Reserve | Non-current Assets Held for Sale Revaluation Reserve | Taxpayers' equity | Charitable Funds - Unrestricted/ Restricted | Non controlling interest | Total Reserves |
|---|---|---|---|---|---|---|---|---|
| **Non-Cash Adjustments:** | | | | | | | | |
| Auditors' remuneration | 4.1 | 1 | – | – | 1 | – | – | 1 |
| **Movements in Reserves:** | | | | | | | | |
| Other comprehensive net (expenditure)/income for the year | | 123 | 233 | – | 356 | – | – | 356 |
| Transfers between reserves | | 108 | (124) | (6) | (22) | (5) | – | (27) |
| Minority interest | | – | – | – | – | – | 49 | 49 |
| Transfer to Statement of Comprehensive Net Expenditure | | – | – | (9) | (9) | – | – | (9) |
| Issue of share capital | | 3 | – | – | 3 | – | – | 3 |
| Other movements | | 7 | (7) | – | – | – | – | – |
| **Balance at 31 March 2018** | | **(250,098)** | **2,915** | **–** | **(247,183)** | **314** | **154** | **(246,715)** |

The notes on pages 132 to 221 form part of these Accounts.

# Notes to the Accounts

## 1 Accounting policies, judgements and estimates

### 1.1 Basis of accounting

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adapted and interpreted by the HM Treasury 2017-18 Financial Reporting Manual (FReM) and as set out in the Accounts Direction to the Department pursuant to section 5(2) of the Government Resources and Accounts Act 2000 except as described at 1.2 below. Where the FReM permits a choice of accounting policy, the policy selected is that judged to be the most appropriate to the particular circumstances of the Department and its consolidated entities (the Group) for the purpose of giving a true and fair view. The policies adopted by the Group are described below; they have been applied consistently to items considered material to the accounts.

The Consolidated Statement of Financial Position shows significant net liabilities, primarily relating to Contracts for Difference derivatives and provisions for nuclear decommissioning which will be settled over many years. Liabilities in excess of those to be funded by the Group will be met by future funding voted by Parliament annually in Supply and Appropriation Acts. There is no reason to believe the resources to settle these liabilities will not be forthcoming. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

### 1.2 Accounting convention

These accounts have been prepared under the historical cost convention modified to measure property, plant and equipment (except specific waste management assets), intangibles, investment properties and financial instruments at fair value to the extent required or permitted under IFRS as set out in these policies.

The Department has agreed with HM Treasury that specific nuclear waste management assets should be measured at historical cost less any impairment losses where there is no reliable and cost effective valuation methodology; this is a departure from the FReM requirement to report property, plant and equipment at fair value. Public Dividend Capital and shares in bodies held by the core Department are carried at historical cost less any impairment in accordance with the FReM.

### 1.3 Presentational currency

The financial statements are presented in pounds sterling, the functional currency of the Group. Transactions denominated in a foreign currency are translated into sterling at the rate of exchange on the date of each transaction. In preparing the financial statements, monetary assets and liabilities denominated in foreign currencies are translated at the rates prevailing at the reporting date. All translation differences of monetary assets and liabilities are included in net expenditure for the year. Values are rounded to the nearest million pounds (£m) unless the FReM requires a lower threshold.

### 1.4 Basis of consolidation

The Group accounts consolidate the balances of the core Department and designated bodies listed in note 27, which fall within the departmental boundary as defined in the FReM and make up the 'Departmental Group', excluding transactions and balances between them. Where the Office for National Statistics (ONS) designates a body retrospectively such that the body should have been designated for consolidation in a prior period, the accounts are voluntarily restated to reflect the position from the effective date of classification. The consolidated bodies prepare accounts in accordance with either the FReM or the Companies Act 2006 (for limited companies). For those bodies that do not prepare accounts in accordance with the FReM, adjustments are made at consolidation if necessary where differences would have a significant effect on the accounts. The core Department and its designated bodies are all domiciled in the UK.

### 1.5 Changes in accounting policies

Accounting policies are unchanged compared to those in the 2016-17 Departmental Group financial statements.

### 1.6 New accounting standards adopted in the year and FReM changes

No new accounting standards were incorporated into the FReM in 2017-18.

### 1.7 Applicable accounting standards issued but not yet adopted and FReM changes for 2018-19

**IFRS 9 'Financial instruments'**

IFRS 9 'Financial instruments' replaces IAS 39 'Financial instruments: Recognition and measurement' and will be adopted by the public sector from 1 April 2018. The FReM removes the option to adopt IFRS 9 retrospectively, and therefore the Group will recognise any difference between the previous carrying amount and the carrying amount under IFRS 9 on 1 April 2018.

The Group has carried out an initial review of its Statement of Financial Position as at 31 March 2018 to assess potential changes due to the introduction of IFRS 9. The key impacts as at 1 April 2018 expected by the Group have been set out below. This initial assessment may change as detailed work on specific instruments is completed.

<u>(a) Classification and measurement of financial assets and financial liabilities</u>

Under IFRS 9, the requirement for classifying and measuring financial assets is:

- loans and debt securities are classified as either held at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL), dependent on the business model and cash flow characteristics of the financial asset
- derivatives are classified as FVTPL
- investments in equity instruments are classified as FVTPL, unless an irrevocable election is made at initial recognition to present in Other Comprehensive Income (OCI) subsequent changes in the fair value of an investment in an equity instrument that is not held for trading

Potential changes in each of the IAS 39 categories are discussed below.

#### Loans and receivables

The Group has £5,584 million of loans and receivables as at 31 March 2018. The objective and cash flow characteristics tests will be assessed for these items. However, current expectations are that there will be no change and those instruments currently classified as loans and receivables will continue to be measured at amortised cost.

#### Public Dividend Capital

The Group has £81 million of Public Dividend Capital as at 31 March 2018. According to the FReM interpretation, Public Dividend Capital is not a financial instrument within the meaning of IAS 32 and out of scope of IFRS 9. Therefore, no changes are expected.

#### Available for sale (AFS)

**The Group has £5,060 million of AFS financial assets as at 31 March 2018:**

| | 31 March 2018 £m |
|---|---|
| Repayable Launch Investments | 1,047 |
| Ordinary shares in public sector companies | 1,337 |
| Other AFS financial assets | 2,676 |
| **Total loans and receivables** | **5,060** |

- Repayable Launch Investments

Under the provision of the 1982 Civil Aviation Act, Repayable Launch Investments are provided by the core Department to companies to fund a proportion of the non-recurring eligible design and development capital costs on civil aerospace development products. Each product supported is covered by separate contractual terms and conditions, and periodic repayments become due when products are delivered or at other specific points.

It is expected that these investments will fail the cash flow characteristics test as repayments are not solely payments of principal and interest on the principal amount outstanding.

Under IFRS 9, these debt instruments will be reclassified to FVTPL. On adoption, the cumulative gain or loss previously recognised in Taxpayer's Equity of £235 million as at 31 March 2018 and subsequent fair value movement for 2018-19 will be recognised in the Consolidated Statement of Comprehensive Net Expenditure (SoCNE).

- Ordinary shares in public sector companies

Ordinary shares held outside the Departmental consolidation boundary are equity instruments in public bodies which work with the Department to achieve its objectives but have authority over their own policies and are not consolidated in to the group financial statements. No changes are expected in the classification for these instruments, since they are not held for trading and, therefore, the irrevocable election option is available to present subsequent changes in the fair value in OCI under IFRS 9.

- Other AFS financial assets

Work is currently underway to confirm whether reclassifications are required for other AFS financial assets. However, the initial expectation is that investment funds and private equities may be subject to potential reclassification.

The majority of investment funds is comprised of British Business Bank's investments, which are classified as debt instruments. The initial assessment indicates that the repayments do not meet the cash flow characteristics test as they are not solely payments of principal and interest on the principal amount outstanding. If this is confirmed in the final assessment, the financial assets will be reclassified to FVTPL.

For the investment in listed securities, the irrevocable election to present subsequent changes in the fair value in OCI will not be available if the equity instrument is held for trading. If confirmed in the final assessment that these equity instruments are held for trading, the financial assets will be reclassified to FVTPL.

In the case of reclassifications to FVTPL, the cumulative gain or loss previously recognised in Taxpayer's Equity will be recognised in the Consolidated Statement of Comprehensive Net Expenditure.

Other categories

No material changes are anticipated for instruments currently classified as derivatives, FVTPL and held to maturity financial assets, and financial liabilities under IFRS 9.

Derivative financial instruments comprise £86 million of forward contracts held by UK Space Agency and Science and Technology Facilities Council (UKRI from 30 March 2018) to hedge the exposure to foreign currency risk. The impact of IFRS 9 on hedge accounting is expected to be immaterial.

(b) Impairment

IFRS 9 replaces the 'incurred loss model' in IAS 39 with a forward looking 'expected credit loss' (ECL) model. There is no change to how impairments on equity investments or debt instruments measured at FVTPL are recognised. Therefore, the new impairment model mainly impacts the Group's loans and receivables balances, debt instruments measured at amortised cost, and some trade and other receivables balances. It also potentially impacts on the Group's financial guarantee contracts.

The Group will consider reasonable and supportable information that is relevant and available without undue cost of effort in assessing the credit risk and determining the appropriate level of ECLs. This will include qualitative and quantitative information and analysis based on historical experience, expert credit assessment (where available) and forward-looking information.

**IFRS 15 'Revenue from Contracts with Customers'**

IFRS 15 'Revenue from Contracts with Customers' replaces IAS 18 'Revenue' and IAS 11 'Construction Contracts' and will be adopted by the public sector from 1 April 2018. The FReM removes the option to adopt IFRS 15 retrospectively, and therefore the Group will recognise any difference between the previous carrying amount and the carrying amount under IFRS 15 on 1 April 2018.

IFRS 15 requires the Group to apportion revenue earned from contracts to individual promises, or performance obligations, on a stand-alone selling price basis, based on a five-step model. The Group has carried out an initial review of its income streams for 2017-18 to assess potential changes due to the introduction of IFRS 15. The review and conclusion is ongoing. However, the anticipated impacts on significant revenue streams have been set out below.

### Service contracts

The largest stream of income from service contracts in 2017-18 is Nuclear Decommissioning Authority (NDA)'s income of £1,014 million, mainly from fuel reprocessing, waste and product storage and the transportation of spent fuel, waste and products. NDA currently recognises income on a percentage of completion basis with the relative costs in delivering each activity (e.g. reprocessing, waste treatment, and waste storage) being used as the main measure of completion. Under the new standard, the income figure is subject to increased uncertainty as a higher proportion of revenue recognition will be dependent on the performance of key plants at Sellafield in the remainder of their commercial operations.

Due to the limited availability of consistent historical data relating to the contracts and the extent to which the contracts and associated assumptions have changed over time, NDA has obtained a derogation from HM Treasury to apply IFRS 15 on first time adoption in 2018-19 on a prospective basis, and therefore, will not be required to report any retrospective adjustments for prior years. A derogation has been granted to the Group to this effect. A detailed assessment of the impacts is currently being carried out, with further detail provided in NDA's annual report and accounts.

### Levy income

The Group's levy income of £818 million in 2017-18 is comprised of Low Carbon Contract Company Ltd (LCCC)'s operational costs levy of £544 million, Electricity Settlements Company Ltd (ESC)'s settlement costs levy of £226 million, Oil and Gas Authority (OGA)'s petroleum licences levy of £20 million, Financial Reporting Council (FRC)'s preparers levy of £19 million and the core Department's levy of £9 million. Apart from FRC's preparers levy, which is based on voluntary contributions and accounted for on a cash receipts basis, the majority of the remaining levies arise from regulations and legislation. They are typically set on an annual basis, invoiced quarterly or bi-annually, and accounted for in the period to which the invoices are related. LCCC and ESC do not prepare their individual accounts under FReM and have judged that IFRS 15 does not apply to income from electricity suppliers. IFRS 15 is applicable to the Group's levy income under FReM guidance. However, the Group does not expect material changes in the recognition and measurement of levy income under IFRS 15.

### Income from Mineworkers' Pension Scheme

Income of £742m was recognised during 2017-18 relating to the Government guarantee of certain benefits payable to members and beneficiaries of the Mineworkers' Pension Scheme. The Government is entitled to a portion of any periodic valuation surpluses, generally determined by the Government Actuary following triennial valuations. The cash amounts are to be received annually up to 2027. The Coal Pension receivables have been classified as loans and receivables in accordance with IAS 39 'Financial Instruments: Recognition and Measurement' and will be classified as held at amortised cost under IFRS 9 'Financial Instruments'. The associated income, therefore, is considered to be out of scope of IFRS 15.

### Grant income

The total grant income for 2017-18 is £138 million. Under the FReM grants and grants-in-aid should be accounted for in accordance with IAS 20 'Accounting for Government Grants and Disclosure of Government Assistance' as interpreted by the Manual. The grant income is, therefore, out of scope under IFRS 15 and no changes are anticipated.

**IFRS 16 'Leases'**

IFRS 16 'Leases' replaces IAS 17 'Leases' and will be adopted by the public sector in 2019-20. IFRS 16 represents a significant change in lessee accounting by removing the distinction between operating leases (off-statement of financial position financing) and finance leases (on-statement of financial position financing), and introducing a single lessee accounting model. IFRS 16 requires the recognition of all leases with terms over 12 months as finance leases. This will result in the recognition of a right-to-use asset, measured at the present value of future lease payments, and a matching liability in the Statement of Financial Position (SoFP). Disclosure of operating leases is included in note 21.2.1. The Group is currently assessing the impacts of IFRS 16 adoption.

## 1.8 Operating income

Operating income relates directly to the operating activities of the Group and is measured at the fair value of consideration received or receivable net of trade discounts, value added tax and other taxes. Operating income is recognised when the Group has performed its contractual obligations, the income can be measured reliably and it is probable that the economic benefits will flow to the Group. The Group is required to identify receipts which it collects on behalf of the Consolidated Fund; these are not recognised as income but instead are disclosed in a separate Trust Statement published alongside these accounts and in note 4 in the Statement of Parliamentary Supply in the Accountability Report.

The Low Carbon Contracts Company Ltd and Electricity Supply Company Ltd are permitted to retain levies collected under statute and classified as taxes in the national accounts. This income is recognised by the companies in the same period as the related expenditure; it is only recognised in the Group accounts when an event has occurred that creates an obligation on a counterparty to pay the levy, the amount can be reliably measured and it is probable that the economic benefits will flow to the Group.

### Operating income from contracts

Where the outcome of a contract can be estimated reliably, income and costs are recognised by reference to the stage of completion of contract activity at the reporting date, i.e. the proportion of total contract costs represented by costs incurred to date except where this would not be representative of the stage of completion. Where the outcome of a contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable they will be recoverable. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

A non-current financial asset for recoverable contract costs is recognised where costs incurred plus recognised profits less recognised losses exceed amounts invoiced to date. Where amounts invoiced to date exceed costs incurred plus recognised profits less recognised losses the balance is reported as payments received on account.

### Grant income

European Funding Grants are recognised as income when there is reasonable assurance that there are no conditions attached, or that any such conditions have been complied with and it is certain the grant will be received. Research grants and fellowships are recognised in line with a schedule of pre-agreed payment profiles, which include matching considerations over the period of the grant duration and to the period which they relate. Where the terms and conditions do not specify a pre-agreed payment profile or other matching considerations, obligations are recognised in full. Where the profile indicates an unclaimed and/or unpaid amount exists at the reporting date, such sums are accrued.

### Income from the Mineworkers' Pension scheme

Income arising from the Government guarantee of certain benefits payable to members and beneficiaries of the Mineworkers' Pension scheme is recognised when cash is received.

## 1.9 Staff costs

Staff costs are recognised as expenses when the Group becomes obligated to pay them, including the cost of any untaken leave entitlement.

## 1.10 Grants payable

Grants payable are recognised when the grant recipient has performed the activity that creates an entitlement to the grant under the terms of the scheme and include estimates for claims not yet received. Grant contributions to international organisations in the form of promissory notes are recognised as expenses when they become payable on demand with the Department exercising no further control over disbursement.

### 1.11 Taxation

The core Department and its executive agencies are exempt from corporation tax by way of Crown exemption. Some consolidated bodies are subject to corporation tax on taxable profits. Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to HM Revenue and Customs, based on tax rates and laws that are enacted or substantively enacted by the reporting date.

Value Added Tax (VAT) is accounted for in the Accounts, in that the amounts are shown net of VAT except for irrecoverable VAT, which is aggregated with the cost of purchased items.

Deferred taxation

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are recognised for all tax-deductible temporary differences, carry forward of unused tax credits and unused tax losses to the extent that it is probable that taxable profit will be available in future years against which they can be utilised.

### 1.12 Property, plant and equipment (PPE)

Assets are capitalised as PPE if they are intended for use on a continuing basis and their original carrying value, on an individual or asset pool basis, exceeds the relevant capitalisation threshold which ranges from £1,000 to £10,000 across the Group. Exceptions are: a) assets held by the Nuclear Decommissioning Authority on designated nuclear sites are only recognised where the economic element of their value at the reporting date exceeds £100,000 and the proportion of asset value relating to commercial activity exceeds 10%; and b) operational mine water schemes and subsidence pumping stations are held by the Coal Authority at nil value because they are used to address pollution caused by past mining activities where the economic benefits have already been received.

To the extent that it has been recognised as a provision under IAS 37, the estimated cost of decommissioning facilities is recognised as part of the carrying value of the asset at initial recognition and depreciated over its useful life.

Valuation of PPE

PPE is carried at fair value except for nuclear waste management assets held at historical cost (note 1.2) and assets under construction which are held at cost. In accordance with the FReM, assets that have short useful lives or are of low value are carried at depreciated historical cost less impairment as a proxy for fair value.

Non-specialist land and buildings are measured at current value in existing use using professional valuations. Specialist land and buildings are measured at depreciated replacement cost which represents the present value of the asset's remaining service potential.

Revaluation of PPE

Any accumulated depreciation at the date of revaluation is eliminated and the resulting net value restated to equal the revalued amount. Any revaluation increase arising is credited to the revaluation reserve except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense in which case the increase is credited to net expenditure for the year to the extent of the decrease previously charged. A decrease in carrying amount arising on revaluation is charged as an expense to the extent that it exceeds the balance, if any, held in the revaluation reserve relating to a previous revaluation of that asset. On de-recognition, any revaluation surplus remaining in the revaluation reserve attributable to the asset is transferred directly to the General Fund.

Depreciation of PPE

Apart from freehold and long leasehold land which are not depreciated, PPE assets are depreciated to estimated residual values on a straight-line basis over the following estimated useful lives:

| | |
|---|---|
| Freehold buildings | 10-60 years |
| Leasehold land and buildings | 10-60 years or remaining life of lease |
| Agricultural buildings | Up to 60 years |
| Dwellings | Up to 60 years |
| Leasehold improvements | Shorter of estimated remaining useful life or outstanding term of lease |
| Computer equipment | 2-10 years |
| Plant and machinery | 3-50 years or remaining life of lease |
| Office machinery (included in plant and machinery), furniture, fixtures and fittings | 2-11 years or remaining life of lease |
| Transport equipment | 2-14 years |
| Ships (included in transport equipment) | Minimum of 20 years |
| Aircraft (included in transport equipment) | Minimum of 15 years |
| Assets under construction | Not depreciated until available for use as intended by management |

Residual values and useful lives are reviewed and adjusted if appropriate at each reporting date.

### 1.13 Investment property

The Group holds a number of properties which have been classified as investment properties and are measured using the fair value model specified in IAS 40. Gains and losses arising from changes in fair value are recognised in net expenditure for the year.

### 1.14 Intangible non-current assets

Intangible non-current assets are capitalised if they are intended for use on a continuing basis and their original carrying value, on an individual or asset pool basis, exceeds the relevant capitalisation threshold which ranges from £1,000 to £10,000 across the Group. There are no active markets for any of the Group's intangible non-current assets which are valued at the lower of depreciated replacement cost and value in use using a valuation technique (for example for income-generating assets); where there is no value in use, depreciated replacement cost is used. Assets of low value or with short useful lives are carried at cost less accumulated amortisation and impairment losses as a proxy for fair value. They are amortised on a straight-line basis over the following periods:

| | |
|---|---|
| Software licences | 3-10 years |
| Internally developed software | Up to 10 years |
| Website development costs | 2-5 years |
| Patents, licences and royalties | 7-15 years |

### 1.15 Impairment of PPE and intangible non-current assets

The Group reviews carrying amounts at each reporting date. If an indicator for impairment occurs then the recoverable amount of the asset (the higher of fair value less costs to sell and value in use) is estimated and an impairment loss recognised to the extent that it is lower than the carrying amount. Losses arising from a clear consumption of economic benefit are charged to net expenditure for the year. Losses that do not result from a loss of economic value or service potential are taken to the revaluation reserve to the extent that a revaluation reserve exists for the impaired asset; otherwise to net expenditure for the year.

### 1.16 Assets held for sale

Assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable, the asset is available for immediate sale in its present condition and the asset is actively marketed for sale. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Assets held for sale are measured at the lower of a) carrying amount and b) fair value less costs to sell.

### 1.17 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and other short term highly liquid investments which are readily convertible to known amounts of cash are subject to insignificant risk of changes in value and have an original maturity of three months or less. Any bank overdraft amounts are included within trade payables and other liabilities.

### 1.18 Leases

Leases are classified as finance leases when the risks and rewards of ownership are transferred substantially to the lessee; all other leases are classified as operating leases.

Finance leases

Group as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the lease. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Group as lessee

Assets subject to finance leases and the associated liabilities for future payments (if any) are recognised in the Consolidated Statement of Financial Position.

Operating leases

Group as lessor

Assets subject to operating leases are recognised in the Consolidated Statement of Financial Position with rental income plus initial direct costs incurred in arranging the lease, including incentives to the lessee to enter into the lease, recognised on a straight-line basis over the lease term.

Group as lessee

Rentals payable under operating leases, including benefits received and receivable as incentives to enter into the leases, are expensed on a straight-line basis over the term of the lease.

### 1.19 Subsidiaries, associates and joint ventures

Subsidiaries and public sector joint ventures are consolidated where designated within the Departmental Group boundary (note 27); those outside the Departmental boundary are measured in accordance with IAS 39. Equity investments in associates or joint ventures outside the public sector are initially recorded at cost and subsequently adjusted to reflect the Group's share of net profit or loss of the associate or joint venture.

### 1.20 Financial instruments

Financial assets and liabilities are measured initially at fair value plus transaction costs unless carried at fair value through profit or loss in which case transaction costs are charged to net expenditure for the year. Fair value is determined by reference to quoted prices where an active market exists for the instrument; otherwise it is determined using generally accepted valuation techniques including discounted estimated cash flows.

Financial assets

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

Categories of financial asset

Financial assets are categorised as one of the following:

- loans and receivables: are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised at fair value and thereafter at amortised cost using the effective interest method less any impairment. The effective interest rate method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period
- held to maturity: are non-derivative financial assets with fixed or determinable payments and fixed maturity where there is the positive intention and ability to hold to maturity. After initial recognition at fair value, they are measured at amortised cost
- at fair value through profit or loss (FVTPL): are financial assets held for trading or designated as being held at

FVTPL at initial recognition. Transaction costs and any subsequent movements in the valuation of the asset are recognised in net expenditure for the year

- available for sale: are non-derivative financial assets designated as such or not classified in any of the other three categories. After initial recognition, these assets are subsequently carried at fair value. Gains and losses in fair value are recognised directly in equity except for impairment losses which are recognised in net expenditure for the year. On de-recognition, the cumulative gain or loss previously recognised in equity is recognised in net expenditure for the year

### Impairment of financial assets

Financial assets other than those at FVTPL are assessed for impairment at each reporting date and impaired where there is evidence that future cash flows have been reduced by one or more events that occurred after initial recognition. The carrying amount is reduced directly except for trade receivables where it is reduced through the use of an allowance account. Impairment losses are recognised in net expenditure for the year. If, in a subsequent period, the amount of the impairment loss decreases as a result of an event after the impairment was recognised, the previously recognised impairment loss is reversed through net expenditure for the year. The reversal should only be to the extent that the carrying amount of the asset does not exceed what it would have been had the impairment not been recognised.

### Financial liabilities

Financial liabilities are derecognised when the obligation is discharged, cancelled or expires. The Group's financial liabilities excluding derivatives are initially recognised at fair value including directly attributable transaction costs, and subsequently at amortised cost using the effective interest rate method.

### Derivative financial instruments

Derivatives are initially recognised at fair value and subsequently at fair value. Gains/losses in fair value are recognised in net expenditure for the year unless hedge accounting is applied.

The Group has two classes of derivative financial instrument, foreign exchange contracts to which hedge accounting is applied and Contracts for Difference to which hedge accounting is not applied.

### Forward foreign exchange contracts

Forward contracts are held as cash flow hedges to reduce exposure to foreign currency risk. The effective portions of changes in their fair values are recognised in equity. Gains and losses relating to ineffective portions are recognised immediately in net expenditure for the year. Amounts accumulated in equity are recycled to net expenditure for the year in the same period as the hedged item.

### Contracts for Difference (CfDs)

CfDs are held to incentivise investment in low carbon electricity generation by agreeing strike prices with electricity generators which are counterparties to the contracts. The counterparty pays or is paid the difference between the strike price and the reference price (a measure of the average market price of electricity) at the time of electricity supply. CfDs are measured at FVTPL, initially at their transaction price (£nil) with subsequent changes in fair value (as measured by a valuation model) recognised in net expenditure for the year along with amortisation over the contracts settlement period of the difference between the transaction price and the valuation model estimate of fair value at initial recognition which is usually different from the transaction price. Where the valuation model estimate of fair value at initial recognition is different from the transaction price, the difference is deferred and amortised to net expenditure for the year over the contract settlement period (note 9).

## 1.21 Financial guarantees

Financial guarantees are initially recognised at fair value on the date the guarantee was given and subsequently re-measured at the higher of a) the amount determined in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' and b) the amount initially recognised less when appropriate, cumulative amortisation in accordance with IAS 18 'Revenue'.

## 1.22 Pensions

The accounting for each of the Departmental Group's pension plans is dependent on its nature.

Funded defined-benefit pension schemes

The Group has nine funded defined-benefit pension schemes: the Medical Research Council Pension Scheme (MRCPS); two schemes through the NDA; and six others through the nuclear site licence companies.

The net liabilities recognised in the Statement of Financial Position for funded defined benefit schemes are calculated by independent actuaries by deducting the fair value of scheme assets (at bid prices) from the present value of defined benefit obligations (estimated using the projected unit credit method, less any amounts receivable from third parties). Where the scheme is in surplus, the asset recognised in these statements is limited to the present value of benefits available from future refunds from the plan, reductions in future contributions to the plan or on settlement of the plan and takes into account the adverse effect of any minimum funding requirements. Actuarial gains and losses are recognised as Other Comprehensive Income and Expenditure except for site licence companies where they are included in provision expense relating to the Nuclear Decommissioning Provision.

Unfunded defined benefit pension schemes

The Group contributes towards a number of unfunded defined benefit pension schemes of which employees are members: these include the Principal Civil Service Pension Scheme, the Civil Servant and Other Pension Scheme, the Combined Pension Scheme of the UK Atomic Energy Authority. The participating employers in these schemes are unable to identify their share of the underlying net liability; as such these schemes are accounted for as defined contribution pension schemes, with employers' contributions charged to the Consolidated Statement of Comprehensive Net Expenditure in the period to which they relate. Further information regarding PCSPS and CSPOS is presented in the Staff Report.

Defined contribution pension schemes

Contributions are charged to the Consolidated Statement of Comprehensive Net Expenditure when they become payable. The Group has no further liabilities in respect of benefits to be paid to members.

More information about the Group's pension schemes can be found in the accounts of the consolidated entities, including in note 3 for the core Department, and of the pension schemes themselves.

## 1.23 Provisions

A provision is recognised when it is probable that an outflow of economic benefits will be required to settle a present obligation (legal or constructive) that can be reliably measured and which results from a past event. Where the time value of money is material the provision is measured at present value using discount rates prescribed by HM Treasury and based upon the real yield of UK index-linked gilts:

| | 2017-18 | 2016-17 |
|---|---|---|
| Short-term (between 0 and 5 years) | (2.42%) | (2.70%) |
| Medium-term (between 5 and 10 years) | (1.85%) | (1.95%) |
| Long-term (over 10 years) | (1.56%) | (0.8%) |

### Nuclear decommissioning provisions

Where expenditure in settlement of a provision is expected to be recovered from a third party, the recoverable amount is treated as a separate asset (note 12). Provision charges in the Consolidated Statement of Comprehensive Net Expenditure are shown net of changes in these recoverable amounts.

## 1.24 Contingent assets and liabilities

Where an outflow of economic benefits from a past event is possible but not probable, the Department discloses a contingent liability. In addition to contingent liabilities disclosed in these financial statements in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets', certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote are disclosed in the

Accountability Report for Parliamentary reporting and accountability purposes.

Where an inflow of economic benefits from a past event is probable, the Group discloses a contingent asset. Estimates of the financial effects are disclosed where practicable; where the time value of money is material, contingent liabilities and assets are stated at discounted amounts and the amount reported to Parliament separately noted. Remote contingent liabilities reported in the Accountability Report are stated at the amounts reported to Parliament.

### 1.25 Judgements, estimates and assumptions

Preparation of financial statements requires management to make judgements, estimates and assumptions based on experience and expected events that affect the reported amounts of assets and liabilities, income and expenditure. Key accounting judgements applied in these statements are described below.

Judgements

#### Hinkley Point C (HPC) (note 9)

In accordance with the IFRS Conceptual Framework – Hinkley Point C Contract for Difference (CfD) liability has not been recognised in these financial statements. This is due to the unavoidable uncertainties in creating a fair value estimate for HPC CfD due to the duration of the contract and lack of reliable independent estimates or readily available forecasts of wholesale electricity prices beyond 2040. Reliability is defined as using information that is complete, neutral and free from error. This means that a condition of the Conceptual Framework, that an item is recognised in the financial statements when the item has a cost or value that can be measured with reliability, is not met.

Estimates

In accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', revisions to accounting estimates are recognised prospectively. Revisions of the estimates and assumptions below could cause material adjustment to the carrying amounts of assets and liabilities within the next financial year.

#### Income recognition (note 6.1)

The percentage of completion method used to measure income on contracts (note 1.8) requires the Group to estimate the work performed to date as a proportion of the total work to be performed.

#### Useful lives of non-current assets

There is uncertainty in relation to estimated useful lives of non-current assets; these are reviewed as at the reporting date and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence or legal or other limits on their use.

#### Impairment of assets (notes 4.2, 7, 8, 10 and 11)

Impairment is measured by comparing the carrying value of the asset or cash generating unit with management's estimate of its recoverable amount.

#### Fair value of Repayable Launch Investments (note 11)

The econometric model used to estimate future cash flows from Repayable Launch Investments includes a number of assumptions including on future economic growth.

#### Fair value of private equity investments (note 11)

A range of valuation techniques are used for private equity investments, including discounted cash flows and net asset values.

#### Redundancy Payments Service receivable (note 14)

There is uncertainty in the estimate of the amount to be realised by the Insolvency Service from sale of assets of insolvent employers.

### CfD contracts (note 9)

The significant uncertainties affecting measurement of Financial Investment Decision Enabling for Renewables (FIDeR) and CfD contracts, which facilitate investment in low-carbon electricity generation, are described in note 9.

### Fair value of financial guarantees

Fluctuations in the fair value of financial guarantees are measured using modelling techniques that have an unavoidable risk of error.

### Provisions (note 19)

Provision discount rates set by HM Treasury are updated annually and have a material effect on liabilities. There are other significant uncertainties in relation to measurement of the liabilities reported in note 19, in particular in relation to future decommissioning costs to be incurred by the UK Atomic Energy Authority, Nuclear Decommissioning Authority and Coal Authority, which are described in the note.

### 1.26 Prior Period Adjustments

In accordance with the FReM, where a prior period adjustment is identified as a result of an error, the Departmental Group will correct all material prior period errors retrospectively in the first set of financial statements authorised for issued after their discovery by:

- restating the comparative amounts for the prior periods presented in which the error occurred
- if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented

However, if it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented, the Departmental Group will restate the opening balances of assets, liabilities and equity for the earliest period for which retrospective restatement is practicable.

The prior period adjustments and their impact on the comparative amounts for the prior periods represented in which the error occurred are detailed in note 26.

# 2 Reporting by operating segment

In accordance with the relevant reporting requirements, including IFRS 8, the Statement of Parliamentary Supply and supporting notes reflect net resource and capital outturn in line with the control totals voted by Parliament. The figures within SoPS 1.1 provide the income and expenditure totals associated with key business activities within the Group and therefore reflect the management information reporting to the Board during the period.

# 3 Staff costs

Staff costs comprise:

| | Permanently employed staff | Others | 2017-18 Total | 2016-17 restated Total |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Wages and salaries | 719 | 60 | **779** | 784 |
| Social security costs | 81 | – | **81** | 71 |
| Other pension costs | 168 | – | **168** | 145 |
| **Sub total** | **968** | **60** | **1,028** | **1,000** |
| Less recoveries in respect of outward secondments | (3) | – | **(3)** | (4) |
| **Total net costs** | **965** | **60** | **1,025** | **996** |
| Of which: | | | | |
| Core Department and Agencies | 255 | 18 | 273 | 282 |
| NDPBs and other designated bodies | 710 | 42 | 752 | 714 |
| **Total net costs** | **965** | **60** | **1,025** | **996** |

For further information on staff costs and numbers, please see the Staff Report and the Remuneration Report which includes staff costs for nuclear site licence companies which are not included in the table above.

# 4 Operating expenditure

## 4.1 Purchase of goods and services

| | 2017-18 | | 2016-17 restated | |
|---|---|---|---|---|
| | Core Department and Agencies | Departmental Group | Core Department and Agencies | Departmental Group |
| | £m | £m | £m | £m |
| Rentals under operating leases | 43 | 58 | 35 | 51 |
| Accommodation and office equipment costs | 50 | 202 | 49 | 203 |
| Legal, professional and consultancy costs | 101 | 199 | 115 | 198 |
| Finance, HR, IT and support costs | 102 | 120 | 77 | 82 |
| Training and other staff costs | 11 | 32 | 8 | 27 |
| Travel and subsistence costs | 8 | 51 | 10 | 49 |
| Advertising and publicity | 2 | 15 | 1 | 9 |
| Programme management and administration of grants and awards | 37 | 206 | 18 | 330 |
| Capacity Market payments | – | 224 | – | 9 |
| Professional and international subscriptions | 317 | 567 | 332 | 578 |
| Enforcement costs of employment related policies | 27 | 27 | 17 | 17 |
| Donations | – | 9 | – | 19 |
| Funding Paternity, Adoption and Shared Parental Leave policy | 7 | 7 | 133 | 133 |
| Purchase of geographical and scientific equipment | 78 | 129 | 79 | 99 |
| Purchase of weather information and weather related services | 99 | 99 | 97 | 97 |
| Redundancy payments service | 260 | 260 | 232 | 232 |
| Sponsorship costs | – | 1 | 1 | 1 |
| Payment of taxes and levies | – | 4 | – | 14 |
| Subsidy to Post Office Limited | 95 | 95 | 140 | 140 |
| Innovation subsidies | – | – | 5 | 5 |
| Energy intensive industries subsidies | 302 | 302 | 265 | 265 |
| Other purchase of goods and services cost | 81 | 288 | 15 | 142 |
| **Total** | **1,620** | **2,895** | **1,629** | **2,700** |

### Purchase of goods and services

#### Core Department

Included within other purchase of goods and services cost above is £60 million of costs in relation to special payments. See special payments note for further details.

#### Audit fees

Audit fees are included under the heading 'Legal, professional and consultancy costs'.

During the year the core Department did not purchase any non-audit services from its auditor, the National Audit Office. The non-cash auditors' remuneration of £655,750 (2016-17: £705,750) comprises £600,000 (2016-17: £650,000) for the cost of the audit of the Departmental Group, £20,000 (2016-17: £20,000) for the Trust Statement, and £35,750 (2016-17: £35,750) for the audit of the UK Atomic Energy Authority Pension Scheme Accounts.

#### Agencies

During the year the Agencies did not purchase any non-audit services from their auditor, the National Audit Office. Details of the non-cash auditors' remuneration of £131,000 (2016-17: £159,000) can be found in the accounts of the individual agencies.

#### NDPBs and other designated bodies

The cash remuneration of £2,353,105 (2016-17 restated: £2,487,347) relates to the statutory audit of NDPBs and other designated bodies. Of this amount, £1,943,700 (2016-17: £1,980,352) was payable to the NAO and £409,405 (2016-17 restated: £506,995) was payable to auditors other than the NAO.

In 2017-18, £nil was payable to the NAO (2016-17: £nil) and £123,079 was payable to auditors other than the NAO (2016-17: £182,093) for non-audit services. Further details can be obtained from the accounts of the NDPBs and other designated bodies.

Redundancy Payments Service
The Insolvency Service, an executive agency of the Department of Business, Energy and Industrial Strategy, is responsible for the approval and processing of claims under the Redundancy Payment Service (RPS), which is financed from the National Insurance Fund. Redundancy payments are made from the National Insurance Fund to employees whose employers have failed to make payments due or who were insolvent.

The Insolvency Service has a service level agreement with HM Revenue and Customs. Claims processed fall into two categories:

- RP1 (which covers redundancy pay, holiday pay and arrears of pay): an average amount of £3,329 was paid during 2017-18 for RP1 (2016-17: £2,829)
- RP2 (pay in lieu of notice): an average amount of £1,358 was paid during 2017-18 for RP2 (2016-17: £1,253)

There is associated income arising from two sources:

- Solvent Recovery – where money is recovered from solvent employers to meet the costs of redundancy payments made by the RPS
- Insolvent Recovery – the core Department becomes a creditor receiving a dividend if there are sufficient funds in the insolvency of the employer

Expenditure in respect of RPS in 2017-18 totalled £292 million (2016-17: £269 million) against income of £32 million (2016-17: £37 million). The net amount totalled £260 million (2016-17: £232 million).

## 4.2 Depreciation and impairment charges

| | 2017-18 | | 2016-17 restated | |
|---|---|---|---|---|
| | Core Department and Agencies | Departmental Group | Core Department and Agencies | Departmental Group |
| | £m | £m | £m | £m |
| Amortisation of recoverable contract costs | – | 227 | – | 203 |
| Depreciation | 20 | 257 | 23 | 260 |
| Amortisation | 2 | 26 | 5 | 34 |
| Impairment of property, plant and equipment | 2 | 48 | – | 76 |
| Impairment of intangible assets | – | – | – | 1 |
| Impairment of investments[1] | 67 | 108 | 417 | 288 |
| **Total** | **91** | **666** | **445** | **862** |

1 The 2017-18 investment impairment figure for core Department and Agencies includes £nil (2016-17: £138 million) impairment of Postal Services Holding Company Limited (PSH). This impairment is eliminated on consolidation and is treated as a downward revaluation movement in the Departmental Group, for which details are disclosed in note 10.1.

## 4.3 Provision expense

| | 2017-18 | | 2016-17 | |
|---|---|---|---|---|
| | Core Department and Agencies | Departmental Group | Core Department and Agencies | Departmental Group |
| | £m | £m | £m | £m |
| Increase/(decrease) in bad debt provision | 3 | 3 | (6) | (5) |
| Increase/(decrease) in provisions | 178 | 75,429 | 81 | 6,687 |
| Change in discount rate | | | | |
| Nuclear provisions | (17) | 70,985 | 69 | 4,964 |
| Other provisions | 47 | 1,594 | 28 | 35 |
| Other movements | 148 | 2,850 | (16) | 1,688 |
| Increase/(decrease) in financial guarantee liabilities | 1 | 1 | (3) | (3) |
| **Total** | **182** | **75,433** | **72** | **6,679** |

The significant increase in the provision expense was primarily driven by the change in discount rate. Further detail of the movements in provisions can be found in note 19.1 for Nuclear Provisions and note 19.2 for Other Provisions.

## 4.4 Grants

| | 2017-18 | | 2016-17 restated | |
|---|---|---|---|---|
| | Core Department and Agencies | Departmental Group | Core Department and Agencies | Departmental Group |
| | £m | £m | £m | £m |
| Research and development | 101 | 115 | 100 | 148 |
| Grant in aid | 8,179 | – | 7,501 | – |
| Post Office Network Reform | 45 | 45 | 80 | 80 |
| Market frameworks | 63 | 63 | 58 | 58 |
| Science and research | 2,377 | 5,695 | 2,346 | 4,861 |
| International Climate Fund | 307 | 311 | 332 | 332 |
| Global Threat Reduction Programme | 11 | 11 | 11 | 11 |
| Renewable Heat Incentive | 687 | 687 | 545 | 545 |
| Innovation programme | 136 | 667 | 437 | 1,244 |
| Energy Markets and Consumers | 9 | 8 | 7 | 7 |
| Heat Infrastructure Team | 9 | 9 | 13 | 13 |
| Other grants | 11 | (66) | (15) | (78) |
| **Total** | **11,935** | **7,545** | **11,415** | **7,221** |

## 4.5 Other operating expenditure

| | 2017-18 | | 2016-17 restated | |
|---|---|---|---|---|
| | Core Department and Agencies | Departmental Group | Core Department and Agencies | Departmental Group |
| | £m | £m | £m | £m |
| Profit on disposal of investments, share of loss or profits in joint ventures and minority interest | 3 | (72) | – | (107) |
| Revaluations of investments and specific bad debt write offs | (9) | (17) | (19) | (20) |
| **Total** | **(6)** | **(89)** | **(19)** | **(127)** |

# 5 Finance Expense

| | 2017-18 | | 2016-17 restated | |
|---|---|---|---|---|
| | Core Department and Agencies | Departmental Group | Core Department and Agencies | Departmental Group |
| | £m | £m | £m | £m |
| Change in fair value - Financial Assets | 4 | 28 | (3) | 36 |
| Net loss/(gain) on foreign exchange | – | 4 | 1 | (3) |
| Unrealised foreign exchange rate (gains)/losses | 2 | 3 | 1 | 3 |
| Bank charges | 1 | 1 | – | – |
| Interest payable | – | 27 | – | 3 |
| Expected return on funded pension scheme assets | – | – | – | (42) |
| Interest on pension liabilities | – | 37 | – | 38 |
| Borrowing costs on provisions | (26) | (1,306) | (28) | (1,300) |
| **Total** | **(19)** | **(1,206)** | **(29)** | **(1,265)** |

The impact of HM Treasury-prescribed negative discount rates for provisions was to increase undiscounted liabilities for the Departmental Group, the unwinding of which gave rise to a negative expense for borrowing costs on provisions.

# 6 Income

## 6.1 Operating income

| | 2017–18 | | 2016–17 restated | |
|---|---|---|---|---|
| | Core Department and Agencies | Departmental Group | Core Department and Agencies | Departmental Group |
| | £m | £m | £m | £m |
| **Income from sales of goods and services:** | | | | |
| Income from other Government departments: | | | | |
| Department of Health and Social Care funding for the Francis Crick Institute | – | – | 9 | 9 |
| European Union funding | 2 | 24 | 3 | 17 |
| Fees, charges and recharges to/from external customers and central Government organisations | 146 | 466 | 133 | 221 |
| Levy income | 9 | 818 | 20 | 154 |
| Sales of goods and services | 12 | 955 | 3 | 1,046 |
| Current grants and capital grants | 1 | 138 | 49 | 143 |
| Coal pension receipts | 742 | 742 | – | – |
| Venture capital and Repayable Launch Investments income | 102 | 102 | 26 | 28 |
| Miscellaneous income | 9 | 96 | 43 | 164 |
| **Total operating income** | **1,023** | **3,341** | **286** | **1,782** |

Income of £742 million was recognised in 2017-18 in relation to an additional sum receivable from the September 2017 valuation of the Mineworkers' Pension Scheme. Further detail of the Coal Pensions receivables is disclosed in note 14.

## 6.2 Finance income

| | Note | 2017–18 Core Department and Agencies | 2017–18 Departmental Group | 2016–17 restated Core Department and Agencies | 2016–17 restated Departmental Group |
|---|---|---|---|---|---|
| | | £m | £m | £m | £m |
| Effective interest: | | | | | |
| Repayable Launch Investments and other assets | 11.1 | 39 | 39 | 44 | 44 |
| Other | | 12 | 38 | 17 | 16 |
| Dividend and interest income | | 133 | 273 | 107 | 219 |
| **Finance income** | | **184** | **350** | **168** | **279** |

In 2017-18 the core Department recognised dividend income of £121 million (2016-17: £98 million). This includes a dividend of £88 million from Enrichment Holdings Limited (EHL) (2016-17: £86 million).

In 2017-18 the Departmental Group received dividend income of £124 million (2016-17: £124 million) included within the total dividend and interest income shown above of £273 million (2016-17 restated: £219 million). The Departmental Group recognised the 2017-18 year-end dividend from URENCO of £88 million (2016-17: £86 million).

# 7 Property, plant and equipment

## Departmental Group 2017-18

| Departmental Group 2017-18 | Land | Freehold Buildings | Dwellings | Leasehold Improvements | Information Technology | Plant and Machinery | Furniture, Fixtures and Fittings | Transport Equipment | Assets under Construction | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| **Cost or valuation** | | | | | | | | | | |
| **Balance at 1 April 2017** | **374** | **4,110** | **39** | **72** | **210** | **6,057** | **20** | **326** | **462** | **11,670** |
| Additions | – | 28 | – | 2 | 9 | 31 | 1 | 5 | 277 | 353 |
| Disposals | (64) | (142) | – | (3) | (15) | (42) | (4) | (5) | (1) | (276) |
| Impairments | – | (2) | – | – | (2) | (8) | – | – | (32) | (44) |
| Transfers in/(out) of boundary | – | (1) | – | – | (2) | – | 2 | – | 1 | – |
| Reclassifications | – | 22 | – | 3 | 27 | 151 | (1) | 1 | (205) | (2) |
| Revaluations | (7) | 40 | 1 | – | 5 | 19 | – | (3) | 4 | 59 |
| **At 31 March 2018** | **303** | **4,055** | **40** | **74** | **232** | **6,208** | **18** | **324** | **506** | **11,760** |
| **Depreciation** | | | | | | | | | | |
| **Balance at 1 April 2017** | **–** | **(2,816)** | **–** | **(37)** | **(149)** | **(5,051)** | **(13)** | **(182)** | **–** | **(8,248)** |
| Charged in year | – | (52) | (1) | (7) | (31) | (146) | (2) | (20) | – | (259) |
| Disposals | – | 116 | – | 2 | 13 | 34 | 3 | 4 | – | 172 |
| Impairments | – | – | – | – | – | (4) | – | – | – | (4) |
| Reclassifications | – | (1) | – | – | (1) | 2 | – | – | – | – |
| Revaluations | – | 4 | 1 | – | (3) | (12) | – | 3 | – | (7) |
| **At 31 March 2018** | **–** | **(2,749)** | **–** | **(42)** | **(171)** | **(5,177)** | **(12)** | **(195)** | **–** | **(8,346)** |
| **Carrying amount at 31 March 2018** | **303** | **1,306** | **40** | **32** | **61** | **1,031** | **6** | **129** | **506** | **3,414** |
| **Carrying amount at 31 March 2017** | **374** | **1,294** | **39** | **35** | **61** | **1,006** | **7** | **144** | **462** | **3,422** |
| **Asset financing:** | | | | | | | | | | |
| Owned | 291 | 1,306 | 40 | 32 | 58 | 1,031 | 6 | 123 | 506 | 3,393 |
| Finance leased | 12 | – | – | – | – | – | – | 6 | – | 18 |
| On balance sheet (SoFP) PFI and other service concession arrangements | – | – | – | – | 3 | – | – | – | – | 3 |

| Departmental Group 2017-18 | Land | Freehold Buildings | Dwellings | Leasehold Improvements | Information Technology | Plant and Machinery | Furniture, Fixtures and Fittings | Transport Equipment | Assets under Construction | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Carrying amount at 31 March 2018** | **303** | **1,306** | **40** | **32** | **61** | **1,031** | **6** | **129** | **506** | **3,414** |
| **Of the total:** | | | | | | | | | | |
| Core Department and Agencies | 18 | 93 | – | 29 | 2 | 75 | 1 | – | 58 | 276 |
| NDPBs and other designated bodies | 285 | 1,213 | 40 | 3 | 59 | 956 | 5 | 129 | 448 | 3,138 |
| **Carrying amount at 31 March 2018** | **303** | **1,306** | **40** | **32** | **61** | **1,031** | **6** | **129** | **506** | **3,414** |

| Departmental Group 2016-17 | Land | Freehold Buildings | Dwellings | Leasehold Improvements | Information Technology | Plant and Machinery | Furniture, Fixtures and Fittings | Transport Equipment | Assets under Construction | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| **Cost or valuation** | | | | | | | | | | |
| **Balance at 1 April 2016** | **417** | **4,051** | **36** | **75** | **229** | **6,598** | **22** | **323** | **416** | **12,167** |
| Additions | – | – | – | – | 7 | 36 | 2 | 5 | 293 | 343 |
| Disposals | (3) | (49) | – | – | (33) | (196) | (5) | (5) | (3) | (294) |
| Impairments | (10) | (9) | – | – | (9) | (23) | (1) | (7) | (22) | (81) |
| Transfers in/(out) of boundary | – | – | – | – | 1 | – | 1 | – | – | 2 |
| Reclassifications | (31) | 51 | (5) | (3) | 14 | (432) | – | 4 | (223) | (625) |
| Revaluations | 1 | 66 | 8 | – | 1 | 74 | 1 | 6 | 1 | 158 |
| **At 31 March 2017** | **374** | **4,110** | **39** | **72** | **210** | **6,057** | **20** | **326** | **462** | **11,670** |
| **Depreciation** | | | | | | | | | | |
| **Balance at 1 April 2016** | **(6)** | **(2,761)** | **–** | **(32)** | **(147)** | **(5,125)** | **(16)** | **(164)** | **–** | **(8,251)** |
| Charged in year | – | (54) | (1) | (7) | (37) | (171) | (2) | (19) | – | (291) |
| Disposals | 1 | 31 | – | – | 27 | 181 | 4 | 4 | – | 248 |
| Impairments | 6 | – | – | – | – | (2) | 1 | – | – | 5 |
| Reclassifications | – | – | – | 2 | 1 | 51 | – | – | – | 54 |
| Revaluations | (1) | (32) | 1 | – | 7 | 15 | – | (3) | – | (13) |
| **At 31 March 2017** | **–** | **(2,816)** | **–** | **(37)** | **(149)** | **(5,051)** | **(13)** | **(182)** | **–** | **(8,248)** |

| Departmental Group 2016-17 | Land | Freehold Buildings | Dwellings | Leasehold Improvements | Information Technology | Plant and Machinery | Furniture, Fixtures and Fittings | Transport Equipment | Assets under Construction | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Carrying amount at 31 March 2017** | **374** | **1,294** | **39** | **35** | **61** | **1,006** | **7** | **144** | **462** | **3,422** |
| **Carrying amount at 1 April 2016** | **411** | **1,290** | **36** | **43** | **82** | **1,473** | **6** | **159** | **416** | **3,916** |
| **Asset financing:** | | | | | | | | | | |
| Owned | 362 | 1,294 | 39 | 35 | 58 | 1,006 | 7 | 135 | 462 | 3,398 |
| Finance leased | 12 | – | – | – | – | – | – | 9 | – | 21 |
| On balance sheet (SoFP) PFI and other service concession arrangements | – | – | – | – | 3 | – | – | – | – | 3 |
| **Carrying amount at 31 March 2017** | **374** | **1,294** | **39** | **35** | **61** | **1,006** | **7** | **144** | **462** | **3,422** |
| **Of the total:** | | | | | | | | | | |
| Core Department and Agencies | 18 | 102 | – | 32 | 7 | 73 | 2 | – | 30 | 264 |
| NDPBs and other designated bodies | 356 | 1,192 | 39 | 3 | 54 | 933 | 5 | 144 | 432 | 3,158 |
| **Carrying amount at 31 March 2017** | **374** | **1,294** | **39** | **35** | **61** | **1,006** | **7** | **144** | **462** | **3,422** |

Property, plant, and equipment (PPE) held by the Departmental Group

The professional valuations of land and buildings undertaken within the Departmental Group were prepared in accordance with the Royal Institute of Chartered Surveyors (RICS) Valuation Standards (6th Edition), the 'Red Book'. Unless otherwise stated, land and buildings are professionally revalued every five years and where appropriate in the intervening period, relevant indices are used. The most significant land and buildings at 31 March 2018 were held by Nuclear Decommissioning Authority (NDA), Medical Research Council (MRC), Biotechnology and Biological Sciences Research Council (BBSRC), Science and Technology Facilities Council (STFC) and Natural Environment Research Council (NERC). Revaluations for these entities were conducted by Powis Hughes Limited (for MRC), and GVA Grimley Limited (for NDA, BBSRC and STFC). NERC assets were jointly revalued by GVA Grimley Limited and Powis Hughes Limited.

In accordance with the FReM, the majority of leasehold improvements, information technology, furniture, fixtures and fittings and plant and machinery are held at depreciated historic cost as a proxy for fair value as the assets have short useful lives or low values. Land, freehold buildings, dwellings, transport equipment and the remainder of plant and machinery are held at fair value based on professional valuations.

Within the Departmental Group, a variety of valuation techniques are used depending upon whether the PPE asset is a specialised asset or a non-specialised asset. Where the PPE asset is a specialised asset, then a depreciated replacement cost valuation is used, for example by scientific institutes. Where the PPE asset is a non-specialised asset, then an existing-use valuation is used, for example for land and office buildings. Depreciated replacement cost (DRC) valuations are based on a number of unobservable inputs; these would be classified as level 3 in accordance with IFRS 13 'Fair Value Measurement'. Existing-use value (EUV) valuations are based on a number of market corroborated but unobservable inputs e.g. land valuations are based on similar prices per hectare adjusted for the specific location of the land, whilst other EUV valuations use specific unobservable inputs, e.g. rental yields. The EUV valuations inputs are classified as level 2 and level 3 in accordance with IFRS 13 'Fair Value Measurement'.

The Departmental Group does not hold any material individual PPE assets. Therefore there are no individually material level 3 assumptions included in the overall Departmental Group fair value of PPE. For there to be a material movement in the fair value of PPE, this would require a significant increase in a number of level 3 valuation assumptions across the Departmental Group. This is unlikely, given that the fair value movement in PPE in 2017-18 was £52 million (2016-17: £145 million).

Further information can be found in the financial statements of the individual bodies' accounts.

# 8 Intangible Assets

| Departmental Group 2017-18 | Assets under Construction | Information Technology | Software Licences | Websites | Patents | Total |
|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m |
| **Cost or Valuation** | | | | | | |
| **Balance at 1 April 2017 (restated)** | **7** | **139** | **52** | **1** | **267** | **466** |
| Additions | 20 | 10 | 3 | – | – | 33 |
| Disposals | – | (3) | (1) | – | – | (4) |
| Reclassifications | (21) | 6 | 17 | – | – | 2 |
| Transfers in/(out) | 1 | – | – | – | – | 1 |
| Revaluations | – | – | 1 | – | 30 | 31 |
| **At 31 March 2018** | **7** | **152** | **72** | **1** | **297** | **529** |
| **Amortisation** | | | | | | |
| **Balance at 1 April 2017 (restated)** | **–** | **(107)** | **(28)** | **(1)** | **(227)** | **(363)** |
| Charged in year | – | (11) | (6) | – | (8) | (25) |
| Disposals | – | 3 | 1 | – | – | 4 |
| Reclassifications | – | 1 | (1) | – | – | – |
| **At 31 March 2018** | **-** | **(114)** | **(34)** | **(1)** | **(235)** | **(384)** |
| **Carrying amount at 31 March 2018** | **7** | **38** | **38** | **–** | **62** | **145** |
| **Carrying amount at 31 March 2017** | **7** | **32** | **24** | **–** | **40** | **103** |
| **Asset financing:** | | | | | | |
| Owned | 7 | 38 | 38 | – | 62 | 145 |
| **Carrying amount at 31 March 2018** | **7** | **38** | **38** | **–** | **62** | **145** |
| **Of the total:** | | | | | | |
| Core Department and Agencies | 3 | 2 | 4 | – | – | 9 |
| NDPBs and other designated bodies | 4 | 36 | 34 | – | 62 | 136 |
| **Carrying amount at 31 March 2018** | **7** | **38** | **38** | **–** | **62** | **145** |

| Departmental Group 2016-17 (restated) | Assets under Construction | Information Technology | Software Licences | Websites | Patents | Total |
|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m |
| **Cost or Valuation** | | | | | | |
| **At 1 April 2016** | **17** | **130** | **24** | **1** | **268** | **440** |
| Additions | 4 | 15 | 16 | – | – | 35 |
| Disposals | (1) | – | (1) | – | – | (2) |
| Impairments | – | (2) | – | – | – | (2) |
| Reclassifications | (12) | (6) | 13 | – | – | (5) |
| Transfers in/(out) | (1) | 2 | – | – | – | 1 |
| Revaluations | – | – | – | – | (1) | (1) |
| **At 31 March 2017** | **7** | **139** | **52** | **1** | **267** | **466** |
| **Amortisation** | | | | | | |
| **At 1 April 2016** | **–** | **(93)** | **(19)** | **(1)** | **(220)** | **(333)** |
| Charged in year | – | (18) | (10) | – | (7) | (35) |
| Disposals | – | – | 1 | – | – | 1 |
| Impairments | – | 1 | – | – | – | 1 |
| Reclassifications | – | 3 | – | – | – | 3 |
| **At 31 March 2017** | **–** | **(107)** | **(28)** | **(1)** | **(227)** | **(363)** |
| **Carrying amount at 31 March 2017** | **7** | **32** | **24** | **–** | **40** | **103** |
| **Carrying amount at 1 April 2016** | **17** | **37** | **5** | **–** | **48** | **107** |
| **Asset financing:** | | | | | | |
| Owned | 7 | 32 | 24 | – | 40 | 103 |
| **Carrying amount at 31 March 2017** | **7** | **32** | **24** | **–** | **40** | **103** |
| **Of the total:** | | | | | | |
| Core Department and Agencies | 4 | 1 | 1 | – | – | 6 |
| NDPBs and other designated bodies | 3 | 31 | 23 | – | 40 | 97 |
| **Carrying amount at 31 March 2017** | **7** | **32** | **24** | **–** | **40** | **103** |

All software licences are acquired separately.

All Information Technology (IT) assets are internally generated. IT assets are initially classified as assets under construction and are not amortised until they are commissioned, at which time they are re-classified as IT.

The Departmental Group holds its intangible assets at valuation. In accordance with the FReM, the Departmental Group adopts cost less amortisation as a proxy for fair value as the intangible assets have short lives. The exception to this are patents which are held at fair value based on a valuation model.

The model uses a variety of assumptions to estimate the value of future income streams from the patents to determine the fair value; these include an estimate for future royalty income derived from the consensus forecast data from industry specialists, which are adjusted for expected future USD/GBP exchange rates, the territories in which the patents are applicable and potential threats to future income (such as competitor products and regulatory approval). In accordance with IFRS 13 'Fair Value Measurement', these assumptions would be classed as level 3 assumptions. The carrying amount of the patents at year end is £62 million (2016-17: £40 million) and there would need to be a substantial increase in expected royalty income to result in a material increase in the fair value of the patents.

# 9 Derivative financial instruments

The most significant items included within Derivatives on the Consolidated Statement of Financial Position (SoFP) are the Contracts for Difference (CfDs).

### Contracts for Difference (CfDs)

Contracts for Difference (CfDs) are a mechanism used to support investment in UK low carbon generation projects. CfDs have been established as a contract between the 'Generator' and the Low Carbon Contracts Company Ltd (LCCC), a company wholly owned by the Government and consolidated within the Department's accounts.

CfDs, other than the CfD relating to Hinkley Point C (HPC) nuclear generating plant, have been classified as derivatives in accordance with IAS 39 'Financial Instruments: Recognition and Measurement' and recognised at their 'fair value' by deferring the difference between fair value and transaction price. Any subsequent gain or loss in fair value is recognised in the Statement of Comprehensive Net Expenditure. The HPC CfD has not been recognised in these accounts and its accounting treatment is described under heading 'Hinkley Point C' of this note.

The fair value of any derivative is assessed by reference to IFRS 13 'Fair Value Measurement', which provides three options for assessment. Fundamentally the value should always reference an open market place but where no market place exists, an option is available for internally generated fair value. The different options are hierarchical and classed as Level 1, 2, or 3 inputs, where Level 1 is based on market prices, Level 2 is based on observable data other than market prices and Level 3 is used where Level 1 or 2 data is unavailable.

The fair value of the Department's CfDs has been calculated using the income approach based on Level 3 inputs, which reflects the present value (PV) of future cash flows that are expected to occur over the contract term of the CfD. The discount rate which has been used to determine the PV for financial reporting is the Financial Instrument real rate of 0.7% set by HM Treasury Public Expenditure System (PES) Secretariat on 11 December 2017.

By contrast, for investment decisions and project appraisal the Department is required to use the social discount rate of 3.5% published in HM Treasury's Green Book. As the cash flows are expected to occur over a 35 year period from 2025 to 2060 the valuation for financial reporting based on the 0.7% discount rate will be significantly higher than the economic valuation based on the 3.5% discount rate, even where all other inputs are the same.

The deferred difference between the fair value of the liability on day one and the transaction price is amortised over the contract life of the CfDs, which commences from the earlier of i) the actual start date of generation or ii) the end of the Target Commissioning Window (TCW) identified in the CfD, as this is the point at which the contractual liability will start to unwind (i.e. it is the point at which the potential payment period under the CfD commences).

The significance of these two dates is that they are the part of the contractual provisions which determine when the right to potential CfD payments starts. The contract payment period is typically for 15 years, but specific exceptions exist:

- for contracts relating to biomass conversion which have an expiration date in 2027
- the contract for HPC nuclear generating plant which will expire at the earlier of 35 years after the start date of the second reactor or when the total CfD payments made have reached the Generation Cap (i.e. 910,000,000 MWh)

CfDs may be signed many years in advance of actual generation. The main benefit to generators is the fact that they can derive economic benefit from these contracts across the payment period life of the contract and the added certainty which the CfD contract provides helps them to finance the project.

Under the legislation, there is an obligation placed on licensed electricity suppliers to fund the CfD liabilities as they crystallise through the Supplier Obligation Levy. The future levy amounts which will be received from the licensed suppliers will be accounted for within the LCCC and will be triggered by the generation and supply of low carbon electricity.

As at 31 March 2018 the LCCC was counterparty to 56 contracts recognised in the accounts (at 31 March 2017: 40 contracts). Of those, 16 contracts were signed that were successful in the 2017 allocation round. The liability associated with Hinkley Point C has not been recognised in the accounts and is further explained below.

## Measurement differences relating to day one recognition

The transaction price for CfDs differs from the fair value at initial recognition measured using a valuation model, mainly because the transaction price is not established in an active market. If there are significant unobservable inputs used in the valuation technique (Level 3), the financial instrument is recognised at the transaction price, and any difference between the transaction price and fair value at initial recognition measured using a valuation model is deferred.

The following table represents the difference between the CfD liability at initial recognition and at the reporting date:

| | Core Department and Agencies | LCCC CfDs | Departmental Group Total |
|---|---|---|---|
| | £m | £m | £m |
| **CfD liability as at 31 March 2016 recognised on the Consolidated Statement of Financial Position** | **1,337** | **11,270** | **12,607** |
| CfD liability transferred during the year | (1,111) | 1,111 | – |
| CfD reinstated during the year | – | 575 | 575 |
| Re-measurement of the CfD liability | (226) | (571) | (797) |
| Payments to the CfD generators | – | (92) | (92) |
| Deferred difference recognised during the year | – | 41 | 41 |
| **CfD liability as at 31 March 2017 recognised on the Consolidated Statement of Financial Position** | **–** | **12,334** | **12,334** |
| Re-measurement of the CfD liability | – | 3,720 | 3,720 |
| Payments to the CfD generators | – | (544) | (544) |
| Deferred difference recognised during the year | – | 382 | 382 |
| **CfD liability as at 31 March 2018 recognised on the Consolidated Statement of Financial Position** | **–** | **15,892** | **15,892** |
| Other non-CfD liabilities as at 31 March 2018 | – | – | 12 |
| **Carrying value of non-current derivative liabilities as at 31 March 2018** | **–** | **15,892** | **15,904** |

The net movement in the fair value of CfDs is recognised in the Statement of Comprehensive Net Expenditure.

Movement in deferred measurement differences

The following table shows the movement in deferred day one loss.

| | Core Department and Agencies | LCCC CfDs exc. HPC | Departmental Group Total |
|---|---|---|---|
| | £m | £m | £m |
| **Deferred measurement differences as at 31 March 2016** | **1,499** | **16,536** | **18,035** |
| Measurement differences deferred relating to a reinstated CfD | – | 1,085 | 1,085 |
| Measurement differences deferred on contract transferred within the Group | (1,499) | 1,499 | – |
| Deferred measurement differences recognised during the year | – | (41) | (41) |
| **Deferred measurement differences as at 31 March 2017** | **–** | **19,079** | **19,079** |
| Measurement differences deferred during the year | – | 4,612 | 4,612 |
| Deferred measurement differences recognised during the year | – | (382) | (382) |
| **Deferred measurement differences as at 31 March 2018** | **–** | **23,309** | **23,309** |

Fair value measurement of CfDs

The fair value of CfDs (which excludes the HPC CfD which has not been recognised in these accounts) represents the LCCC's best estimate of the payments which the LCCC will be committed to make, if and when the generators supply low carbon electricity in accordance with their contractual terms. They are based upon the estimates of future fossil fuel prices, estimated using the central projections of fossil fuel prices and rising carbon prices to forecast the potential liabilities using the Dynamic Dispatch Model (DDM) owned by the Department.

Should no low carbon electricity be supplied in accordance with the contractual terms, then the LCCC is not under any obligation to make these payments.

Fair value of CfDs (financial liabilities at fair value through profit and loss)

### Reconciliation of CfDs

The following table shows the impact of the fair value of all CfDs which have been recognised in these accounts, classified under Level 3, by using the assumptions described below (all held by LCCC):

| | Core Department and Agencies | LCCC CfDs exc. HPC | Departmental Group Total |
|---|---|---|---|
| | £m | £m | £m |
| **As at 31 March 2016** | **2,836** | **27,806** | **30,642** |
| CfD reinstated during the year | – | 1,660 | 1,660 |
| Transferred during the year | (2,610) | 2,610 | – |
| Change in fair value during the year | (226) | (571) | (797) |
| Payments to the CfD generators | – | (92) | (92) |
| **As at 31 March 2017** | **–** | **31,413** | **31,413** |
| Additions during the year | – | 4,612 | 4,612 |
| Change in fair value during the year | – | 3,720 | 3,720 |
| Payments to the CfD generators | – | (544) | (544) |
| **As at 31 March 2018** | **–** | **39,201** | **39,201** |

The additions in the year reflect the contracts that were signed in the 2017 allocation round.

The most significant components of the changes in fair value during the year were as follows:

- changes to price series (wind and solar capture prices) – lower forecast market reference prices for wind and solar technologies have resulted in a £1.6 billion increase in the CfD liability. 2017-18 was the first time separate capture prices for wind and solar technologies have been incorporated, representing a revision in the estimation basis
- inflation – adjustments to Consumer Price Index (CPI) inflation inputs have increased the expectation of future cash flows resulting in a £1.7 billion increase in the CfD liability
  - £0.7 billion is the result of a one-off revision in estimation basis. Under the previous basis the strike price input assumed 2012 prices adjusted for inflation. The revised method uses actual strike prices incorporating inflation and other adjustments
  - £1.0 billion is driven by the increase in CPI inflation inputs between 2017 and 2018

The fair value of the unquoted contracts has been estimated using a discounted cash flow model. This method involved the projection of a series of cash flows and application of a discount rate to establish the present value of the expenses associated with the liability. The valuation requires management to make certain assumptions about the model inputs, including cash flows, the discount rate, credit risk and volatility.

Key assumptions (excluding HPC CfD)

The probabilities of the various estimates within the range can be reasonably assessed and are used in management's estimate of fair value for these unquoted contracts. Annual cash flow is estimated as reference price less strike price multiplied by estimated generation delivered. The series of cash flows is then discounted using the HM Treasury discount rate of 0.7% (2016-17: 0.7%). The following six assumptions are key to the CfD valuation:

### a) Transmission Loss Multiplier (TLM)

TLM reflects the fact that electricity is lost as it passes through the transmission system from generators to suppliers. If the TLM is incorrect, this will have implications for the volume of electricity subject to CfD payments. Any change in TLM will be corrected through adjustments in strike prices although the change in TLM is expected to be immaterial.

### b) Start date

Generators nominate a Target Commissioning Date (TCD) in their binding application form for a CfD, and this date is specified in their CfD following contract award. However, the generator is free to commission at any time within their Target Commissioning Window (TCW), a period of one year from the start of the TCW for most technologies, with no penalty, or after the end of the TCW and up to their 'Longstop Date' (one to two years after the end of the TCW depending on technology) with a penalty in the form of reduction of contract length for each day they are late in commissioning after the end of the TCW. The contract can be terminated if the generator has not commissioned 95% (or 85% for offshore wind) of their revised installed capacity estimate by the end of the Longstop Date. Any change to the start date will change the timing of future cash flows and impact on the discounted fair value. The valuation uses the most recent estimate from generators on the start date.

### c) Strike price

The strike price is an agreed price which determines the payments made to the generator under the contract with reference to its low carbon output and the market reference price. The relevant strike price is specified in each CfD and is not intended to change for the duration of the project, other than through indexation to CPI and certain network charges, or in the event of certain qualifying changes in law. The strike price is updated to reflect the CPI rate for January 2018, in line with the requirements of the CfD contract.

### d) Future forecast wholesale electricity prices

Forecast wholesale electricity prices are derived from the DDM which has been developed by the Department to facilitate/inform policy decisions by modelling investor behaviour in response to fuel and carbon prices and policy environment. The DDM estimates the wholesale price by:

- using the Short Run Marginal Cost (SRMC) for each plant
- using daily demand for electricity, taking into account wind profiles, inter-connector flows, pumped storage, auto-generation and wind generation
- using a mark-up on the price derived from historic data and the difference between marginal price and cost affected by reduced capacity

Economic, climate, policy, generation and demand assumptions are external inputs to the model including demand load curves for both business and non-business days and seasonal impacts. Specific assumptions can also be modelled for domestic and non-domestic sectors and smart meter usage.

The forecast trajectory of electricity prices is uncertain. In the valuation, the central case from the DDM has been used. The DDM also produces low and high cases. These have been included in the sensitivity analysis.

In the valuation, the wholesale price has been reduced to reflect the price the wind generator is likely to receive. On windy days, the price that wind generators receive is likely to be reduced. The effect of reduced prices for wind generation adds approximately £3 billion to the valuation.

### e) Installed capacity

The figure for the maximum installed capacity was provided by the generator in its application for a CfD and specified in its CfD contract following allocation. The installed capacity cannot be increased after contract signature, but can be reduced by the generator by no more than 25% with no penalty between contract signature and the completion of the first contractual milestone by its contractual deadline (i.e. the Milestone Requirement which must be completed 12 months after contract award). Thereafter the installed capacity figure can only be reduced by the generator for a permitted contractual construction event (which is a narrowly defined concept) or by the difference by which the relevant project has an installed capacity of 95% (or 85% in the case of offshore wind) of its current contractual installed capacity figure and 100%. The actual output of the generator will depend on the load factor.

### f) Load factor

Load factor is defined as the actual power output of a project as a proportion of its rated installed capacity. It is a percentage figure which is used to transform installed capacity into actual power output (generation). Load factor assumptions are based on reference factors published by the Department for given technology types; however, actual power outputs are sensitive to technological and environmental factors which may impact actual cash flows.

Sensitivity analysis (excluding HPC CfD)

The following table shows the impact on the fair value of CfDs, classified under Level 3 in accordance with IFRS 13 'Fair Value Measurement', by using reasonable possible alternative assumptions:

**Change in fair value of CfDs recognised in the accounts if:**

| | Favourable changes | Unfavourable changes |
|---|---|---|
| | £m | £m |
| Electricity prices decrease by 10% | – | 2,708 |
| Electricity prices increase by 10% | 2,708 | – |
| 10% more load factor | – | 3,919 |
| 10% less load factor | 3,919 | – |
| Estimated Commissioning Date moves back by one year | 333 | – |
| Generation starts at earliest possible date | – | 155 |
| DDM low case | – | 5,585 |
| DDM high case | 4,637 | – |

The fair value is highly dependent upon the actual capacity generated once the plant is built and the electricity prices which will prevail at the time of generation. The favourable and unfavourable changes show how the impact of changes in capacity and prevailing electricity prices will affect the fair value of CfDs due to the change in the level of cash flows. The Group auditors continue to include an emphasis of matter paragraph in their audit certificate concerning the uncertainty around valuation of these CfD contracts.

Significant unobservable inputs

The following table discloses the valuation techniques and significant unobservable inputs for CfDs recognised at fair value and classified as Level 3, along with the range of values used for these significant unobservable inputs.

| | Fair value of CfDs | Valuation technique | Significant unobservable inputs | Range | Units |
|---|---|---|---|---|---|
| | £m | | | (min-max) | |
| 2017 | 31,413 | DCF | Future electricity prices | 35.20-53.42 | £/MWh |
| 2018 | 39,201 | DCF | Future electricity prices | 37.13-63.25 | £/MWh |

Hinkley Point C

The Department entered into the Hinkley Point C (HPC) CfD on 29 September 2016. This project has a maximum capacity of 910,000,000 MWh. The HPC contract will expire at the earlier of 35 years after the start date of the second reactor or when the total CfD payments made have reached the Generation Cap (i.e. 910,000,000 MWh).

The valuation of HPC CfD requires that an assumption be made of wholesale electricity prices in each year to 2060. The Department uses its Dynamic Despatch Model to develop scenario-based estimates of future wholesale electricity prices. This model currently extends only as far as 2050 and the Department has therefore assumed flat wholesale prices for the ten years 2050-2060. Moreover there is an inherent limitation in accurate estimation beyond 2040 because there is a paucity of independent third-party information beyond this point from which to validate the Department's assumptions. The unavoidable uncertainty over possible scenarios so far into the future extend to a variety of factors including electricity demand, fossil fuel prices, generation mix, carbon prices and technology.

Under International Financial Reporting Standards (IFRS) the Conceptual Framework sets out the concepts which underlie the preparation and presentation of financial statements. The Conceptual Framework deals with, amongst other things, the definition, recognition and measurement of the elements from which financial statements are constructed. Paragraph 4.38 of the Conceptual Framework states that an element should be recognised in the accounts if:

a) it is probable that any future economic benefit associated with the item will flow to or from the entity

b) the item has a cost or value that can be measured with reliability (defined as: using information that is complete, neutral and free from error)

In comparison to other CfDs the Department considers the CfD for HPC to be unique. The European Pressurised Reactor is a much more complex asset than the wind turbines or bio-mass generators associated with the Department's other CfDs. It has very high levels of safety, reinforcement and containment incorporated into the design, which make it more expensive and complex to build and result in a significant lead time before generation commences (planned for 2025). Until these challenges are overcome and the asset is built, no payments will be made by the Department under the CfD. This unavoidably long lead time before generation commences is relevant to condition (a) above.

The HPC CfD contract duration is also more than double (35 years) the length of other CfDs (15 years) so far entered into by the Department. This makes it considerably more challenging to provide a single point fair value estimate, as required for accounting purposes, as that requires estimation of future wholesale electricity prices in every year out to 2060. This means that there are considerable but unavoidable uncertainties in creating a fair value estimate for the HPC CfD because of the unusually long time period involved.

Uncertainty increases with time and so the choice of discount rate plays a significant part in determining how much uncertainty is weighted into a present value calculation; a higher discount rate places less weight on increasingly more uncertain later years of a present value calculation. For example, in conducting the economic appraisal for the HPC project the Department used the social discount rate of 3.5% per year, as required by the HM Treasury Green Book. However for valuing financial instruments like CfDs the Department is obliged to use the financial instrument discount rate of 0.7%, as required by the Government Financial Reporting Manual. Therefore, compared to an economic appraisal, a present value estimate for a financial instrument includes progressively more weight from the less certain later years of the appraisal period. For comparison, using the social discount rate leads to a valuation of

£19.1 billion compared to £36.8 billion using the financial instrument discount rate of 0.7%.

This is particularly relevant to the HPC CfD fair value because external forecasts for wholesale electricity prices are not currently readily available beyond 2040. It has not been possible for the Department to satisfactorily verify whether a single point fair value estimate for the HPC CfD is complete, neutral and free from error. (Verifiability is one of the qualitative characteristics of useful financial information for financial statements as set out in the Conceptual Framework.) The Department has therefore concluded that for the time being the HPC CfD fails to meet the recognition criteria (b) as outlined above. Therefore, the HPC CfD has not been recognised as a transaction in these primary statements.

The Department has nonetheless set out below its best estimation of the fair value of the contract, and the assumptions which have been considered in its valuation, in the interests of transparency. This follows a 'Level 3' methodology under IFRS 13 'Fair Value Measurement', which allows for use of the entity's own models and assumptions.

Fair value measurement of HPC

The Department has set out below its best estimation of the fair value of the contract, and the assumptions which have been considered in its valuation. This follows a Level 3 methodology under IFRS 13 'Fair Value Measurement', which allows for use of the entity's own models and assumptions. This disclosure is consistent with IAS 39 'Financial Instruments' where the initial recognition of a financial instrument like the HPC CfD requires a deferred liability disclosure rather than a transaction of the initial fair value estimate through the primary statements.

The following table provides an analysis of the fair value of HPC, grouped into Levels 1 to 3 within the fair value hierarchy based on the degree to which the fair value is observable:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| As at 31 March 2017 | – | – | 28,824 | 28,824 |
| **As at 31 March 2018** | **–** | **–** | **36,585** | **36,585** |

The Department's estimate of the fair value of the liabilities under the HPC CfD at 31 March 2018 is £36,585 million. This represents a £7,761 million (27%) increase on the valuation prepared to 31 March 2017. The most significant components of the changes in fair value during the year were as follows:

- changes in wholesale electricity price forecasts – volatility of post-2040 price forecasting has resulted in a £5.5 billion increase in the CfD liability. This is derived from the Department's DDM
- inflation – adjustments to the estimation basis, consistent with the method applied for other CfDs, and an increase in the CPI inflation input have resulted in a £1.9 billion increase in the CfD liability

Information on other factors which impact on the fair value of HPC is set out below.

Start date

The Target Commissioning Date (TCD: current expected start date) for reactor one and reactor two of the HPC project are 1 December 2025 and 1 June 2026 respectively.

The generator is free to commission at any time within their Target Commissioning Window (TCW), with no penalty, or after the end of the TCW and up to their 'Longstop Date' (one to two years after the end of the TCW depending on technology) with a penalty in the form of reduction of contract length for each day they are late in commissioning after the end of the TCW. The contract can be terminated if the generator has not commissioned a reactor by the end of the Longstop Date. The TCW for reactor one is 1 May 2025 to 30 April 2029. The TCW for reactor two is 1 November 2025 to 31 October 2029. The Longstop Date is 31 October 2033.

Any change to the start date will change the timing of future cash flows and impact on the discounted fair value.

Equity gain share for Hinkley Point C

The equity gain share mechanism consists of two separate components: (i) a mechanism to capture gains above specified levels where the HPC project outperforms relative to the original base case assumptions; and (ii) a mechanism to capture gains above specified levels arising from the sale of equity and economic interests (direct or indirect) in the HPC project.

In each case, as and when the Internal Rate of Return (IRR) thresholds are reached:

- if the relevant IRR is more than 11.4%, the LCCC will receive 30% of any gain above this level
- if the relevant IRR is more than 13.5%, the LCCC will receive 60% of any gain above this level

Installed Capacity

HPC which does not have an installed capacity cap, is only entitled to CfD payment support up to a Generation Cap of 910,000,000 MWh.

Strike price

The strike price is an agreed price which determines the payments made to the generator under the contract with reference to its low carbon output and the market reference price. The relevant strike price is specified at £92.50 in real 2012 terms and is not intended to change for the 35 year contract duration, other than through indexation to CPI and certain network charges, or in the event of certain qualifying changes in law.

In addition to the factors mentioned above, HPC's strike price change is also subject to the following three additional factors:

### 1. Construction gain share for HPC

If the construction costs of HPC come in under budget, the strike price will be adjusted downwards so that the gain (or saving) is shared with the LCCC. The gain share is 50/50 for the first billion pounds, with savings in excess of this figure being shared 75% to the LCCC and 25% to the generator, NNB Generation Company (HPC) Limited (NNBG).

If the outturn cost of construction is less than assumed, then by reducing the strike price the amounts paid out to NNBG under the CfD will reduce and hence the benefit of the lower construction costs is shared between NNBG and ultimately consumers. There is, however, no similar upward adjustment if the construction cost of HPC is over budget.

### 2. OPEX reopener for HPC

The strike price may be adjusted upwards if the operational expenditure costs are more than assumed and downwards if they are less. There are two operational expenditure reopener dates, at 15 years and 25 years after the first reactor start date. The rationale behind the reopener is that the strike price is based on long-term assumptions on operational expenditure costs. The reopener provides a way of mitigating long-term cost risks for both parties.

### 3. Sizewell C strike price adjustment for HPC

If the Sizewell C condition is not satisfied on or before the reactor one start date, there shall be no strike price adjustment. However, if the Sizewell C condition is satisfied after the reactor one start date, then the applicable strike price shall be reduced with effect from the date of satisfaction of the Sizewell C condition by £3/MWh.

Sensitivity analysis

Using a Level 3 technique to assess the value of the HPC CfD is permissible when there is no observable input against which to assess the valuation. The Department has used internally generated models and assumptions consistent with an emissions pathway towards the Government's decarbonisation commitments to generate the wholesale electricity price scenarios used in the valuation of the HPC CfD. There is unavoidable uncertainty inherent in all such modelling and as such the results should be interpreted as a range of plausible scenarios rather than a single point value. However, IFRS 13 'Fair Value Measurement' requires that a single amount be declared for fair value and so to satisfy this condition the Department has adopted its central scenario when valuing the HPC CfD. In the sensitivity analysis a high and a low case scenario have also been included.

To provide transparency for the reader it is important to highlight the uncertainty inherent in material values over a long period of time such is the nature of this CfD. The predicted price series from the DDM between 2025 and 2050 (flat-lined from 2050 to 2060) has a higher degree of certainty in the early years (2025-2040) and a lower degree of certainty in later years (2040-2060). This is due to the lack of available market data against which to judge the output.

The Department has illustrated some empirical impact of changes in assumptions on the fair value of the HPC CfD (in 2016 prices). These are shown in the table below:

Change in fair value of HPC if:

| | Favourable changes | Unfavourable changes |
|---|---|---|
| | £m | £m |
| Electricity prices decrease by 10% | – | 4,154 |
| Electricity prices increase by 10% | 4,154 | – |
| At generation cap | – | 116 |
| 10% less load factor | 3,659 | – |
| Estimated commissioning date moves back one year | 295 | – |
| Generation starts one year earlier | – | 312 |
| Sizewell C strike price adjustment for HPC | 2,534 | – |
| Low wholesale price scenario | – | 4,781 |
| High wholesale price scenario | 10,117 | – |

The low DDM case assumptions are similar to reference scenario but with lower projected fossil fuel prices, the high case assumes higher projected fossil fuel prices.

# 10 Investments and loans in other public sector bodies

| | Ordinary shares | Public Dividend Capital | Other loans and investments | Core Department and Agencies Total | Elimination of shares and other investments and loans held in NDPBs | NDPBs Ordinary Shares | Departmental Group Total |
|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m |
| **Balance at 1 April 2016 restated** | **2,617** | **81** | **210** | **2,908** | **(2,119)** | **537** | **1,326** |
| Additions | 753 | – | 168 | 921 | (822) | – | 99 |
| Impairments | (148) | – | – | (148) | 148 | – | – |
| Revaluations | 18 | – | – | 18 | – | (115) | (97) |
| Reclassification | (1,517) | – | (5) | (1,522) | 1,517 | – | (5) |
| Unwinding of discount | – | – | 3 | 3 | – | – | 3 |
| Loans repayable within 12 months transferred to current assets | – | – | (9) | (9) | – | – | (9) |
| **Balance at 31 March 2017 restated** | **1,723** | **81** | **367** | **2,171** | **(1,276)** | **422** | **1,317** |
| Additions | 393 | – | 243 | 636 | (556) | 30 | 110 |
| Disposals | (7) | – | – | (7) | 7 | – | – |
| Redemptions | – | – | (22) | (22) | 22 | – | – |
| Impairments | 23 | – | – | 23 | (23) | – | – |
| Revaluations | 214 | – | – | 214 | – | 8 | 222 |
| Unwinding of discount | – | – | 1 | 1 | – | – | 1 |
| Loans repayable within 12 months transferred to current assets | – | – | (20) | (20) | – | – | (20) |
| **Balance at 31 March 2018** | **2,346** | **81** | **569** | **2,996** | **(1,826)** | **460** | **1,630** |

## 10.1 Ordinary Shares in other public sector bodies

| | 31 March 2018 | | 31 March 2017 | |
|---|---|---|---|---|
| | Core Department and Agencies | Departmental Group | Core Department and Agencies | Departmental Group |
| | £m | £m | £m | £m |
| **Balance at 1 April** | **1,723** | **1,086** | **2,617** | **1,146** |
| Additions | 393 | 30 | 753 | 37 |
| Disposals | (7) | – | – | – |
| (Impairments) / Impairment reversal | 23 | – | (148) | – |
| Revaluations | 214 | 221 | 18 | (97) |
| Reclassification | – | – | (1,517) | – |
| **Balance at 31 March** | **2,346** | **1,337** | **1,723** | **1,086** |
| Comprising | | | | |
| Ordinary Shares held within the Departmental boundary – held at cost | 1,466 | – | 1,059 | – |
| Ordinary Shares held outside the Departmental boundary – held at fair value | 880 | 1,337 | 664 | 1,086 |
| **Balance at 31 March** | **2,346** | **1,337** | **1,723** | **1,086** |

Ordinary Shares in other public sector bodies held within the Departmental boundary

In accordance with the FReM, ordinary shares held within the Departmental boundary are carried at historical cost less any provision for impairment. They are eliminated on consolidation.

### Green Investment Bank Limited (GIB)

The core Department held 1,567,450,000 shares of £1 each (31 March 2017: 1,517,450,000) in GIB. BEIS made £50 million (31 March 2017: £483 million) capital injections into GIB during the year in exchange for share capital. The £50 million addition is included in the non-current assets held for sale (note 15).

On 20 March 2017, the core Department had committed to the sale of GIB. The core Department's shareholding in GIB met the classification criteria of a non-current asset held for sale in accordance with IFRS 5. The shareholding was reviewed for impairment (of which no impairment was identified) prior to being reclassified as a non-current asset held for sale. On 17 August 2017, the Department disposed of the full shareholding in GIB. A realised profit on disposal of £186 million has been recognised as shown in note 15.

### UK Green Infrastructure Platform Limited (UK GIP)

On 17 August 2017, immediately after the sale of GIB, the core Department acquired 900 shares (90% of the share capital) of UK GIP, each with a nominal value of £1. The transaction involved additions in ordinary share capital shown in the totals above of £93 million and a shareholder loan of £40 million. The total loan outstanding at 31 March 2018 was £31 million which is included within the loans and investments in public sector bodies note.

UK GIP was established to enable Government to retain an interest in five existing GIB investments. The Green Investment Group is the remaining 10% shareholder. The primary activity of UK GIP is to hold green investments and identify opportunities to realise them in a way which returns best value for taxpayers' money.

### British Business Bank Plc (BBB)

The core Department holds 1,371,407,933 ordinary shares (31 March 2017: 1,071,407,935), each with a nominal value of £1. The core Department made £300 million (31 March 2017: £234 million) of share capital additions in BBB during the year. The core Department's holding had a cost of £1,371 million at 31 March 2018 (31 March 2017: £1,046 million).

The principal objective of the company is to address long-standing, structural gaps in the supply of finance and bring together in one place Government finance support for small and mid-sized businesses.

### UK Shared Business Services Limited (UKSBS)

The core Department holds 62,016,358 non-voting shares and one voting share in UKSBS, held at cost less provision for impairment of £3 million at 31 March 2018 (31 March 2017: £6 million).

The company is a specialist business services organisation that provides finance, procurement, grants, information systems and HR and payroll services to the public sector. Its main objective is to improve the economy, efficiency and effectiveness of corporate services to the core Department and its Partner Organisations.

### Postal Services Holding Company Limited (PSH)

The Secretary of State owns 50,005 ordinary shares in PSH which is 100% of the issued share capital at a historic cost of £430 million at 31 March 2018 (31 March 2017: £430 million). The Secretary of State also owns one special share in PSH, relating to certain areas for which Special Shareholder's consent is required.

The core Department's holding had a cost less provision for impairment of £nil at 31 March 2018 (31 March 2017: £7 million), due to a return of capital from PSH to BEIS core of £6.9 million. In addition, PSH's holding of Post Office Limited (POL) shares was transferred to the core Department. PSH is currently in the process of liquidation on the cessation of its primary activities.

The principal objective of the company prior to cessation was to hold and manage its shares in POL.

### Low Carbon Contracts Company Limited (LCCC)

The core Department holds one ordinary share in LCCC with a nominal value of £1.

The principal objective of the company is to be the counterparty to and manage Contracts for Difference (CfDs) throughout their lifetime.

### Electricity Settlements Company Limited (ESC)

The core Department holds one ordinary share in ESC with a nominal value of £1.

The principal objective of the company is to oversee settlement of the Capacity Market agreements.

### Enrichment Holdings Limited (EHL)

The core Department holds two shares of £1 each in EHL with a nominal value of £2.

EHL has been set up as a holding company, along with a subsidiary company, Enrichment Investments Limited (EIL), solely to hold the Government's one third share in URENCO Limited, an entity operating in the civil uranium enrichment sector.

### BIS (Postal Services Act 2011) Company Limited

The core Department holds one ordinary share in BIS (Postal Services Act 2011) Company Limited with a nominal value of £1.

The principal objective of the company is to dispose of the assets transferred to it from the Royal Mail Pension Plan (RMPP).

### South Tees Site Company Limited (STSC)

The core Department holds one ordinary share in STSC with a nominal value of £1.

The principal objective of the company is to secure and manage the South Tees Site.

## Ordinary Shares held outside of the Departmental boundary

Shares held outside of the Departmental boundary are carried at fair value in accordance with IAS 39.

### Post Office Limited (POL)

The core Department holds 100% of the shares in the Postal Services Holding Company Limited (PSH), the company which up to 12 June 2017, wholly owned the shareholding of POL and up to the end of 2015-16 held the Department's investment in Royal Mail plc.

PSH held 50,003 ordinary shares in POL at a nominal value of £1 each which is 100% of the issued share capital. There is a special share in POL (nominal value of £1) which is held directly by the Secretary of State.

On 12 June 2017, the shareholding in POL, with a value of £nil, was transferred to the core Department. This shareholding is held at fair value, but as there is no active market for these shares the net asset value of POL is considered to be a reasonable approximation for fair value. The fair value of the investments, held by the core Department, as at 31 March 2018 was £195 million (31 March 2017: £nil when the investment was held by PSH).

The principal objective of POL is to provide retail post office services through its national network of branches.

### British Nuclear Fuels Limited (BNFL)

The core Department holds 50,000 ordinary shares in BNFL at a nominal value of £1 each. The Secretary of State holds 49,999 ordinary shares and the Treasury Solicitor holds one ordinary share.

The core Department's shareholding is held at fair value, but because there is no active market for these shares the net asset value of BNFL is considered to be a reasonable approximation of fair value. The fair value as at 31 March 2018 was £324 million (31 March 2017: £324 million).

### Ordnance Survey Limited (OSL)

The core Department holds 34,000,002 ordinary shares in OSL at a nominal value of £1 each which is 100% of the issued share capital.

The shareholding is held at fair value, but as there is no active market for these shares the net asset value of OSL is considered to be a reasonable approximation for fair value. The fair value as at 31 March 2018 was £196 million (31 March 2017: £189 million).

The principal objective of OSL is to produce mapping products and mapping data information.

### NPL Management Limited (NPLML)

The core Department holds 57 ordinary shares in NPLML which is 100% of the issued share capital.

The shareholding is held at fair value, but as there is no active market for these shares the net asset value of NPLML is considered to be a reasonable approximation for fair value. The fair value as at 31 March 2018 was £85 million (31 March 2017: £75 million).

### NNL Holdings Limited (NNLH)

The core Department holds two shares of £1 each in NNLH with a nominal value of £1 each.

NNLH has been set up as a holding company, to hold all the shares in the National Nuclear Laboratory Limited.

The shareholding is held at fair value but because there is no active market for these shares the net asset value of NNLH is considered to be a reasonable approximation of fair value. The fair value as at 31 March 2018 was £78 million (31 March 2017: £76 million).

### Nuclear Liabilities Fund

The primary objective of the Nuclear Liabilities Fund Limited is to produce sufficient returns to cover the cost of decommissioning eight existing nuclear power stations, all now owned by EDF Energy Nuclear Generation Limited (EDFE) and to cover certain of EDFE's uncontracted liabilities (principally the removal and storage of spent fuel). A remote contingent liability has been disclosed in relation to these costs in the Parliamentary Accountability and Audit Report.

The Fund is owned by the Nuclear Trust, the members of which also constitute the Fund's Board. The Secretary of State has powers to set the Fund's investment policy and appoints three of the trustees; the other two trustees are appointed by EDFE. In addition to the ordinary shares jointly owned by the trustees, the Secretary of State and EDFE each own a special share in the Fund (note 10.4). The fair value of the Fund (i.e. assets less liabilities as recognised in the accounts) as at 31 March 2018 was £nil (31 March 2017: £nil).

### NDA subsidiaries

The NDA controls the following subsidiaries, all of which are outside the Departmental Group boundary and not consolidated into these accounts. The holdings are valued at fair value. As there is no active market, the net assets of the entities are considered the most appropriate approximation of fair value, and amounted to £459 million as at 31 March 2018 (31 March 2017: £422 million).

| Name | Country of incorporation | Nature of business | Holding entity | Proportion of ordinary shares held |
|---|---|---|---|---|
| Direct Rail Services Limited | UK | Rail transport services within the UK | NDA | 100% |
| International Nuclear Services France SAS (i) | France | Transportation of spent fuel | NDA | 100% |
| International Nuclear Services Japan KK (i) | Japan | Transportation of spent fuel | NDA | 100% |
| International Nuclear Services Limited | UK | Contract management and the transportation of spent fuel, reprocessing products and waste | NDA | 100% |
| NDA Properties Limited | UK | Property management | NDA | 100% |
| Pacific Nuclear Transport Limited (i) | UK | Transportation of spent fuel, reprocessing products and waste | NDA | 68.75% |
| Rutherford Indemnity Limited | Guernsey | Nuclear insurance | NDA | 100% |

(i) Ownership through International Nuclear Services Limited.

## 10.2 Public Dividend Capital (PDC)

| | Companies House | UKIPO | Met Office | Total |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| **Balance at 1 April 2016** | **16** | **6** | **59** | **81** |
| Additions | – | – | – | – |
| Redemptions | – | – | – | – |
| Impairments | – | – | – | – |
| **At 31 March 2017** | **16** | **6** | **59** | **81** |
| Additions | – | – | – | – |
| Redemptions | – | – | – | – |
| Impairments | – | – | – | – |
| **At 31 March 2018** | **16** | **6** | **59** | **81** |

PDC is held by the core Department.

In accordance with the FReM, PDC is carried at historical cost less any impairment.

### 10.2.1 Share of net assets and results for Public Dividend Capital holdings outside the Departmental consolidation boundary

The Department is required to disclose its share of the net assets and the results for the year of other public sector bodies, which are outside of the departmental boundary. The following disclosures relate to the Department's trading funds.

| | Companies House | UKIPO | Met Office |
|---|---|---|---|
| | £m | £m | £m |
| Net Assets/(Liabilities) at 31 March 2017 | 79 | 85 | 246 |
| Turnover | 66 | 88 | 227 |
| Surplus/profit (deficit/loss) for the year before financing | 7 | 7 | 5 |
| Net Assets/(Liabilities) at 31 March 2018 | 80 | 92 | 258 |
| Turnover | 69 | 96 | 230 |
| Surplus/profit (deficit/loss) for the year before financing | 5 | 10 | 20 |

For all bodies, information for 2017-18 was derived from their draft unaudited accounts. The information for 2016-17 was derived from their audited accounts. The accounts were prepared on an IFRS basis, in accordance with the requirements of the FReM.

## 10.3 Other investments and loans in public sector bodies

| | | 31 March 2018 | | 31 March 2017 Restated |
|---|---|---|---|---|
| | Core Department and Agencies | Departmental Group | Core Department and Agencies | Departmental Group |
| | £m | £m | £m | £m |
| **Balance at 1 April** | **367** | **150** | **210** | **99** |
| Additions | 243 | 80 | 168 | 62 |
| Repayments | (22) | – | – | – |
| Unwinding of discount | 1 | – | 3 | 3 |
| Reclassification | – | – | (5) | (5) |
| Revaluations | – | 1 | – | – |
| Loans repayable within 12 months transferred to current assets | (20) | (20) | (9) | (9) |
| **Balance at 31 March** | **569** | **211** | **367** | **150** |

Core Department

Loans in other public sector bodies

Loans in other public sector bodies are classified as 'loans and receivables' and measured at amortised cost in accordance with IAS 39.

The balance comprises a number of loans to public sector bodies, the most significant loans making up the balance are detailed below.

Energy Efficiency Loans

The core Department's energy efficiency loans scheme was set up under the Environmental Protection Act 1990 to help businesses and public sector organisations reduce their energy costs by providing interest free loans for the implementation of energy efficiency projects. The total carrying amount with public sector bodies is £180 million at 31 March 2018 (31 March 2017: £137 million). The non-current element of the loans is £141 million at 31 March 2018 (31 March 2017: £107 million) included in the table above; the current element of these loans is £39 million at 31 March 2018 (31 March 2017: £30 million), which is included in note 16.

These loans are to non-consolidated public sector entities and are not eliminated on consolidation.

Fleetbank Funding Limited Loan (Enable Funding programme)

The core Department's loan to Fleetbank Funding Limited is to provide funding to support the Enable Funding programme, managed by the British Business Bank. This was launched in November 2014 and aimed at improving the provision of asset and lease finance to smaller UK businesses.

The carrying amount of the Fleetbank Funding Limited loan is £205 million at 31 March 2018 (31 March 2017: £130 million).

This loan is to an entity that is consolidated within these financial statements and the loan is eliminated on consolidation.

Northern Powerhouse Investment Limited and Midlands Engine Investment Limited Loans

The core Department has loans with Northern Powerhouse Investment Fund and Midlands Engine Investment Fund. The funds are matched by funding from the European Investment Bank. The funds are set up to provide commercially-focused finance to help small and medium-sized enterprises start up and grow.

The carrying amount of the loan investments in these entities is £63 million at 31 March 2018 (31 March 2017: £58 million). The loan investments were made during 2016-17.
The loans are accounted for at cost under IAS 27 in the core Department and Agencies column.

These loans are to consolidated bodies and are eliminated on consolidation.

## 10.4 Special Shares

The Secretary of State holds one Special Share in each of the entities listed below. The list is a summary and not a comprehensive record of the terms of each respective shareholding. Further details can be obtained from the annual report and financial statements of each body or their Articles of Association.

The core Department does not recognise the special or 'golden' shares on its Statement of Financial Position.

| Body in which Share is held and type and value of Share | Significant terms of Shareholding |
|---|---|
| Postal Services Holding Company Limited<br>£1 Special Rights Preference Share | • created in January 2001 (formerly called Royal Mail Holdings plc)<br>• it may be redeemed at any time by the shareholder<br>• the consent of the special shareholder is required for a number of decisions, including:<br>– appointments to the Board (the special shareholder can also make appointments to the Board)<br>– setting (and approving any material changes in) the remuneration packages of the Directors<br>– borrowing<br>– disposing of substantial assets of the business and shareholdings<br>– voluntary winding-up of the company<br>– varying certain of the company's Articles of Association, including the rights of the special shareholder |
| Post Office Limited ('POL")<br>£1 Special Rights Redeemable Preference Share | • created in April 2012<br>• special Shareholder is entitled to attend and speak at any general meeting or any meeting of any other class of shareholders of POL, but the Special Share does not carry voting rights or any other rights at any such meeting<br>• it may be redeemed at any time by the Special Shareholder. POL cannot redeem the Special Share without prior consent of the Special Shareholder<br>• the consent of the special shareholder is required for a number of decisions, including:<br>– varying POL's Articles of Association, including the rights of the special shareholder<br>– appointment or removal from office of any Director of POL<br>– approval of (including material variations) Directors' remuneration and terms of employment<br>– adoption of (and any material variation in) POL's strategic plan<br>– substantial alterations in the nature of the business carried on by POL<br>– sale of material assets in the absence of which POL would not be able to deliver its strategic plan<br>– incurring of any borrowing exceeding pre-set limits as agreed with HM Treasury<br>– issuing or allotment of shares or granting of share rights in the company<br>– voluntary winding-up of the company or member of the group<br>– any transaction which will result in a commitment or liability – either individually or when taken together with related relevant transactions – of an amount in excess of £50m |
| BAE Systems plc<br>£1 Special Rights Preference Share | • created in 1985 (but subsequently amended)<br>• no time limit<br>• provides for a 15% limit on any individual foreign shareholding, or group of foreign shareholders acting in concert, in the company<br>• requires a simple majority of the Board and the Chief Executive to be British<br>• requires any Executive Chairman to be British and, if both the Chairman and Deputy Chairman are non-executives, requires at least one of them to be British |

| Body in which Share is held and type value of Share | Significant terms of Shareholding |
| --- | --- |
| Rolls Royce Holdings plc<br><br>£1 Special Rights Non-Voting Share | • created in 1987 (but subsequently amended and transferred to Rolls-Royce Holdings plc)<br>• no time limit<br>• provides for a 15% limit on any individual foreign shareholding, or group of foreign shareholders acting in concert, in the company<br>• requires a simple majority of the Board to be British<br>• allows either the Chairman or the Chief Executive to be either an EU or US citizen provided that the other is a British citizen<br>• provides for a veto over the material disposal of assets of the group<br>• provides for a veto for a proposed voluntary winding up |
| EDF Energy Nuclear Generation Group Limited (formerly British Energy Group plc)<br><br>£1 Special Share | • British Energy Group plc Special Share created on 13 January 2005 and held jointly by the Secretary of State for Business, Energy and Industrial Strategy and the Secretary of State for Scotland<br>• 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:<br>– various amendments to the company's Articles of Association<br>– any purchase of more than 15% of the company's shares<br>– the issue of shares carrying voting rights of 15% or more in the company<br>– variations to the voting rights attaching to the company's shares<br>– 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 Limited (formerly British Energy Holdings plc)<br><br>£1 Special Share | • British Energy Holdings plc Special Share created on 13 January 2005 and held jointly by the Secretary of State for Business, Energy and Industrial Strategy and the Secretary of State for Scotland<br>• 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:<br>– various amendments to the company's Articles of Association; and<br>– 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 case |
| EDF Energy Nuclear Generation Limited (formerly British Energy Generation Ltd)<br><br>£1 Special Share | • British Energy Generation Ltd Special Share created in 1996 is held solely by the Secretary of State for Business, Energy and Industrial Strategy<br>• 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:<br>– various amendments to the company's Articles of Association<br>– the disposal of any of the nuclear power stations owned by the company<br>– prior to the permanent closure of such a station, the disposal of any asset which is necessary for the station to generate electricity |

| Body in which Share is held and type and value of Share | Significant terms of Shareholding |
|---|---|
| British Energy Ltd (formerly British Energy plc)<br><br>£1 Special Share | • British Energy plc Special Share created in 1996 is held solely by the Secretary of State for Business, Energy and Industrial Strategy.<br>• 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:<br>– various amendments to the company's Articles of Association<br>– 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<br>• the company has no significant assets or liabilities as a result of the restructuring scheme, which came into effect on 14 January 2005. |
| Nuclear Liabilities Fund Ltd<br><br>£1 Special Rights Redeemable Preference Share | • created in 1996.<br>• the Secretary of State for Business, Energy and Industrial Strategy has a Special 'A' Share (there is also a 'B' Share held by British Energy)<br>• the consent of the Special Shareholder is required for any of the following:<br>– to change any of the provisions in the Memorandum of Association or Articles of Association<br>– to alter the share capital or the rights attached thereto<br>– the company to create or issue share options<br>– the 'B' Special Shareholder or any of the Ordinary shareholders to dispose or transfer any of their rights in their shares<br>– the company to pass a members voluntary winding-up resolution<br>– the company to recommend, declare or pay a dividend<br>– the company to create, issue or commit to give any loan capital<br>– the company to issue a debenture<br>– the company to change its accounting reference date |

## 10.5 Membership Fund

The Secretary of State for Business, Energy and Industrial Strategy has a share in the membership fund of the Carbon Trust. The members' fund at 31 March 2018 was £nil (31 March 2017: £nil).

# 11 Other financial assets

| | Note | 31 March 2018 Core Department and Agencies | 31 March 2018 Departmental Group | 31 March 2017 restated Core Department and Agencies | 31 March 2017 restated Departmental Group |
|---|---|---|---|---|---|
| | | £m | £m | £m | £m |
| **Balance at 1 April** | | **1,485** | **4,083** | **1,639** | **4,554** |
| Transfer | | – | 1 | – | 7 |
| Reclassifications | | – | – | 5 | (1,267) |
| Additions | | 17 | 839 | 17 | 1,372 |
| Repayments | | (284) | (605) | (206) | (544) |
| Effective interest | | 39 | 39 | 45 | 45 |
| Unwinding of discount | | – | – | – | 2 |
| Amortisation | | – | (1) | – | – |
| Revaluations | | (83) | 23 | (7) | (11) |
| Impairments | | (4) | (57) | (8) | (75) |
| Impairment reversals | | – | 14 | – | – |
| **Balance at 31 March** | | **1,170** | **4,336** | **1,485** | **4,083** |
| Comprising: | | | | | |
| Repayable Launch Investments | 11.1 | 1,047 | 1,047 | 1,205 | 1,205 |
| Other loans and investments | 11.2 | 123 | 3,289 | 280 | 2,878 |
| **Balance at 31 March** | | **1,170** | **4,336** | **1,485** | **4,083** |

### Other financial assets analysed between current and non-current assets:

| | 31 March 2018 Core Department and Agencies | 31 March 2018 Departmental Group | 31 March 2017 restated Core Department and Agencies | 31 March 2017 restated Departmental Group |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Due within twelve months | 142 | 142 | 1 | 1 |
| Due after twelve months | 1,028 | 4,194 | 1,484 | 4,082 |
| **Balance at 31 March** | **1,170** | **4,336** | **1,485** | **4,083** |

## 11.1 Repayable Launch Investments

| | 31 March 2018 Core Department and Agencies | 31 March 2018 Departmental Group | 31 March 2017 Core Department and Agencies | 31 March 2017 Departmental Group |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| **Balance at 1 April** | **1,205** | **1,205** | **1,389** | **1,389** |
| Repayments | (103) | (103) | (144) | (144) |
| Effective interest | 39 | 39 | 44 | 44 |
| Revaluations | (94) | (94) | (84) | (84) |
| **Balance at 31 March** | **1,047** | **1,047** | **1,205** | **1,205** |

Repayable Launch Investments are held by the core Department.

The core Department has determined that Repayable Launch Investments are to be classified as 'available for sale financial assets' and measured at fair value, in accordance with IAS 39.

The core Department, under the provisions of the 1982 Civil Aviation Act, provides Repayable Launch Investment to companies to fund a proportion of the non-recurring eligible design and development capital costs on civil aerospace development products. Each product supported is covered by separate contractual terms and conditions. Under these contracts, periodic repayments become due when products are delivered or at other specific points. The portfolio of investments is valued twice annually and the valuations are based on forecast annual income arising under each contract.

**Measurement and carrying values**

Repayable Launch Investment contracts are initially recognised at fair value which is the transaction price. After initial recognition, the value is the discounted forecast value of future income streams, excluding accrued income which is included in receivables when products are delivered. The value of future income streams is predominantly driven by the core Department's view of the applicable programme's performance in the global market over the period of the contract's life; a number of activities inform this view and some are described below.

The core Department uses a variety of sources to inform a forecast of deliveries for individual programmes. This can include using: an internal delivery forecast model and market share model, forecast delivery schedules and other data directly provided from the RLI recipient companies, publicly available aircraft delivery forecasts, specifically commissioned consultant programme forecasts as well as commentary and views from industry experts.

The approach taken is entirely dependent on the programme in question. Other valuation variables include inflation measures – or proxies (such as RPI, RPIX, gilt rates and GDP deflators). Some contracts entitle the core Department to a share of aircraft or engine spare part and support income, and the valuation of these contracts is based on analysis of past income streams and forecasts of future demand. The forecast income streams are adjusted by inflation of 2.45% and then are discounted to present value using a constant discount rate of 3.5% representing the effective rate of return of the investment portfolio.

The carrying value of Repayable Launch Investments is influenced by the interaction of key drivers such as aircraft or engine deliveries and economic variables. The core Department uses Monte-Carlo simulation to understand the effect of different scenarios for these drivers on the valuation of each contract. The core Department considers that the carrying value is a reasonable approximation of the fair value of Repayable Launch Investments.

Where the valuation exceeds historical cost, increases in value are taken to the revaluation reserve and are released to the Consolidated Statement of Comprehensive Net Expenditure as investments are realised. Any permanent diminution in value is charged to the Consolidated Statement of Comprehensive Net Expenditure. Fluctuations in fair value are adjusted through the revaluation reserve. The balance on the Revaluation Reserve pertaining to Repayable Launch Investments was a £235 million credit at 31 March 2018 (31 March 2017: £268 million credit).

The carrying value of the investments derived from the discounted cash flow model at 31 March 2018 was £1,047 million (31 March 2017: £1,205 million). The historic cost, including repayments to date and excluding accrued income, of the portfolio at 31 March 2018 was £527 million (31 March 2017: £600 million).

**Sensitivity analysis**

The core Department has developed a Monte-Carlo based approach which uses the software package @Risk to assess the impact of uncertainty on forecast income, overall contract values, and enhance the robustness of the valuation process. Uncertainties are addressed by constructing different scenarios for the key drivers and then assigning probabilities to these scenarios to implement a Monte-Carlo simulation of the contracts on a contract-by-contract basis. The key variables include: programme development delays, changes to entry into service and out of service dates, production levels, market shares and economic variables used as inflation measures.

The contracts are highly complex and generally distinct from each other in their terms and structure, yet there are cases of significant interdependencies between contracts and correlations between variables.

The model is iterated ten thousand times to produce distributions of income for each contract and thus the overall portfolio. Each iteration of the model produces an income forecast. These are collated and used to form an income distribution. It is from this distribution that the value of the portfolio is calculated.

In order to give an assessment of potential volatility for the portfolio, we calculate the 5th and 95th percentiles from the income distribution – 90% of all the iterations outputted from the Monte-Carlo simulation lie between these particular percentile points. The lower (5th) and upper (95th) points which define this interval were £999 million and £1,076 million respectively, at 31 March 2018 (2016-17: £1,179 million and £1,229 million).

**Risk**

Market Risk
This constitutes the largest area of potential risk in the portfolio as the primary method of the calculation of income streams is based on the forecasts of aircraft or engine deliveries. The core Department uses internal analysis, company information and third party information to forecast deliveries and ultimately future income on each investment over the life of the investment period. Deliveries in the short term are driven by variables which include manufacturer production plans, market cycles, customer demand and availability of financing. Medium and longer-term deliveries will be affected by overall market growth and the market attractiveness of an aircraft programme. A negative shift in outlook may result in the core Department not being able to recover its investment in whole or in part, although once deliveries have commenced some level of income is usually due to the core Department. The core Department aims to minimise risk of under-recovery of investments by carrying out a full evaluation of each business case submitted for launch investment support, and by monitoring programmes for the substantive life of the contracts to allow it to assess exposure to risks (including project risk, market risk and technical risk).

Interest Rate Risk
A number of the contracts use retail price indexes (such as RPI and RPIX) or other surrogates as a tool to inflate the value of income due to the core Department over time. As such there is a risk relating to the forecasting of these indexes and surrogates within the valuation, although we estimate that the risk is relatively low and the overall impact relatively minor.

Foreign Exchange Risk
The core Department has a small number of contracts which may deliver a US Dollar denominated income in their later stages which would be translated into pounds sterling. We assess these income streams as relatively low value and low likelihood, thus exchange rate risk exists but is minimal in the context of the overall portfolio.

Credit Risk
Company failure could result in the core Department's investment not being recovered in whole or in part. The core Department seeks to offset this low probability risk by analysing the financial health of any applicant at the time of application for launch investment and reviewing financial health as part of the programme monitoring activity. In addition, contracts aim to contain provisions which will (as a minimum) not disadvantage the core Department compared to other creditors in the event of a corporate failure. The core Department takes steps to monitor the payments that become due to companies under launch investment contracts to ensure they comply with the terms of the contracts. Finally, the contracts also require the company's auditors to confirm that all payments have been made correctly and to identify any errors made.

Other Risk
The core Department's investments are exposed to wider risks such as economic downturns or market shocks from natural or non-natural events. These risks may adversely impact the value and timing of the income received by the core Department. The core Department seeks to manage this risk by actively monitoring such events when they arise to assess any potential impact.

## 11.2 Other loans and investments

| | Gilts and bonds | Term deposits | Private sector loans | Property related holdings | Equities (listed securities) | Private equities | Investment funds | Other investments | Total |
|---|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| **Balance at 1 April 2016 restated** | **55** | **15** | **590** | **83** | **206** | **485** | **1,049** | **682** | **3,165** |
| Transfers in/(out) | – | – | 6 | – | – | – | – | 1 | 7 |
| Reclassifications | – | – | (255) | – | – | – | (51) | (961) | (1,267) |
| Additions | – | – | 232 | – | 70 | 14 | 275 | 781 | 1,372 |
| Redemptions | (12) | (1) | (131) | (23) | (41) | (118) | (81) | 7 | (400) |
| Revaluations | 3 | – | (6) | 5 | 31 | 62 | 108 | (130) | 73 |
| Effective interest | – | – | 1 | – | – | – | – | – | 1 |
| Unwinding of discount | – | – | 2 | – | – | – | – | – | 2 |
| Impairments | – | – | (16) | – | – | – | (55) | (4) | (75) |
| **Balance at 31 March 2017 restated** | **46** | **14** | **423** | **65** | **266** | **443** | **1,245** | **376** | **2,878** |
| Additions | 12 | – | 306 | – | – | 7 | 299 | 215 | 839 |
| Redemptions | – | – | (111) | (23) | (18) | (98) | (220) | (32) | (502) |
| Revaluations | 1 | – | (3) | – | 21 | (35) | 23 | 110 | 117 |
| Impairments | – | – | (17) | – | – | – | (40) | – | (57) |
| Impairment reversals | – | – | – | – | – | – | 14 | – | 14 |
| **Balance at 31 March 2018** | **59** | **14** | **598** | **42** | **269** | **317** | **1,321** | **669** | **3,289** |
| **Of the total:** | | | | | | | | | |
| Core Department and Agencies | – | – | 2 | – | – | – | 121 | – | 123 |
| NDPBs and other designated bodies | 59 | 14 | 596 | 42 | 269 | 317 | 1,200 | 669 | 3,166 |
| **Balance at 31 March 2018** | **59** | **14** | **598** | **42** | **269** | **317** | **1,321** | **669** | **3,289** |

Core Department

### Investment Funds

Investment Funds are classified as 'available for sale financial assets' and measured at fair value in accordance with IAS 39. After initial recognition the carrying value is based upon the valuations prepared by the fund managers. They are taken from the most recent set of annual Accounts for each of the funds and, where available, updated with interim fund manager valuations. These investments support private sector led venture capital to stimulate private investment into early stage small and medium-sized enterprise (SME) businesses.

The UK Innovation Investment Fund (UKIIF) was the largest Investment Fund of the core Department. The Fund was announced in June 2009 to drive economic growth and create highly-skilled jobs by enabling investment in growing small businesses, start-ups and spin-outs in key technology areas such as life sciences, clean technology and low carbon, digital technologies, and advanced manufacturing. The funds are managed by two private sector fund managers – Hermes GPE and the European Investment Fund. On 14 July 2017, UKIIF was transferred to British Business Investments Limited (BBIL), a subsidiary of the British Business Bank (BBB). At the point of transfer the fair value of the fund was £134 million. In exchange for the investment fund transferring to BBIL, BBB issued £134 million of share capital to the core Department.

NDPBs and other designated bodies

### Gilts and Bonds

The Nesta Trusts hold investments in bonds. The investments in corporate bonds are classified as 'available-for-sale financial assets', and are measured at fair value in accordance with IAS 39 based on market quotes. The value of bonds held by the Nesta Trusts as at 31 March 2018 was £59 million (31 March 2017: £46 million).

### Private sector loans

BBB, Fleetbank Funding Ltd and Science and Technology Facilities Council have entered into loan agreements with parties within the private sector. The loans within the Departmental Group are carried at historic cost as a proxy for amortised cost because the NDPBs and other designated bodies have determined that there is no material difference between historical cost and amortised cost. As at 31 March 2018, £596 million of loans were held by NDPBs and other designated bodies (31 March 2017: £304 million).

During the reporting period BBB made loans of £239 million (31 March 2017: £70 million) to private companies through the BFP Small Business and Investment Programme schemes. The fair value of loans held by BBB as at 31 March 2018 was £397 million (31 March 2017: £170 million). The conditions attached to each loan vary depending on the details of the arrangement. Repayment schedules have been agreed and all loans are expected to be repaid at the end of the loan term.

During 2017-18, FFL made loans of £66 million (31 March 2017: £34 million) to private companies through the Enable Loan Programme scheme. The fair value of loans held by FFL as at 31 March 2018 was £189 million (31 March 2017: £122 million).

### Property related holdings

BIS (Postal Services Act 2011) Company Ltd have property related holdings of £42 million at 31 March 2018 (31 March 2017: £65 million). The holdings relate to a number of marketable real estate investment funds which are held as 'available for sale financial assets' in accordance with IAS 39.

### Equities (listed securities)

At 31 March 2018 the Departmental Group held £269 million of listed equities (31 March 2017: £266 million). The investments are held by Nesta Trust.

### Private Equities

BIS (Postal Services Act 2011) Company Limited, Nesta Trust, STFC and NERC have investments in private equity. These investments have been classified as 'available for sale' assets in accordance with IAS 39. The value invested at 31 March 2018 was £317 million (31 March 2017: £443 million).

The fair value of the remaining investments in BIS (Postal Services Act 2011) Company Limited as at 31 March 2018 was £305 million (31 March 2017: £428 million). These investments primarily comprised investments in European and North American unquoted shares.

The fair values are estimated based on a variety of valuation techniques, adopted by the investment managers that comply with the International Private Equity and Venture Capital (PEVC) Valuation Guidelines or the valuation guidelines produced by the British Venture Capital Association (BVCA). Valuation techniques used include the use of earnings multiples, discounted cash flows analysis, and net asset values.

### Investment Funds

BBB, Nesta Trust and BIS (Postal Services Act 2011) Company Limited hold investment funds. The value invested at 31 March 2018 was £1,200 million (31 March 2017: £968 million). In accordance with IAS 39, the investments of BBB and Nesta Trust are classified as 'available for sale' assets, those of BIS (Postal Services Act 2011) Company Limited are held at 'fair value through profit and loss'.

BBB held investment funds valued at £1,195 million at 31 March 2018 (31 March 2017: £956 million). The most significant investment is in the Business Finance Partnership (BFP) for medium-sized businesses at 31 March 2018, this was valued at £551 million (31 March 2017: £584 million). The BFP aims to increase the supply of capital through non-bank lending channels and, in the longer-term, to help to diversify the sources of finance available to businesses. BBB also has an investment fund in Enterprise Capital Funds which were valued at £182 million at 31 March 2018 (31 March 2017: £155 million). BBB provides invoice discount finance and peer to peer lending through the Investment Programme funds which were valued at £242 million at 31 March 2018 (31 March 2017: £122 million).

### Other Investments

Other investments includes Enrichment Holdings Limited investment in URENCO. This is measured as an 'available for sale' financial asset in accordance with IAS 39. The fair value of this investment at 31 March 2018 was £456 million (31 March 2017: £350 million).

UK Green Infrastructure Platform Limited holds investments which are classified as 'available for sale' in accordance with IAS 39. The fair value of these investments as at 31 March 2018 was £132 million (31 March 2017: £nil).

The remaining other investments are held by Nesta Trust, Northern Powerhouse Investment Fund Limited, Medical Research Council, UK Climate Investments and Midlands Engine Investments Limited and are classified as 'available for sale' in accordance with IAS 39. The fair value of these other investments at 31 March 2018 was £80 million (31 March 2017: £26 million).

# 12 Recoverable contract costs

The Group has commercial agreements in place under which some or all of the expenditure required to settle nuclear provisions will be recovered from third parties. Net recoverable costs at 31 March 2018 were £3,346 million (31 March 2017: £2,870 million).

| Recoverable contract costs relating to nuclear provisions | 31 March 2018<br>Departmental Group | 31 March 2017<br>Departmental Group |
|---|---|---|
| | £m | £m |
| Gross recoverable contract costs | 6,789 | 6,885 |
| Less applicable payments received on account | (3,192) | (3,445) |
| Less associated contract loss provisions | (251) | (570) |
| **Balance at 31 March** | **3,346** | **2,870** |

The above balances relate to the Nuclear Decommissioning Authority (NDA). The movements in gross recoverable contract costs during the year were:

| | 31 March 2018<br>Departmental Group | 31 March 2017<br>Departmental Group |
|---|---|---|
| | £m | £m |
| **Gross recoverable contract costs at 1 April** | **6,885** | **7,221** |
| Increase/(decrease) in year | 472 | 175 |
| Unwinding of discount | (49) | (42) |
| Release in year – continuing operations | (291) | (266) |
| Amortisation of recoverable contract costs | (228) | (203) |
| **Gross recoverable contract costs at 31 March** | **6,789** | **6,885** |

The gross balance of recoverable contract costs of £6,789 million (31 March 2017: £6,885 million) comprises £1,783 million (31 March 2017: £2,011 million) of past costs which were incurred before the revenue recognition period of the related contracts and will be amortised in future years in line with revenue and £5,006 million (31 March 2017: £4,874 million) of probable future costs which form part of the nuclear decommissioning provision (note 19) and will be released as they are incurred. Further details are published in the NDA's accounts.

# 13 Investments in Joint Ventures and Associates

| | 31 March 2018 | | 31 March 2017 | |
|---|---|---|---|---|
| | Core Department and Agencies | Departmental Group | Core Department and Agencies | Departmental Group |
| | £m | £m | £m | £m |
| **Balance at 1 April** | **–** | **347** | **–** | **872** |
| Reclassifications | – | – | – | (682) |
| Additions | – | 7 | – | 186 |
| Dividends | – | – | – | (5) |
| Disposals | – | (1) | – | (47) |
| Profit/(Loss) | – | 1 | – | 18 |
| Revaluations | – | 13 | – | 5 |
| **Balance at 31 March** | **–** | **367** | **–** | **347** |

NDPBs and other designated bodies

Medical Research Council (MRC), Science and Technology Facilities Council (STFC), United Kingdom Atomic Energy Authority (UKAEA) and Biotechnology and Biological Sciences Research Council (BBSRC) have joint ventures and/or associates. The most significant holding is the Francis Crick Institute Limited.

The Francis Crick Institute was established in 2010 to deliver a world class interdisciplinary biomedical research centre. MRC holds 42% (31 March 2017: 42%) of the ordinary shares in the Institute. The remaining shares are held by Cancer Research UK, University College London, the Wellcome Trust, Kings College London and Imperial College of Science, Technology and Medicine. The Institute became fully operational in 2016-17 following the completion of the Crick building. Accordingly, the value of the BEIS investment at 31 March 2018 is £254 million (31 March 2017: £266 million), reflecting BEIS's share of net assets.

The results and financial position of the Francis Crick Institute are summarised as follows:

| | 31 March 2018 | 31 March 2017 |
|---|---|---|
| | £m | £m |
| Current assets | 52 | 55 |
| Non-current assets | 580 | 606 |
| Current liabilities | (26) | (26) |
| Non-current liabilities | – | – |
| Revenue | 146 | 151 |
| Profit/(loss) from continuing activities | (28) | (7) |

# 14 Trade and other receivables

| | 31 March 2018 | | 31 March 2017 restated | |
|---|---|---|---|---|
| | Core Department and Agencies | Departmental Group | Core Department and Agencies | Departmental Group |
| | £m | £m | £m | £m |
| **Amounts falling due within one year:** | | | | |
| Trade receivables | 97 | 433 | 93 | 535 |
| Other receivables: | | | | |
| VAT and other taxation | 20 | 133 | 18 | 131 |
| Staff receivables | 1 | 2 | 1 | 2 |
| RPS receivables | 128 | 128 | 135 | 135 |
| Other | 196 | 262 | 89 | 109 |
| Prepayments and accrued income | 102 | 385 | 102 | 389 |
| | **544** | **1,343** | **438** | **1,301** |
| **Amounts falling due after more than one year:** | | | | |
| Trade receivables | 17 | 75 | 4 | 60 |
| Deposits and advances | – | – | – | 1 |
| Other receivables | 915 | 968 | 301 | 300 |
| Prepayments and accrued income | – | 47 | – | 38 |
| | **932** | **1,090** | **305** | **399** |
| **Total Receivables at 31 March** | **1,476** | **2,433** | **743** | **1,700** |

The Redundancy Payment Scheme (RPS) receivable is shown net of an annual impairment.

The impairment is calculated by the Insolvency Service using a model which is approved by HMRC. The model calculates the recoverable debt as £128 million as at 31 March 2018 (31 March 2017: £135 million). There is a risk that the estimation of 14% for recoverability is over-optimistic and therefore would result in a downward revision in future years. Additionally the model has been created using only 12 years of available data with 14 years of data required for a full model to be effective. However, the model is designed to self-check against recovery rates and for data available there is only a small annual variation from the 14% target. This variation is not material and therefore does not render the model invalid. The model is also designed to be monitored and amended annually as required. Additionally, reporting is on a monthly basis to ensure early warning of any trends outside the parameters set in the model.

Other receivables held by the core Department include a discounted receivable of £1,033 million (31 March 2017: £331 million) relating to the government guarantee of certain benefits payable to members and beneficiaries of the Mineworkers' Pension Scheme made after privatisation of the British Coal Corporation in 1994. The undiscounted amount is £1,207 million. The agreement relating to the guarantee entitles the Government to a portion of any periodic valuation surpluses, generally determined by the Government Actuary following triennial valuations, the most recent valuation was at 30 September 2017. The receivables have been classified as loans and receivables in accordance with IAS 39: Financial Instruments: Recognition and Measurement and are held at amortised cost. In accordance with IAS 39 the receivable is initially recognised at fair value which equates to the future cash flows being discounted at HM Treasury's financial instrument nominal rate of 3.7%. Income of £742 million was recognised in 2017-18 in relation to an additional sum receivable from the September 2017 valuation (note 6.1). A contingent asset in relation to a similar financial guarantee for the British Coal Staff Superannuation Scheme is disclosed in note 24. More information about the pension schemes can be found at http://www.mps-pension.org.uk and https://www.bcsss-pension.org.uk.

# 15 Non-current assets and liabilities held for sale

| | 31 March 2018 | | 31 March 2017 | |
|---|---|---|---|---|
| | Core Department and Agencies | Departmental Group | Core Department and Agencies | Departmental Group |
| | £m | £m | £m | £m |
| **Balance of assets at 1 April** | **1,517** | **2,609** | **–** | **19** |
| Additions and reclassifications | 50 | (12) | 1,517 | 2,605 |
| Disposals | (1,567) | (2,582) | – | (23) |
| Revaluations | – | – | – | 8 |
| **Carrying amount of assets at 31 March** | **–** | **15** | **1,517** | **2,609** |
| **Balance of liabilities at 1 April** | **–** | **(1,000)** | **–** | **–** |
| Additions and reclassifications | – | – | – | (1,000) |
| Disposals | – | 1,000 | – | – |
| **Carrying amount of liabilities at 31 March** | **–** | **–** | **–** | **(1,000)** |
| **Carrying amount at 31 March** | **–** | **15** | **1,517** | **1,609** |

The most significant disposal item held as a 'Non-current assets classified as held for sale' in accordance with IFRS 5 at 31 March 2017 was the core Department's shareholding in Green Investment Bank Limited (GIB). The shareholding was held at a carrying value equal to the historic cost less impairment as at 31 March 2017 of £1,517 million.

GIB was subsequently sold to the Macquarie Group Limited during 2017-18, with the sale completing on 17 August 2017. HM Government received proceeds of £1,753 million, against a revised carrying value of £1,567 million, resulting in a profit of £186 million, which is disclosed on the face of the Statement of Comprehensive Net Expenditure in Core Department and Agencies.

In Departmental Group, the net operating expenditure of GIB for the period up to the sale was an £11 million loss. The net assets at the date of disposal were £1,561 million. The profit on disposal in Departmental Group was £202 million.

The results of GIB for the year up to the sale date of 17 August 2017 are presented below:

| | 31 March 2018 | 31 March 2017 |
|---|---|---|
| | £m | £m |
| Income from sale of goods and services | (49) | (145) |
| **Total operating income from discontinued operations** | **(49)** | **(145)** |
| Staff costs | 7 | 19 |
| Purchase of goods and services | 28 | 59 |
| Depreciation and impairment charges | 20 | 35 |
| Other operating expenditure | 19 | (12) |
| **Total operating expenditure from discontinued operations** | **74** | **101** |
| Finance income | (21) | (6) |
| Finance expense | 7 | 32 |
| **Net operating expenditure from discontinued operations** | **11** | **(18)** |

**The net cash flows incurred by GIB are as follows:**

| | 31 March 2018 | 31 March 2017 |
|---|---|---|
| | £m | £m |
| Cash flows: Net cash outflow from operating activities | (14) | 354 |
| Cash flows: Net cash outflow from investing activities | (20) | (889) |
| Cash flows: Net Financing | 50 | 482 |
| **Cash flows: Net increase / (decrease) in cash equivalents in the period** | **16** | **(53)** |

# 16 Investments and loans in public sector bodies: current

| | 31 March 2018 | | 31 March 2017 | |
|---|---|---|---|---|
| | Core Department and Agencies | Departmental Group | Core Department and Agencies | Departmental Group |
| | £m | £m | £m | £m |
| **Balance of assets at 1 April** | **682** | **682** | **541** | **541** |
| Additions | 7,198 | 7,198 | 7,662 | 7,662 |
| Repayments | (7,168) | (7,168) | (7,530) | (7,530) |
| Loans repayable within 12 months transferred from non-current assets | 20 | 20 | 9 | 9 |
| **Balance at 31 March** | **732** | **732** | **682** | **682** |

The most significant item included above is a loan facility to Post Office Limited (POL). Since October 2003 the core Department has made available to POL a revolving loan facility of up to £950 million. This is to help the company fund its daily in-branch working capital requirements to deliver services through the network, such as social benefits payments and access to cash. The facility was due to mature in March 2018 but was extended to run until 31 March 2021. The outstanding balance at 31 March 2018 was £644 million (31 March 2017: £649 million) which is included in the £732 million above.

# 17 Cash and cash equivalents

| | 31 March 2018 | | 31 March 2017 restated | |
|---|---|---|---|---|
| | Core Department and Agencies | Departmental Group | Core Department and Agencies | Departmental Group |
| | £m | £m | £m | £m |
| **Balance at 1 April** | **1,192** | **1,819** | **775** | **1,499** |
| Net change in cash and cash equivalent balances | 54 | 215 | 417 | 320 |
| **Balance at 31 March** | **1,246** | **2,034** | **1,192** | **1,819** |
| **The following balances at 31 March were held at:** | | | | |
| The Government Banking Service (GBS) | 1,244 | 1,818 | 1,191 | 1,608 |
| Commercial banks and cash in hand | 2 | 216 | 1 | 211 |
| **Balance at 31 March** | **1,246** | **2,034** | **1,192** | **1,819** |

# 18 Trade payables and other liabilities

| | 31 March 2018 | | 31 March 2017 restated | |
|---|---|---|---|---|
| | Core Department and Agencies | Departmental Group | Core Department and Agencies | Departmental Group |
| | £m | £m | £m | £m |
| **Amounts falling due within one year:** | | | | |
| VAT, social security and other taxation | 7 | 102 | 8 | 91 |
| Trade payables | 14 | 461 | – | 310 |
| Other payables | 68 | 365 | 28 | 359 |
| Accruals and deferred income | 948 | 2,779 | 1,020 | 2,930 |
| Amounts issued from the Consolidated Fund for supply but not spent at year end | 928 | 928 | 977 | 977 |
| Advances from Contingencies Fund | 2 | 2 | – | – |
| Consolidated Fund Extra Receipts due to be paid to the Consolidated Fund: | | | | |
| Received | 316 | 317 | 215 | 227 |
| | **2,283** | **4,954** | **2,248** | **4,894** |
| **Amounts falling due after more than one year:** | | | | |
| Trade Payables | – | – | – | 2 |
| Other payables, accruals and deferred income | 1,203 | 2,901 | 1,023 | 2,456 |
| Finance leases | – | – | – | 2 |
| | **1,203** | **2,901** | **1,023** | **2,460** |
| **Total payables at 31 March** | **3,486** | **7,855** | **3,271** | **7,354** |

Included under accruals and deferred income are: a) promissory note liabilities with maturities of less than one year of £276 million (31 March 2017: £446 million) and with maturities greater than one year of £1,202 million (31 March 2017: £1,022 million) which represent amounts owed for various ODA (Official Development Assistance) projects to which the Department has contributed and b) sums received on account by the Nuclear Decommissioning Authority relating to income from long-term contracts to be recognised within one year of £680 million (31 March 2017: £719 million) and after one year of £1,594 million (31 March 2017: £1,416 million); more details are available in the accounts of the Nuclear Decommissioning Authority.

# 19 Provisions for liabilities and charges

| | Note | 31 March 2018 Core Department and Agencies | 31 March 2018 Departmental Group | 31 March 2017 Core Department and Agencies | 31 March 2017 Departmental Group |
|---|---|---|---|---|---|
| | | £m | £m | £m | £m |
| **Current liabilities:** | | | | | |
| Not later than one year | | 278 | 3,332 | 289 | 3,582 |
| **Total current liabilities** | | **278** | **3,332** | **289** | **3,582** |
| **Non-current liabilities:** | | | | | |
| Later than one year and not later than five years | | 944 | 12,963 | 1,008 | 13,209 |
| Later than five years | | 1,232 | 224,640 | 1,289 | 152,722 |
| **Total non-current liabilities** | | **2,176** | **237,603** | **2,297** | **165,931** |
| **Total at 31 March** | | **2,454** | **240,935** | **2,586** | **169,513** |
| **Total provisions** | | | | | |
| Nuclear | 19.1 | 1,412 | 235,101 | 1,592 | 165,248 |
| Other | 19.2 | 1,042 | 5,834 | 994 | 4,265 |
| **Total at 31 March** | | **2,454** | **240,935** | **2,586** | **169,513** |

The values presented in note 19.1 and note 19.2 below are discounted to present value using discount rates prescribed by HM Treasury.

| | 31 March 2018 | 31 March 2017 |
|---|---|---|
| Cash outflows expected within five years | (2.42%) | (2.70%) |
| Cash outflows expected between five and ten years | (1.85%) | (1.95%) |
| Cash outflows expected after ten years | (1.56%) | (0.80%) |

Discounting using the above negative rates can increase reported liabilities significantly; undiscounted equivalent values are provided below to illustrate the effect.

## 19.1 Nuclear provisions

| | British Energy | UK Atomic Energy Authority Decommissioning | Core Department and Agencies Total | NDA Decommissioning | Contract loss | Departmental Group Total |
|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m |
| **Balance at 1 April 2016** | **1,415** | **283** | **1,698** | **160,182** | **1,348** | **163,228** |
| Transferred in/(out) | – | – | – | – | – | – |
| Unwinding of discount | (17) | (1) | (18) | (1,273) | (18) | (1,309) |
| Change in discount rate | 54 | 15 | 69 | 4,895 | – | 4,964 |
| Provided in the year | 38 | 9 | 47 | 2,232 | – | 2,279 |
| Provisions not required written back | – | – | – | (265) | (675) | (940) |
| Provisions utilised in the year | (204) | – | (204) | (2,636) | (134) | (2,974) |
| **Balance at 31 March 2017** | **1,286** | **306** | **1,592** | **163,135** | **521** | **165,248** |
| Transferred in/(out) | – | – | – | – | 27 | 27 |
| Unwinding of discount | (14) | (1) | (15) | (1,286) | (15) | (1,316) |
| Change in discount rate | (18) | 1 | (17) | 71,002 | – | 70,985 |
| Provided in the year | 37 | 8 | 45 | 3,462 | 40 | 3,547 |
| Provisions not required written back | – | – | – | (291) | – | (291) |
| Provisions utilised in the year | (193) | – | (193) | (2,740) | (166) | (3,099) |
| **Balance at 31 March 2018** | **1,098** | **314** | **1,412** | **233,282** | **407** | **235,101** |

### Estimated forward discounted cash flows as at 31 March 2018

| | British Energy | UK Atomic Energy Authority Decommissioning | Core Department and Agencies Total | NDA Decommissioning | Contract loss | Departmental Group Total |
|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m |
| Not later than one year | 175 | 1 | 176 | 2,856 | 132 | 3,164 |
| Later than one year and not later than five years | 535 | 86 | 621 | 11,560 | 105 | 12,286 |
| Later than five years | 388 | 227 | 615 | 218,866 | 170 | 219,651 |
| **Total forward cash flows as at 31 March 2018** | **1,098** | **314** | **1,412** | **233,282** | **407** | **235,101** |

## Core Department

### British Energy

As a result of the restructuring of British Energy (BE) in January 2005, the Government assists BE (now EDF Energy Nuclear Generation Limited) 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 discounted liability at 31 March 2018 is £1,098 million (31 March 2017: £1,286 million). The undiscounted liability at 31 March 2018 is £1,022 million (31 March 2017: £1,177 million). Each year the profile of future payments is reassessed in line with the Retail Prices Index and the level of provision adjusted in accordance with the Historic Liabilities Funding Agreement with BE.

### UK Atomic Energy Authority Decommissioning

The decommissioning provision represents the estimated costs of decommissioning fusion research facilities at UKAEA's Culham site, including the storage, processing and eventual disposal of radioactive wastes. The core Department retains the liability for these costs.

The estimate for the provision is reassessed annually. The last detailed Life Time Plan (LTP) for decommissioning, funded by the Nuclear Decommissioning Authority (NDA), was drawn up in 2007-08. Since then UKAEA has each year carried out a high level assessment of changes to the assumptions made in the previous LTP. For example, the provision includes estimates for the decommissioning of facilities built since 2007-08, and an assessment of the effect of changes to some key assumptions such as the date of Joint European Torus (JET) closure.

The approach taken, until a further LTP is prepared, and the fact that much of the work required to deal with the liabilities will not be undertaken until well into the future, means that there is at present a significant uncertainty as to the amount of the provision. In addition, timing of expenditure on the decommissioning provision is dependent on the closure date of the JET facility which is to be decommissioned. The discounted liability at 31 March 2018 is £314 million ((31 March 2017: £306 million). The undiscounted liability is £273 million (31 March 2017: £266 million).

## NDPBs and other designated bodies

### NDA Decommissioning

The NDA's nuclear decommissioning liability represents NDA's best estimate of the costs of decommissioning plant and equipment on each of the designated nuclear licensed sites in accordance with the published strategy.

The programme of decommissioning work will take until 2137 but, in preparing the estimate, the NDA has focused in particular on the first 20 years which represent £56 billion out of the total £233 billion provision (31 March 2017: £53 billion out of £163.1 billion). The estimates are necessarily based on assumptions about the processes and methods likely to be used to discharge the obligations and reflect the latest technical knowledge, existing regulatory requirements, government policy and commercial agreements. Given the very long timescale and the complexity of the plants and material being handled, considerable uncertainty remains in the cost estimate, particularly in the later years. Discounting of the forward cash flow estimates to present value also has a significant impact on the liability reported in the Statement of Financial Position of £233.3 billion at 31 March 2018 (31 March 2017 restated: £163.1 billion). The undiscounted equivalent of this reported liability is £120.2 billion at 31 March 2018 (31 March 2017 restated: £118.1 billion). The Group auditors continue to include an emphasis of matter paragraph in their audit certificate concerning the overall measurement uncertainty.

The NDA has commercial agreements in place under which a portion of the expenditure required to settle certain elements of the decommissioning provision are recoverable from third parties. Changes in future cost estimates of discharging these particular elements are therefore matched by a change in recoverable contract costs. In accordance with IAS 37, these recoverable amounts are not offset against the decommissioning provision but are treated as a separate asset (note 12).

### Sensitivity Analysis – discount rate:

An increase of 0.5% in the discount rate would reduce the provision to £185 billion, whilst a decrease in discount rate of 0.5% would increase the provision to £303 billion.

The change in discount rates (see note 1.25) in the current financial year produced an increase of £65,964 million (2017: £1,446 million increase), excluding increases due to inflation.

## Sensitivity Analysis – other factors:

Analysis of expected timing of discounted cash flows for the NDA Nuclear Provision is as follows:

| NDA Group | Waste | Research | Sellafield | Fuel manufacturing and generation | Others | 2017-18 Total | 2016-17 total |
|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m |
| Up to 1 year | 71 | 306 | 1,940 | 480 | 58 | 2,855 | 3,024 |
| 2 to 5 years | 372 | 1,121 | 8,290 | 1,459 | 315 | 11,557 | 11,761 |
| 6 to 20 years | 2,569 | 1,613 | 35,010 | 1,516 | 734 | 41,442 | 38,176 |
| 21 to 50 years | 5,857 | 324 | 54,643 | 1,340 | 778 | 62,942 | 46,946 |
| 50 years + | 16,057 | 148 | 66,012 | 32,645 | 412 | 115,274 | 64,093 |
| | **24,926** | **3,512** | **165,895** | **37,440** | **2,297** | **234,070** | **164,000** |
| Deduction in respect of Site Licence Companies pension receivable from NDA | | | | | | (788) | (865) |
| **Total NDA Decommissioning Provisions** | | | | | | **233,282** | **163,135** |

## Sensitivity range

| NDA Group | Waste | Research | Sellafield | Fuel manufacturing and generation | Others | 2017-18 Total |
|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m |
| Increase | 63,026 | 135 | 175,081 | 15,590 | 115 | 253,947 |
| Reduction | (10,618) | (269) | (29,180) | (15,590) | (230) | (55,888) |

The reasons underpinning the sensitivity ranges above are discussed further below.

The NDA calculates its provision based on management's best estimate of the future costs of the decommissioning programme, which is expected to take until 2137 to complete. The NDA also considers credible risks and opportunities which may increase or decrease the cost estimate, but which are deemed less probable than the best estimate. These are the basis of the sensitivities identified above, and the key sensitivities are as follows:

- waste activities cover the Low Level Waste Repository and the GDF, with the key sensitivities being in the timing and costs of constructing and operating the GDF. The above range from a reduction of £10,618 million to an increase of £63,026 million reflects three separate sensitivities:
    - the potentially higher costs of constructing and operating the GDF itself, which dependent on the location and construction requirements of the facility, could be up to £62,964 million higher (or £10,494 million lower) than the base case assumption
    - the impact of the timing of the facility's construction and operations. The current planned date for the facility to receive waste is 2045. NDA has identified a risk that the construction and opening of the facility may be delayed beyond 2045. A delay to this date may increase the cost of the facility itself, along with the cost of interim storage of waste at sites across the NDA estate. A delay of a small number of years is considered to be within the overall tolerance of the estimate for GDF construction and waste transfer, and is not considered to have a material impact on the provision estimate. A longer delay of say 20 years could materially impact the provision, by approximately £3,600 million when combined with a managed deferral of other programmes
    - a delay of 20 years would not necessarily increase the underlying costs of the facility, but would increase the discounted value of the estimate by approximately £10 billion due to the effect of long-term negative discount rates

- activities on the sites primarily used for research (Dounreay, Harwell, and Winfrith) are concerned with final decommissioning of assets and site clearance. Sites will be cleared by 2080. Options are being explored to accelerate site clearance, which in the case of Dounreay would reduce the provision by £269 million; an increase in the cost and/or a delay of past the latest anticipated Interim State date (2029) would increase the provision by up to £135 million
- Sellafield represents activities associated with operation of the site, reprocessing and eventual decommissioning, and includes all site overheads. Principal sensitivities are around the cost of delivering the plan, particularly the costs of new construction, decommissioning and post operational clean out (POCO) work in the long-term (beyond the next twenty years). The potential costs range from a £29,180 million reduction against the current estimate, to a £175,081 million increase
- fuel manufacturing and generation (which for this purpose includes Magnox and Springfields) programme of work includes defueling the generating stations and preparing for interim Care and Maintenance (complete by 2030) followed by a final site clearance phase around 2070 to 2107. The main cost risk is in the final site clearance phase, which may increase costs by £15,590 million. Conversely a reduction in the costs associated with this phase my reduce costs by £15,590 million

Further details are reported in (b) Nuclear Decommissioning Authority provisions of the financial review of the Directors' Report on page 48 of the Annual Report and in the NDA Annual Report and Accounts.

Contract loss

Contract loss provisions have been recognised by the Nuclear Decommissioning Authority to cover anticipated shortfalls between total income and total expenditure on relevant long-term contracts. The amounts are disclosed net after deduction of amounts relating to recoverable contract costs (note 12). The amount provided in the year for contract losses relates to changes in estimates of the costs of existing contracts. The discounted liability at 31 March 2018 is £407 million (31 March 2017: £521 million). Further detail, including movement on the gross provision, can be found in the accounts of the NDA.

## 19.2 Other provisions

| | Concessionary fuel | British Shipbuilders | Legacy ailments | Onerous leases | Other | Core Department and Agencies Total | Coal Authority | Early departure costs and restructuring | Other | Departmental Group Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| **Balance at 1 April 2016** | **471** | **203** | **194** | **115** | **150** | **1,133** | **2,822** | **152** | **272** | **4,379** |
| Transferred in/(out) | – | – | – | – | – | – | – | – | (34) | (34) |
| Change in discount rate | 15 | 5 | 1 | 3 | 4 | 28 | – | (3) | 10 | 35 |
| Provided in the year | – | – | – | 31 | 8 | 39 | 57 | 25 | 130 | 251 |
| Provisions not required written back | (5) | (2) | (47) | (16) | (30) | (100) | (14) | (4) | (34) | (152) |
| Provisions utilised in the year | (43) | (6) | (15) | (19) | (13) | (96) | (23) | (49) | (15) | (183) |
| Unwinding of discount | (5) | (2) | (2) | (1) | – | (10) | (24) | – | 3 | (31) |
| **Balance at 31 March 2017** | **433** | **198** | **131** | **113** | **119** | **994** | **2,818** | **121** | **332** | **4,265** |
| Change in discount rate | 28 | 12 | 3 | (1) | 5 | 47 | 1,485 | – | 62 | 1,594 |
| Provided in the year | 49 | 3 | – | 31 | 24 | 107 | 80 | 1 | 3 | 191 |
| Provisions not required written back | – | – | (2) | – | (3) | (5) | (2) | (16) | 15 | (8) |
| Provisions utilised in the year | (42) | (11) | (7) | (15) | (16) | (91) | (26) | (20) | (2) | (139) |
| Unwinding of discount | (5) | (1) | (1) | (2) | (1) | (10) | (27) | (1) | (31) | (69) |
| **Balance at 31 March 2018** | **463** | **201** | **124** | **126** | **128** | **1,042** | **4,328** | **85** | **379** | **5,834** |

### Estimated forward discounted cash flows as at 31 March 2018

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Not later than one year | 39 | 8 | 19 | 19 | 17 | 102 | 26 | 28 | 12 | 168 |
| Later than one year and not later than five years | 135 | 36 | 36 | 76 | 40 | 323 | 115 | 38 | 201 | 677 |
| Later than five years | 289 | 157 | 69 | 31 | 71 | 617 | 4,187 | 19 | 166 | 4,989 |
| **Total forward cash flows as at 31 March 2018** | **463** | **201** | **124** | **126** | **128** | **1,042** | **4,328** | **85** | **379** | **5,834** |

### Core Department

#### Concessionary fuel

The provision covers the cost of the Department's responsibility arising from government announced guarantees to provide either solid fuel or a cash alternative to ex-miners formerly employed by British Coal and their dependants and to certain former employees who lost their entitlement as a consequence of the restructuring and run down of UK Coal in 2013 and 2015; it includes administration costs. Of the total of 47,888 current beneficiaries at 31 March 2018, 40,601 have opted for the cash alternative at an average cost per beneficiary of £698 per annum; the average annual cost of solid fuel for the remainder is £1,524 per beneficiary. The provision is based on standard female mortality rates and assumes beneficiaries will continue to switch their entitlement from solid fuel to cash in line with rates observed in the recent past. Costs are expected to be incurred up to 2062. The discounted liability at 31 March 2018 is £463 million (31 March 2017: £433 million); the undiscounted liability is £397 million (31 March 2017: £390 million).

#### British Shipbuilders

The provision covers the cost of personal injury compensation claims by former employees of British Shipbuilders and its subsidiaries arising primarily from exposure to asbestos during the course of their work. The Department has taken on full responsibility for the liabilities of the former Corporation which was abolished in March 2013. It is subject to considerable uncertainty. The discounted liability at 31 March 2018 is £201 million (31 March 2017: £198 million); the undiscounted liability of £168 million (31 March 2017: £176 million) is based on an actuarial review as at 31 March 2016 which identified a range for the potential undiscounted liability of between £118 million and £389 million. The current estimate is that the liabilities will extend for up to 2048. Actuarial reviews are undertaken when conditions change materially.

#### British Coal Corporation Health Liabilities (Legacy ailments)

The provision under Coal health in the table covers the cost of compensation claims relating to personal injuries suffered by former British Coal mineworkers, responsibility for which falls to the Department by a restructuring scheme under the Coal Industry Act 1994. Over £6.3 billion has been paid out in damages and claimant's solicitors costs. The discounted liability at 31 March 2018 is £124 million (31 March 2017: £131 million); the undiscounted liability of £109 million (31 March 2017: £117 million) is based on forecasts of settlement of claims, taking account of discussion with the Department's legal advisors and claim handlers and recent actuarial estimates. It is subject to considerable uncertainty and includes undiscounted estimates of £22 million (31 March 2017: £28 million) for induced hearing loss, £68 million (31 March 2017: £69 million) for miscellaneous disease claims including phurnacite, mesothelioma, pneumoconiosis, pleural thickening, asbestos related conditions, vibration white finger, chronic obstructive pulmonary disease, cancer, pleural plaques and other minor benefits schemes and £19 million (31 March 2017: £20 million) for litigation by former British Coal Coke Oven Workers. The current estimate is that liabilities will extend up to 2050.

#### Onerous Leases

The core Department has onerous leases in respect of leased offices at 151 Buckingham Palace Road (BPR), 10-18 Victoria Street (10VS) and various leases transferred from other bodies following their winding up. The Department provides for these leases in full when the lease becomes onerous by establishing a provision for the future estimated payments. The current estimate is that the liabilities will extend up to 2026.

The core Department has attempted to mitigate any potential losses through subletting against the existing head leases for the buildings and has sublet BPR, 10VS and some of the properties transferred into the Department. However, given current market conditions and future forecasts the core Department has determined that, at the reporting date, neither the current nor future potential subleases will recover the full costs incurred.

Work is also on-going to dispose of some of the leases to a specialist company which primarily deals with surplus buildings.

The core Department is also undergoing a program to rationalise the impact of onerous leases going forward.

The discounted liability at 31 March 2018 is £126 million (31 March 2017: £113 million); the undiscounted liability as at 31 March 2018 was £119 million (31 March 2017: £106 million).

## NDPBs and other designated bodies

### Coal Authority

The Coal Authority provision relates predominantly to the Authority's responsibilities for mine water treatment, public safety and subsidence, subsidence pumping stations and tip management. Significant uncertainties are associated with estimation of likely costs in respect of these liabilities. The discounted liability at 31 March 2018 is £4,328 million (31 March 2017: £2,818 million). The undiscounted liability at 31 March 2018 is £1,902 million (31 March 2017: £1,884 million). Further details are reported in the Coal Authority Annual Report and Accounts.

Included in other provisions in note 19.2 for the core Department is the Coal Health provision (legacy ailments), which is subject to significant uncertainty.

### Early departure costs and restructuring

£72 million (31 March 2017: £109 million) of the restructuring provision relates to site licence companies and includes continuing annual payments under early retirement arrangements to individuals who retired early, or had accepted early retirement, before 31 March 2018 and will continue at least until the date at which the individual would have reached normal retirement age. The undiscounted equivalent is 31 March 2018 is £76 million (31 March 2017: £102 million).

### Enterprise Capital Fund

The British Business Bank plc (BBB) recognises a provision for loan commitments relating to Enterprise Capital Fund (ECF) investments which is included in other provisions. The British Business Bank accepts a lower return from ECF investments in order to encourage private sector investors to invest. Although BBB expects to make a positive return from these investments, this return is less than that required by the private sector. Accounting standards require BBB to recognise a liability when it makes a commitment to a fund. BBB records this liability as a provision. When a commitment is drawn, BBB subsequently impairs the resulting investment and utilises the provision by a corresponding amount. This results in significant upfront expenditure when new ECF commitments are entered into. This expenditure gradually reverses over the lifetime of the investment as the impairment is reversed and does not relate to an underlying loss on ECF investments.

The discounted liability at 31 March 2018 is £184 million (31 March 2017: £144 million), and the undiscounted liability at 31 March 2018 is £207 million (31 March 2017: £165 million).

# 20 Retirement benefit obligations

The Department consolidates 9 defined benefit pension arrangements from its designated bodies including:

- Medical Research Council
- Nuclear Decommissioning Authority
- Nuclear site licence companies

All schemes are accounted for in accordance with IAS 19 'Employee Benefits'. They are subject to the UK regulatory framework and under the scope of the scheme specific funding requirement. The schemes' trustees are responsible for operating these defined benefit plans and have a statutory responsibility for ensuring the schemes are sufficiently funded to meet current and future benefit payments.

Defined benefit scheme liabilities expose the Departmental group to material financial uncertainty, arising from factors such as changes in life expectancy and in the amount of pensions payable. Some scheme investments, such as equities, should offer long-term growth in excess of inflation, but can be more volatile in the shorter term than government bonds.

The details of each scheme are discussed below.

Medical Research Council (MRC)
The MRC operates a defined benefit, final salary pension scheme. A full actuarial evaluation was undertaken as at 31 December 2016 which was rolled forward by the actuary to determine the approximate position as at 31 March 2018.

The key assumptions are discount rate of 2.6% (2016-17: 2.5%) and rate of increase in pensions of 2.25% (2016-17: 2.25%). A decrease of 0.5% in the discount rate would lead to an increase of approximately 11.0% in the total liability, while a decrease of 0.5% in the rate of increase in pensions would lead to an approximate 8.0% reduction.

Further details regarding the nature of the benefits provided, regulatory framework, actuarial assumptions, sensitivity analysis, key risks and risk management policy including asset-liability matching strategies, and any funding arrangements or funding policy that may affect future contributions can be found in the accounts of MRC.

Nuclear Decommissioning Authority (NDA)
Two defined benefit pension schemes relate to the NDA – the Closed and Nirex sections of the Combined Nuclear Pension Plan (CNPP). Both are closed to new entrants. Full actuarial evaluations were undertaken as at 31 March 2016. The actuaries rolled forward the results to determine approximate positions as at 31 March 2018. Further details regarding the nature of the benefits provided, regulatory framework, actuarial assumptions, sensitivity analysis, key risks and risk management policy including asset-liability matching strategies, and any funding arrangements or funding policy that may affect future contributions can be found in the accounts of NDA.

Nuclear site licence companies (SLCs)
There are 6 defined benefit final salary pension schemes relating to the 4 SLCs comprising: a) the LLWR section of the CNPP (for LLW Repository Limited), b) the SLC section of the Magnox Electric Group of the ESPS and the Magnox Section of the CNPP (for Magnox Limited), c) the Group Pension Scheme SLC section of the CNPP and the Sellafield section of the CNPP (for Sellafield Limited) and d) the Dounreay Section of the CNPP (for Dounreay Site Restoration Limited). All are closed to new entrants. The most recent triennial actuarial valuations were undertaken as at 31 March 2016 for all six SLCs schemes. The actuaries rolled forward the results to determine approximate positions as at 31 March 2018.

Further details regarding the nature of the benefits provided, regulatory framework, key risks and risk management policy including asset-liability matching strategies, and any funding arrangements or funding policy that may affect future contributions can be found in the CNPP Statement of Investment Principles at https://www.cnpp.org.uk/document-library/, and in the Electricity Supply Pension Scheme's Annual Reports at https://megtpensions.com/finance-reports/.

| | 31 March 2018<br>Funded pension schemes | 31 March 2017<br>Funded pension schemes |
|---|---|---|
| | £m | £m |
| **Present value of defined benefit obligation at 1 April** | **7,568** | **5,896** |
| Interest cost | 190 | 200 |
| Current service cost | 267 | 194 |
| Past service cost | 6 | 36 |
| Benefits paid | (215) | (201) |
| Actuarial (gains)/losses arising from changes in financial assumption | (127) | 1,633 |
| Actuarial (gains)/losses on defined benefit obligation due to demographic assumptions | (103) | (80) |
| Actuarial (gains)/losses arising from experience adjustments | 20 | (136) |
| Employee contributions | 26 | 26 |
| **Present value of defined benefit obligation at 31 March** | **7,632** | **7,568** |
| | | |
| **Fair value of assets at 1 April** | **6,691** | **5,608** |
| Expected return on plan assets | 170 | 192 |
| Employer contributions | 143 | 168 |
| Benefits paid | (215) | (201) |
| Actuarial gains/(losses) | 131 | 898 |
| Employee contributions | 26 | 26 |
| **Fair value of assets at 31 March** | **6,946** | **6,691** |
| | | |
| **Net liability at 31 March** | **686** | **877** |

The decrease in the net liability at 31 March 2018 compared to 31 March 2017 is primarily due to an increase in the discount rate applied to the defined benefit obligation for Magnox Limited and Sellafield Ltd from 2.5% at 31 March 2017 to 2.6% at 31 March 2018.

### Net (asset)/liability by scheme

| | 31 March 2018 | | | 31 March 2017 | | |
|---|---|---|---|---|---|---|
| | Present value of defined benefit obligation | Fair value of assets | Net liability/ (asset) | Present value of defined benefit obligation | Fair value of assets | Net liability/ (asset) |
| | £m | £m | £m | £m | £m | £m |
| Medical Research Council | 1,460 | 1,582 | (122) | 1,464 | 1,467 | (3) |
| SLC – LLWR section of CNPP | 27 | 20 | 7 | 31 | 18 | 13 |
| SLC – SLC section of Magnox Electric Group of ESPS | 3,185 | 3,140 | 45 | 3,292 | 3,148 | 144 |
| SLC – Magnox section of CNPP | 141 | 109 | 32 | 134 | 102 | 32 |
| SLC – Group Pension Scheme SLC section of CNPP | 682 | 649 | 33 | 737 | 637 | 100 |
| SLC – Sellafield section of CNPP | 1,852 | 1,217 | 635 | 1,644 | 1,103 | 541 |
| SLC – Dounreay section of CNPP | 130 | 94 | 36 | 118 | 83 | 35 |
| Nuclear Decommissioning Authority | 155 | 135 | 20 | 148 | 133 | 15 |
| **Total net liability at 31 March** | **7,632** | **6,946** | **686** | **7,568** | **6,691** | **877** |

## Asset allocation

| | 31 March 2018 | 31 March 2017 restated |
|---|---|---|
| | £m | £m |
| Equities | 2,471 | 2,507 |
| Property | 698 | 636 |
| Government bonds | 1,678 | 1,573 |
| Corporate bonds | 626 | 493 |
| Other growth assets | 1,362 | 1,373 |
| Other | 111 | 109 |
| **Balance at 31 March** | **6,946** | **6,691** |

The Magnox schemes had a total asset balance of £3,249 million, of which £115.9 million of property assets and £733.5 million of other growth assets were not quoted in an active market. The Sellafield schemes had £1,866 million of total assets, all of which excluding the amount held in the Trustees' bank account had a quoted market value in an active market. The MRC scheme's total assets of £1,582 million included £434 million of quoted equities and £128 million of quoted bonds.

## Expected contribution over the next accounting period

It is possible that the actual amount paid might be different to the estimated amount. This may be due to contributions, benefits payments or pensionable payroll differing from expected, changes to schemes' benefits or settlement/curtailment events that are currently unknown.

| | £m |
|---|---|
| Medical Research Council | 27 |
| SLC – LLWR section of CNPP | 1 |
| SLC – SLC section of Magnox Electric Group of ESPS | 39 |
| SLC – Magnox section of CNPP | 10 |
| SLC – Group Pension Scheme SLC section of CNPP | 6 |
| SLC – Sellafield section of CNPP | 74 |
| SLC – DSRL section of CNPP | 7 |
| Nuclear Decommissioning Authority | 1 |
| **Total** | **165** |

## Weighted average duration of the defined benefit obligation plans

| | Years |
|---|---|
| Medical Research Council | 21 |
| SLC – LLWR section of CNPP | 20 |
| SLC – SLC section of Magnox Electric Group of ESPS | 16 |
| SLC – Magnox section of CNPP | 22 |
| SLC – Group Pension Scheme SLC section of CNPP | 20 |
| SLC – Sellafield section of CNPP | 20 |
| SLC – DSRL section of CNPP | 30 |
| Nuclear Decommissioning Authority | 23 |

### Major actuarial assumptions for SLC schemes

| | Dounreay Site Restoration Limited | | LLW Repository Limited | | Magnox Limited | | Sellafield Limited | |
|---|---|---|---|---|---|---|---|---|
| | 2017-18 | 2016-17 | 2017-18 | 2016-17 | 2017-18 | 2016-17 | 2017-18 | 2016-17 |
| Discount rate | 2.6% | 2.6% | 2.6% | 2.5% | 2.6% | 2.5% | 2.6% | 2.5% |
| Inflation (Retail Prices Index) | 3.1% | 3.2% | 3.1% | 3.2% | 3.4% | 3.4% | 3.5% | 3.2% |
| Life expectancy in years at 65, currently aged 65 (male) | | | 21.9 | 22.8 | | | 21.9 | 21.8 |
| Life expectancy in years at 65, currently aged 45 (male) | | | 23.1 | 24.2 | | | 23.1 | 23.1 |
| Life expectancy in years at 65, currently aged 65 (female) | | | 23.8 | 25.2 | | | 23.8 | 24.2 |
| Life expectancy in years at 65, currently aged 45 (female) | | | 25.0 | 26.8 | | | 25.0 | 25.8 |
| Life expectancy in years at 60, currently aged 60 (male) | 26.6 | 26.7 | | | 28.3 | 28.4 | | |
| Life expectancy in years at 60, currently aged 40 (male) | 28.1 | 28.3 | | | 29.4 | 29.5 | | |
| Life expectancy in years at 60, currently aged 60 (female) | 28.6 | 28.7 | | | 30.3 | 30.3 | | |
| Life expectancy in years at 60, currently aged 40 (female) | 30.2 | 30.3 | | | 31.4 | 31.4 | | |

### Sensitivity analysis for SLC schemes

| | Dounreay Site Restoration Limited | LLW Repository Limited | Magnox Limited | Sellafield Limited |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| 0.1 percentage point decrease in annual discount rate | – | – | 57 | – |
| 0.1 percentage point increase in inflation assumption | – | – | 55 | – |
| 0.5 percentage point decrease in annual discount rate | 23 | 3 | – | 272 |
| 0.5 percentage point increase in inflation assumption | 22 | 4 | – | 309 |
| 1 year increase in life expectancy | 3 | 1 | 115 | 92 |

The table shows the increase in liability that would result from changes in these actuarial assumptions.

# 21 Capital and other commitments

**Total minimum payments in respect of capital, lease and other commitments**

| | Note | 31 March 2018<br>Core Department and Agencies | 31 March 2018<br>Departmental Group | 31 March 2017<br>Core Department and Agencies | 31 March 2017<br>Departmental Group |
|---|---|---|---|---|---|
| | | £m | £m | £m | £m |
| Contracted capital commitments | 21.1 | 5 | 1,912 | 123 | 2,095 |
| Minimum future payments under: | | | | | |
| Operating leases | 21.2 | 213 | 333 | 282 | 353 |
| Finance leases | | – | 30 | – | 3 |
| PFI contracts and service concession arrangements | | 2 | 2 | 5 | 5 |
| Other financial commitments | 21.3 | 2,928 | 3,370 | 3,178 | 3,612 |
| **Total** | | **3,148** | **5,647** | **3,588** | **6,068** |

## 21.1 Capital commitments

| | 31 March 2018<br>Core Department and Agencies | 31 March 2018<br>Departmental Group | 31 March 2017<br>Core Department and Agencies | 31 March 2017<br>Departmental Group |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Contracted capital commitments not otherwise included in these financial statements: | | | | |
| Property, plant and equipment | 3 | 315 | 2 | 415 |
| Intangible assets | 2 | 28 | 1 | 40 |
| Loans and investments | – | 1,569 | 120 | 1,640 |
| **Total** | **5** | **1,912** | **123** | **2,095** |

Core Department

The core Department has not entered into any significant capital commitments.

NDPBs and other designated bodies

Capital commitments as at 31 March 2018 include the following significant items:

- Property, plant and equipment commitments for Biotechnology and Biological Sciences Research Council (BBSRC) of £181 million (31 March 2017: £225 million) at the BBSRC Institute sites due in one to three years and for Natural Environment Research Council (NERC) of £60 million (31 March 2017: £93 million), to build a new polar research vessel.
- Investment commitments of £1,139 million (31 March 2017: £960 million) for the British Business Bank plc (BBB) relating to undrawn investment commitments, £234 million for Northern Powerhouse Investment Limited relating to capital calls to be utilised over the next 8 years, £118 million for Midlands Engine Investments Limited relating to capital calls to be utilised over the next 9 years, £79 million (31 March 2017: £99 million) for the BIS (Postal Services Act 2011) Company Limited, which has capital calls relating to investments in respect of its private equity and property funds financial instruments.

## 21.2 Commitments under leases

### 21.2.1 Operating leases

Total future minimum lease payments under operating leases are given in the table below for each of the following periods:

| | 31 March 2018 | | 31 March 2017 | |
|---|---|---|---|---|
| | Core Department and Agencies | Departmental Group | Core Department and Agencies | Departmental Group |
| | £m | £m | £m | £m |
| **Obligations under operating leases comprise:** | | | | |
| Land: | | | | |
| Not later than one year | – | 1 | – | 1 |
| Later than one year and not later than five years | – | 2 | – | 2 |
| Later than five years | – | 20 | – | 19 |
| | **–** | **23** | **–** | **22** |
| Buildings: | | | | |
| Not later than one year | 59 | 75 | 60 | 68 |
| Later than one year and not later than five years | 124 | 157 | 172 | 187 |
| Later than five years | 22 | 67 | 33 | 57 |
| | **205** | **299** | **265** | **312** |
| Other: | | | | |
| Not later than one year | 5 | 7 | 7 | 8 |
| Later than one year and not later than five years | 3 | 4 | 10 | 11 |
| | **8** | **11** | **17** | **19** |
| **Total** | **213** | **333** | **282** | **353** |

The core Department is allowed to sub-lease and can assign leases subject to the lease provisions. Further information about finance leases and sub-lease arrangements of the Agencies, NDPBs and other designated bodies can be found in the accounts of the relevant bodies.

Operating leases: Department as a lessor

Total future minimum lease receivables under operating leases are given in the table below:

| | 31 March 2018 | | 31 March 2017 | |
|---|---|---|---|---|
| | Core Department and Agencies | Departmental Group | Core Department and Agencies | Departmental Group |
| | £m | £m | £m | £m |
| **Receivables under operating leases for the following periods comprise:** | | | | |
| Not later than one year | – | 9 | – | 7 |
| Later than one year and not later than five years | 1 | 22 | – | 24 |
| Later than five years | 3 | 42 | – | 39 |
| **Total** | **4** | **73** | **–** | **70** |

## 21.3 Other financial commitments

The Departmental Group has entered into non-cancellable contracts (which are not leases, PFI contracts or other service concession arrangements) for subscriptions to international bodies and various other expenditures. Future payments to which the Departmental Group is committed are as follows:

| | 31 March 2018 | | 31 March 2017 | |
|---|---|---|---|---|
| | Core Department and Agencies | Departmental Group | Core Department and Agencies | Departmental Group |
| | £m | £m | £m | £m |
| Not later than one year | 553 | 764 | 487 | 674 |
| Later than one year and not later than five years | 1,224 | 1,440 | 1,601 | 1,806 |
| Later than five years | 1,151 | 1,166 | 1,090 | 1,132 |
| **Total** | **2,928** | **3,370** | **3,178** | **3,612** |

### 21.3.1 International subscriptions

The financial commitments payable include subscriptions payable to international bodies, analysed by the period in which the payments are due:

| Organisation | Note | Within 1 Year | Later than 1 year and not later than 5 years | Later than 5 Years | Total 2017-18 | 31 March 2017 |
|---|---|---|---|---|---|---|
| | | £m | £m | £m | £m | £m |
| International Atomic Energy Agency | a | 14 | 56 | 69 | 139 | – |
| European Space Agency | b | 244 | 682 | – | 926 | 1,142 |
| Other subscriptions | | 9 | 24 | 29 | 62 | 35 |
| **Core Department and Agencies total** | | **267** | **762** | **98** | **1,127** | **1,177** |
| European Organisation for Nuclear Research (CERN) | c | 146 | 89 | – | 235 | 214 |
| Institut Laue-Langevin (ILL) | d | 19 | 79 | 15 | 113 | 129 |
| Other subscriptions | | 43 | 48 | – | 91 | 90 |
| **Departmental Group total** | | **475** | **978** | **113** | **1,566** | **1,610** |

Notes:

The Departmental Group is required to subscribe to a number of bodies on an on-going and continuous basis. These subscriptions are paid in Euros, Swiss Francs and pounds sterling. The subscriptions described below are paid in Euros or Swiss Francs and amounts paid are subject to fluctuations due to exchange rate differences.

a) The core Department is responsible for paying the UK's annual subscriptions to the International Atomic Energy Agency (IAEA). The IAEA is the UN-affiliated organisation responsible for ensuring the safe, secure and peaceful use of civil nuclear technologies, through monitoring nuclear safeguards, setting international standards and guidance for nuclear safety and security promoting nuclear applications for development. The core Department currently do not have an end date for the membership. Subscriptions fees included in the table above are for the next ten years up to 2028.

b) The UK Space Agency pays international subscriptions to the European Space Agency (ESA) three times a year and these amounts are agreed several years in advance. The payments reported reflect existing commitments on forward exchange contracts placed with the Bank of England to cover periods until 1 October 2021. The annual subscriptions are to be set at a minimum of €300 million and will be aligned with the agreed ESA programmes activity. It is expected that these amounts will be paid by means of forward exchange contracts or amounts translated on the date of payment.

c) STFC shares the funding of the capital and running costs of CERN with other major scientific nations. There is a notice of withdrawal period of 12 months after the end of the current calendar year.

d) The UK, through STFC, has signed up to International Conventions, with respect to Institut Laue-Langevin (ILL). The 5th protocol of the Intergovernmental Convention was signed in July 2013 and will remain in force until 31 December 2023. Thereafter it shall be tacitly extended from year to year unless any of the Governments gives written notification to the other Governments of its intention to withdraw from the Convention. Any such withdrawal will take effect upon the expiry of two years from the date of receipt of the notification by any of the other Governments or on such later date as may be specified in the notification.

### 21.3.2 Other commitments

The financial commitments payable in future years include payments due under non-cancellable contracts to the following organisations:

| Organisation | Note | Within 1 Year | Later than 1 year and not later than 5 years | Later than 5 Years | 31 March 2018 | Total 2016-17 |
|---|---|---|---|---|---|---|
| | | £m | £m | £m | £m | £m |
| Met Office | a | 99 | 412 | 1,035 | 1,546 | 1,539 |
| Ordnance Survey | b | 51 | – | – | 51 | 203 |
| Other commitments | | 136 | 50 | 18 | 204 | 259 |
| **Core Department and Agencies total** | | **286** | **462** | **1,053** | **1,801** | **2,001** |
| Other commitments | | 3 | – | – | 3 | 2 |
| **Departmental Group total** | | **289** | **462** | **1,053** | **1,804** | **2,003** |

The Departmental Group has entered into non-cancellable contracts with the above bodies. Contracts are paid in Euros and pounds sterling. Where payments are made in Euros, there are fluctuations due to exchange rate differences. The nature of the most significant contracts is described below:

a) The core Department has agreements with the Met Office (a BEIS-owned trading fund) to provide meteorology services, including the Public Weather Service agreement which BEIS manages on behalf of the government. This agreement is open ended but is reviewed on an annual basis.

b) The core Department has agreements with Ordnance Survey Limited (a Government-owned company in which BEIS is the sole shareholder) to provide mapping data and access to its database for the whole of government. The Public Sector Mapping agreement and the Open Data agreement expire on 31 March 2021.

# 22 Financial instruments

The carrying amounts of financial instruments in each of the IAS 39 categories are as follows:

| | Note | 31 March 2018 Core Department and Agencies | 31 March 2018 Departmental Group | 31 March 2017 restated Core Department and Agencies | 31 March 2017 restated Departmental Group |
|---|---|---|---|---|---|
| | | £m | £m | £m | £m |
| **Financial assets** | | | | | |
| **Loans and receivables:** | | | | | |
| Cash and cash equivalents | 17 | 1,246 | 2,034 | 1,192 | 1,819 |
| Receivables (i) | 14 | 1,374 | 2,001 | 641 | 1,273 |
| Loans to public sector bodies (ii) & (iii) | 10.3 & 16 | 1,238 | 943 | 991 | 832 |
| Other financial assets | 11.2 | 2 | 606 | 2 | 430 |
| **Total loans and receivables** | | **3,860** | **5,584** | **2,826** | **4,354** |
| **Public dividend capital:** | | | | | |
| Public dividend capital | 10.2 | 81 | 81 | 81 | 81 |
| **Total public dividend capital** | | **81** | **81** | **81** | **81** |
| **Available for sale:** | | | | | |
| Repayable Launch Investments | 11.1 | 1,047 | 1,047 | 1,205 | 1,205 |
| Ordinary shares in public sector companies (iv) | 10.1 | 880 | 1,337 | 664 | 1,086 |
| Other financial assets | 11.2 | 121 | 2,676 | 278 | 2,441 |
| **Total available for sale** | | **2,048** | **5,060** | **2,147** | **4,732** |
| **Derivatives:** | | | | | |
| Forward contracts | | 78 | 86 | 95 | 107 |
| Contracts for difference | 9 | – | (15,892) | | (12,334) |
| **Total derivatives** | | **78** | **(15,806)** | **95** | **(12,227)** |
| **Fair value through profit or loss:** | | | | | |
| Other financial assets | 11.2 | – | 1 | – | 2 |
| **Total fair value through profit or loss** | | **–** | **1** | **–** | **2** |
| **Held to maturity:** | | | | | |
| Other financial assets | 11.2 | – | 7 | – | 7 |
| **Total held to maturity** | | **–** | **7** | **–** | **7** |
| **Financial liabilities** | | | | | |
| Financial guarantees | | (61) | (61) | (61) | (61) |
| Payables (ii) | 18 | (1,335) | (2,175) | (1,228) | (1,968) |
| **Total other financial liabilities** | | **(1,396)** | **(2,236)** | **(1,289)** | **(2,029)** |

(i) The amounts disclosed above as payables and receivables exclude any assets or liabilities which do not arise from a contractual arrangement.

(ii) Loans to public sector bodies comprises the loans detailed in Note 16 and Other loans and investments in Other public sector bodies detailed in Note 10.3.

(iii) Loans to public sector bodies in the core Department for 2017-18, excludes £63 million (2016-17 £58 million), relating to the loan investments in the Northern Powerhouse Investment Fund and Midlands Engine Investment Fund, these are accounted for at cost under IAS 27.

(iv) Ordinary shares in public sector companies excludes bodies that are consolidated in the Departmental Group, as these are held at cost, see Note 10.1.

IFRS 7 'Financial Instruments: Disclosure' requires the disclosure of information which will allow users of financial statements to evaluate the significance of financial instruments on the Departmental Group's financial performance and position and the nature and extent of its exposure to risks arising from these instruments.

As the cash requirements of the Departmental Group are largely met through the Estimates process, financial instruments play a more limited role in creating risk than would apply to a non-public sector body of a similar size.

The Departmental Group is however exposed to credit, market, interest rate, liquidity and commodity price risks due to the specific programmes and activities undertaken in pursuance of the Departmental Group's objectives.

## Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Departmental Group's total maximum exposure to credit risk as at 31 March 2018 is £8,113 million (31 March 2017 £6,720 million). The risk of non-payment is reflected in the carrying amounts of the assets and liabilities, where the Departmental Group is exposed to credit risk.

Significant credit risks can be summarised as follows:

### Core Department

- Repayable Launch Investments – In the event of an investee company failure, the core Department may not recover its initial investment in whole or in part. The core Department seeks to offset this low probability risk by analysing the financial health of any applicant at the time of application for launch investment and reviewing financial health as part of the programme monitoring activity. In addition, contracts aim to contain provisions which will (as a minimum) not disadvantage the core Department compared to other creditors in the event of a corporate failure. The core Department takes steps to monitor the payments that become due to the companies under launch investment contracts to ensure they comply with the terms of the contracts. Finally, the contracts also require the company's auditors to confirm that all payments made to the core Department have been made correctly and to identify any errors made.
- Investment funds – Investee companies may not perform as expected and the Departmental Group may not recover its initial investment. The core Department minimises the risk by monitoring the overall performance of the funds and to secure value for the core Department as an investor. This includes a full evaluation of each business case submitted prior to committing funds.
- Financial guarantees – Through the various loan guarantee schemes the core Department is exposed to the risk that a recipient of the loan may default and the lending institution will call upon the core Department to honour its guarantee. The core Department minimises the credit risk for its most significant guarantees, the Enterprise Financial Guarantee (EFG) and legacy Small Firms Loan Guarantee Scheme (SFLGS), by devolving responsibility to the banks to determine whether any business applying for a loan is commercially viable. The banks are required to apply normal commercial practices. To establish that this is the case, for EFG the core Department undertakes an independent audit of the lenders participating in the Scheme. This is done by sampling and checking guarantees granted and defaults arising using recognised statistical sampling and auditing techniques and by auditing individual default claims by exception, using the participating banks to determine whether any potential lender applying for a loan is commercially viable. Furthermore, any losses suffered on these loans are shared between the Department and the lending institution. The EFG is also subject to a cap which limits the Core Department's exposure.

As at 31 March 2018 the core Department has £630 million of guarantees outstanding (31 March 2017: £684 million) which will expire over the next 10 years as the underlying debt matures. Due to the cap on payouts, the maximum amount that could be paid out if all loans defaulted is £239 million (31 March 2017: £201 million). However, not all loans are expected to payout and the core Department has estimated its liability to be £61 million (31 March 2017: £61 million). In addition, the core Department has estimated that it will have future fees receivable of £27 million after allowing for bad debts (31 March 2017: £27 million). Both the liability for expected payouts and asset for future fees are recognised on the Statement of Financial Position.

### NDPBs and other designated bodies

- The British Business Bank (BBB) investments are assessed by BBB's Valuation Committee. BBB produces credit risk ratings for its investments based upon a risk grading of the financial obligor and the estimated Loss Given Default on that investment. Risk drivers which are assessed in setting the ratings include the financial viability and lending safety of the investment and, if available, the rating assigned by an external credit agency. This is mitigated by new product approval processes that assess default and loss rates, due diligence of delivery partners underwriting methods, and portfolio monitoring and default models being put in place.

## 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:

a) Foreign currency risk

### Core Department

The core Department is exposed to a small amount of currency risk with respect to Repayable Launch Investment contracts where income due from aircraft or engine sales may initially be based in US dollars, but it is minimal in the context of the overall Repayable Launch Investment portfolio. Otherwise the core Department's exposure to foreign currency risk during the year was insignificant. Foreign currency income was negligible, and foreign currency expenditure was a small percentage of total expenditure (less than 1%).

All material assets and liabilities are denominated in pounds sterling.

### Agencies

- Forward contracts – The UKSA pays an annual subscription in Euros to the European Space Agency and has entered into forward contracts to mitigate the risk. These derivative contracts have been designated as cash flow hedges. At the reporting date the hedges met the IAS 39 effectiveness criteria.

### NDPBs and other designated bodies

- Forward contracts – The Science and Technology Facilities Council (STFC) and BIS (Postal Services Act 2011) Company Limited are subject to foreign currency risks and have entered into forward contracts to help mitigate these risks. These derivative contracts have been designated as cash flow hedges by STFC and at the reporting date the hedges met the IAS 39 effectiveness criteria. BIS (Postal Services Act 2011) Company Limited does not apply hedge accounting.
- Cash and cash equivalents held in foreign currency – BIS (Postal Services Act 2011) Company Limited, the Medical Research Council, STFC, the Natural Environment Research Council and Nesta Trust are subject to minor foreign currency risk through the maintenance of bank accounts in foreign currencies (predominantly in US dollars and Euros) to deal with day-to-day overseas transactions.
- Investments – At 31 March 2018 Enrichment Holdings Limited (EHL) primary investment was in URENCO Limited, a company valued in Euros. A 5% movement in the EUR/GBP foreign exchange rate would result in an unrealised foreign exchange gain or loss of £22 million (31 March 2017: £21 million).

b) Interest rate risk

### Core Department

The core Department does not invest or access funds from commercial sources, but it is exposed to interest rate risk with respect to the SFLGS and the EFG. For SFLGS and EFG, the core Department is exposed to interest rate risk, as the majority of the loan guarantees are provided against variable rate loans. The banks' usual lending practices mean that fixed rate loans are usually available only for small value short term loans. To minimise the risk of default due to interest rate rises, accompanied by a decline in the economic environment, the core Department relies on the lenders assessment using best commercial practice to manage the risk of default.

### NDPBs and other designated bodies

For BIS (Postal Services Act 2011) Company Limited interest rate risk arises from the effects of fluctuations in the prevailing levels of market interest rates on the fair value of financial assets and future cash flows. The Company holds fixed interest securities that are exposed to fair value interest rate risk. The Company also holds floating rate securities that are exposed to cash flow interest rate risk. The principal strategy is to manage the fair value risk by holding the debt securities until maturity unless opportunities exist in the market for it to profit, for example, from any favourable interest rate movements. Interest rate risk is not expected to have a significant impact.

BBB holds both fixed and variable rate investments. Interest rate risk is regularly monitored by each organisation to ensure that the mix of fixed and variable borrowing is appropriate. BBB does not use derivatives to hedge interest rate risk.

The impact of interest rates affects the discount rate used to arrive at the fair value of the Contracts for Difference (CfD) liability held by the Low Carbon Contracts Company (LCCC). Changes in interest rates which affect the discount rate would therefore affect the Statement of Financial Position valuation. However the Departmental Group is not financially exposed to this risk because the liability is funded through a levy on suppliers.

c) Other market risk

### Core Department

The core Department is exposed to wider risks relating to the performance of the economy as a whole. The main risks resulting from a downward movement in the economy include failures of investee companies of investment funds, loan defaults under the core Department's EFG Scheme and negative impacts on the core Department's Repayable Launch Investment income and valuations from the potential resultant decrease in demand in the aerospace industry.

The UK Green Investment Platform (UK GIP) is exposed to market risk through the concentration of investments in the clean energy sector. UK GIP is also exposed to equity price risk due to its investments in businesses developing construction assets across its priority sectors. The company intends to withdraw from the investments when these assets are operational in order to recycle their capital. The risk is minimised by spreading investments across all of its priority sectors.

The Nesta Trust is exposed to equity price risk due to its investment of a portion of its endowment assets in publicly listed equity investments. Nesta Trust minimises this risk by investing for the medium-to long-term, diversifying its equity investments over a number of managers with complementary styles, and invests in investment funds with large institutional investors. The performance of these investment managers is monitored regularly.

EHL holds a one third stake in URENCO Limited. The other, equal shareholders, are effectively the Dutch government (through Ultra-Centrifuge Nederland Limited), and German utilities (through Uranit UK Limited). URENCO Limited's principal activity is the provision of a service to enrich uranium to provide fuel for nuclear power utilities. Any change to this specialised market, such as a change in a country's energy policy, will impact the value of EHL's investment. EHL regularly monitors the performance of URENCO Limited.

## Inflation risk

The CfD valuation is based on models which use assumptions about future prices. The amounts payable under the CfD contracts will be affected by the indexation of strike prices to reflect actual inflation and an inflation risk arises from the possibility of differences between the assumed inflation in the model and in the actual contracts. Inflation rates may not continue at the relatively low levels experienced in recent years; the Departmental Group is not financially exposed to this risk because the liability is funded through a levy on suppliers.

## Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

### The core Department and its Agencies

In common with other government departments, the future financing of its liabilities is to be met by future grants of Supply, voted annually by Parliament. There is no reason to believe that future approvals will not be forthcoming, therefore, on this basis the liquidity risk to the core Department and its Agencies is minimal.

### NDPBs and other designated bodies

Information about the Departmental Group's objectives, policies and processes for managing and measuring risk can be found in the Governance Statement.

## Commodity price risk

Commodity price risk is the risk or uncertainty arising from possible price movements.
The amounts payable under the CfD contracts are exposed to price risk through the fluctuations in future actual wholesale electricity prices, specifically, on how they will differ from the current forecast of future prices in the central scenario. However the LCCC and the core Department are not financially exposed to this risk because the liability is funded through a levy on suppliers.

## Financial instruments: fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method.
The different levels have been defined as follows:

- Level 1 – uses quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – uses inputs for the assets or liabilities other quoted prices, that are observable either directly or indirectly;
- Level 3 – uses inputs for the assets or liabilities that are not based on observable market data, such as internal models or other valuation method.

The following table presents the Departmental Group's financial assets and liabilities that are measured at fair value at 31 March 2018 and 31 March 2017:

| | Note | 31 March 2018 Level 1 | Level 2 | Level 3 | Total | 31 March 2017 restated Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|---|---|---|---|
| | | £m | £m | £m | £m | £m | £m | £m | £m |
| **Assets** | | | | | | | | | |
| **Available for sale** | | | | | | | | | |
| **Equity investments** | | | | | | | | | |
| Ordinary shares in public sector bodies | 10.1 | – | 1,337 | – | **1,337** | – | 1,086 | – | **1,086** |
| Ordinary shares in listed equities | 11.2 | 269 | – | – | **269** | 266 | – | – | **266** |
| Ordinary shares in unlisted private equities | 11.2 | – | 9 | 308 | **317** | – | 14 | 429 | **443** |
| **Debt and venture capital investments** | | | | | | | | | |
| Repayable Launch Investments | 11.1 | – | – | 1,047 | **1,047** | – | – | 1,205 | **1,205** |
| Gilts and bonds | 11.2 | 59 | – | – | **59** | 46 | – | – | **46** |
| Property related holdings | 11.2 | – | – | 42 | **42** | – | – | 65 | **65** |
| Investment funds | 11.2 | – | – | 1,321 | **1,321** | – | – | 1,245 | **1,245** |
| Other investments | 11.2 | 8 | 456 | 204 | **668** | 7 | 350 | 19 | **376** |
| **Total available for sale assets** | | **336** | **1,802** | **2,922** | **5,060** | **319** | **1,450** | **2,963** | **4,732** |
| **Derivatives** | | | | | | | | | |
| Forward contracts | | – | 109 | – | **109** | – | 112 | – | **112** |
| **Total derivatives used for hedging** | | **–** | **109** | **–** | **109** | **–** | **112** | **–** | **112** |
| **Fair value through profit or loss** | | | | | | | | | |
| Ordinary shares in listed equities, investment funds and other investments | 11.2 | 1 | – | – | **1** | 2 | – | – | **2** |
| **Total fair value through profit or loss** | | **1** | **–** | **–** | **1** | **2** | **–** | **–** | **2** |
| **Total assets** | | **337** | **1,911** | **2,922** | **5,170** | **321** | **1,562** | **2,963** | **4,846** |
| **Derivatives** | | | | | | | | | |
| Forward contracts | | – | (23) | – | **(23)** | – | (5) | – | **(5)** |
| Contracts for difference | 9 | – | – | (15,892) | **(15,892)** | – | – | (12,334) | **(12,334)** |
| **Financial liabilities through profit or loss** | | **–** | **(23)** | **(15,892)** | **(15,915)** | **–** | **(5)** | **(12,334)** | **(12,339)** |
| **Total liabilities** | | **–** | **(23)** | **(15,892)** | **(15,915)** | **–** | **(5)** | **(12,334)** | **(12,339)** |

There were no transfers between level 1 and 2 during the year.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments;
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rate at the reporting date, with the resulting value discounted back to present value;

– Other techniques, such as discounted cash flow analysis or for non-quoted ordinary shares that are not actively traded the net assets of the company are used. These are classified as level 3.

The following table presents the changes in level 3 instruments for the year ended 31 March 2018, excluding the CfDs which are disclosed in note 9.

| | Ordinary shares in un-listed private equities | Repayable Launch Investments | Property related holdings, investment funds and other financial assets | Total |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| **Opening balance** | **429** | **1,205** | **1,327** | **2,961** |
| Additions | 7 | – | 650 | **657** |
| Repayments/disposals | (94) | (103) | (409) | **(606)** |
| Gains and losses recognised in CSoCNE | (34) | (55) | (1) | **(90)** |
| **Closing balance** | **308** | **1,047** | **1,567** | **2,922** |

The following table presents the changes in level 3 instruments for the year ended 31 March 2017, excluding the CfDs which are disclosed in note 9.

| | Ordinary shares in un-listed private equities | Repayable Launch Investments | Property related holdings, investment funds and other financial assets | Total |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| **Opening balance** | **470** | **1,389** | **1,299** | **3,158** |
| Additions | 13 | – | 1,056 | **1,069** |
| Repayments/disposals | (114) | (144) | (93) | **(351)** |
| Reclassifications to non-current asset held for sale | – | – | (1,009) | **(1,009)** |
| Gains and losses recognised in CSoCNE | 60 | (40) | 76 | **96** |
| **Closing balance** | **429** | **1,205** | **1,329** | **2,963** |

The most significant individual valuation using level 3 inputs in the Departmental Group is Repayable Launch Investments; sensitivity analysis is detailed in note 11.1.

## Maturity profiles – discounted cashflows

The maturity profile of the discounted cashflows for the CfDs excluding Hinkley Point C is shown below.

| | <1 year | 2-5 years | >5 years | Total |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| As at 31 March 2017 | 295 | 3,613 | 8,426 | 12,334 |
| **As at 31 March 2018** | **581** | **4,596** | **10,715** | **15,892** |

# 23 Contingent liabilities disclosed under IAS37

The Departmental Group has the following most significant contingent liabilities. Other liabilities are disclosed in our partner organisation accounts.

| Basis of Recognition | Description |
|---|---|
| **Unquantifiable** | |
| Core Department – Assurance to FRC's funding | The core Department has provided assurance to Financial Reporting Council (FRC) in respect of providing grant where FRC's general voluntary funding falls or current statutory exemption from liability nears expiry. In the course of the financial year, new legislative measures were effected to prevent the statutory exemption from liability from expiring. |
| Core Department – Coal Industry Act 1994 | Responsibility for compensation claims relating to personal injuries suffered by former British Coal mineworkers between 1947 and 31 December 1994 transferred to the Department on 1 January 1998 by a restructuring scheme under the Coal Industry Act 1994. The timing and amounts of any future liabilities are uncertain except where a provision has been made in the accounts. The future liabilities will depend on the nature of any injury and whether the courts decide that compensation is due. |
| Core Department – Deed relating to the British Coal Staff Superannuation Scheme (BCSSS) 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 Scheme was 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 the Department for Business, Energy and Industrial Strategy.<br><br>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. 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 is a long-term contingent liability dependent on the performance of the schemes' investments and their mortality experience. Further details regarding the Schemes and the notional sub-funds can be found in note 14. |
| Core Department – Indemnity to Public Appointment Assessors | The Cabinet Secretary has provided a government-wide indemnity to Public Appointments Assessors (PAAs). This will ensure that PAAs will not have to meet any personal civil liability incurred in the execution of their PAA functions. |
| Core Department – Nuclear agreements and treaties | The core Department has a range of civil nuclear liabilities arising through its association with the United Kingdom Atomic Energy Authority and British Nuclear Fuels Limited as well as ensuring that the government complies with its obligations under the various international nuclear agreements and treaties. The amount and timing of this overarching liability is not quantifiable. |
| Core Department – Site restoration liabilities inherited from British Coal | The core Department inherited liabilities from British Coal to reimburse certain third parties for costs incurred meeting statutory environmental standards in the restoration of particular coal-related sites. In addition to specific claims provided for (this is included in Other in note 19.2), it remains possible that the Department will be held responsible for further environmental liabilities. The timing and amounts of any liability are uncertain. |
| BBSRC – Indemnity to Roslin Institute | An indemnity has been given by Biotechnology and Biological Sciences Research Council (BBSRC) to the Roslin Institute for any costs that arise as a result of past actions of the Institute prior to its transfer to the University of Edinburgh in 2008. A further indemnity has been given to any fall in grant income of the Institute as a result of the transfer. The maximum settlement BBSRC will fund reduces each year and is limited to claims made up to May 2023. |

| Basis of Recognition | Description |
|---|---|
| Coal Authority – Restructuring Scheme | For the Coal Authority, where liabilities transferred under the various Coal Authority Restructuring Schemes (CARS) have crystallised due to planning conditions, agreements, claims etc. a provision has been made in these financial statements. It has not, however, been possible to quantify those contingent liabilities that may arise in the future. It is expected that any costs will be covered by future allocations of grant in aid. |
| Coal Authority – Subsidence damage and public safety liabilities | Licensees of mining operations are required to provide security to the Coal Authority to cover the anticipated future costs of settling subsidence damage liabilities within their areas of responsibility. Outside of the areas of responsibility of the holders of the licences under part II of the Coal Industry Act 1994, the Coal Authority is responsible for making good subsidence damage. Where an area of responsibility is extinguished this would transfer to the Coal Authority who would become responsible for the discharge of outstanding subsidence liabilities. The Coal Authority also has an ongoing liability to secure and keep secured the majority of abandoned coal mines. In all cases the liability for operating collieries is the responsibility of the licensees/lessees and security is held to address those liabilities. These liabilities have been provided for within the Public Safety and Subsidence provision based on analysis of trends and claims experience. However, it is possible that significant, unexpected events outside this provision may materialise. It is expected that any deficit will be covered by future allocations of grant in aid.<br><br>In addition to the contingent liabilities outlined above the following should also be noted: Environmental Information Regulations 2004 - The Coal Authority is aware of potential legal proceedings in respect of past fees paid for Mining Information. In the eventuality of receiving formal notification to commence legal proceedings, the Coal Authority will strongly defend its position. |
| Coal Authority – Legal claims | The Coal Authority is subject to various claims and legal actions in the ordinary course of its activities for which provision is made in the accounts where appropriate on the basis of information available. The Coal Authority does not expect that the outcome of the above issues will materially affect its financial position. |
| CNPA – Legal claims | The Civil Nuclear Police Authority (CNPA) has a number of potential liabilities in respect of claims from employees which depend on actual or potential proceedings. The timing and amounts of any payments are uncertain. These liabilities have not been provided for as CNPA believes the claims are unlikely to be successful or to lead to a transfer of economic benefit. |
| NDA – Potential treatment of Inventories | At March 2018 the Nuclear Decommissioning Authority (NDA) held inventories of reprocessed uranic material. These materials are currently held at nil value due to uncertainty over their future use which may result in as-yet unquantified liabilities for NDA. |
| NDA – Pension schemes | Whilst not the lead employer, the NDA is the lead organisation and has ultimate responsibility for certain nuclear industry pension schemes, including the Combined Nuclear Pension Plan, the Magnox section of the Electricity Supply Pension Scheme, and the Group Pension Scheme. Provisions for known deficits are included within Nuclear Provisions. However, movements in financial markets may adversely impact the actuarial valuations of the schemes, resulting in an increase in scheme deficits and consequent increase in nuclear provision. |
| Sellafield – Contamination | At 31 March 2018, Sellafield had contingent liabilities incurred in the ordinary course of business arising out of guarantees and other transactions in respect of which, in the opinion of the Directors, no material losses are expected to arise. Any liabilities that did arise on such guarantees would ultimately be recovered from the NDA. In addition, on 11 May 2018 the Office for Nuclear Regulation notified Sellafield of its intention to prosecute Sellafield under Section 2 (1) of the Health and Safety at Work Act, 'General duties of employers to their employees'. This relates to an incident that occurred on 5 February 2017 in the Special Nuclear Materials operating unit on the Sellafield site. The incident resulted in personal contamination to one of Sellafield's employees. Sellafield has been issued with a summons to appear at Workington Magistrates Court on 20 July 2018. Sellafield is currently considering the evidence and it is likely that the case will take several months to resolve. |

| Basis of Recognition | Description |
|---|---|
| UKSA – Dilapidation | In 2013-14 the UK Space Agency (UKSA) entered into an operating lease with NATS (En Route) Plc for office accommodation. At the end of the lease term in December 2030, the landlord has the contractual right to enforce the Agency to pay for costs of dilapidation. However, due to the specialized nature of the asset, the expectation is that the landlord will continue using the asset in its current state and therefore will not choose to exercise this option. In the event of the lease contract being terminated by the landlord before the end of the lease term, UK Space Agency will be compensated. The likelihood of outflow of economic benefit is therefore assessed as not probable. |
| UKSA – Outer Space Act 1986 | The UKSA has an obligation, governed by international (United Nations) convention, to third parties if they are accidentally damaged by UK space activities. Due to its unprecedented nature, a cost cannot be reliably estimated. In March 2015 the Outer Space Act 1986 was amended to cap licensees' previously unlimited liability for third party costs at 60 million euros for the majority of missions, for the duration of the licensed activity. This amendment was designed to adequately balance the risk to the UK Government whilst ensuring UK space operators remain competitive internationally. |
| Others | There are a number of potential liabilities for the Department in respect of claims from suppliers, employees and third parties which depend on actual or potential proceedings. The timing and amounts of any liabilities are uncertain. |
| **Quantifiable** | |
| Core Department – Guarantees to British Business Bank (£241 million) | The core Department guarantees British Business Bank under the Enterprise Financial Guarantee (EFG) and legacy Small Firms Loan Guarantee Scheme (SFLGs) to facilitate lending to viable businesses, with a maximum obligation being subject to a cap, which at 31 March 2018 is £241 million.<br><br>Under the BBB's Help to Grow financial guarantee programme, the Bank has entered in to financial guarantee agreements of £60 million. The Bank has guaranteed 75% of eligible lending to SMEs under these agreements and a counter guarantee is in place that guarantees 50% of the Bank's 75% of eligible lending. As at 31 March 2018 the amount lent under these financial guarantee agreements was £1.8 million (2016-17: £0.6 million). |
| BBSRC – Contamination (£3 million) | As part of a Sale Agreement relating to a previous BBSRC site, BBSRC agreed to indemnify the purchaser against contamination resulting from dangerous substances. The indemnity was over a 10-year period commencing in 2013-14 and was capped at £3 million. |
| BBSRC – Exit costs (£31 million) | Prior to 31 March 2018, some staff at BBSRC strategically funded institutes were on BBSRC terms and conditions. Whilst their direct salary costs are paid by the institutes, BBSRC is liable for any exit costs for these staff. The date and number of staff to take exit packages in any one year is unknown; however, if all staff were to take exit packages, the maximum liability is estimated at £31 million, with the amount declining on an annual basis up to March 2025. |
| Core Department – Ofgem administration costs from the buy-out fund (£3.6-£3.8 million) | The core Department, the Scottish Government and the Northern Ireland Executive have previously undertaken to support Ofgem's costs for administering the Renewables Obligation scheme (around £3.6 – £3.8 million) if there is insufficient money in both the buy-out fund and late payment fund to cover these costs. The size of the 2016-17 buy-out fund will not be known until October 2018. It is dependent in part by the availability and price of Renewable Obligation Certificates (ROCs) – if there is a surplus of ROCs, suppliers may be more inclined to meet their obligations by submitting ROCs but ultimately much depends on supplier behaviour which is difficult to predict. BEIS will have an indication of how many ROCs are available and whether there is likely to be a surplus after the end of the obligation year (31 March 2018) but will not know the size of the buy-out fund until October 2018. |
| Core Department – Wave Hub transfer (£5 million) | The core Department has indemnified Cornwall Council in respect of the transfer of Wave Hub up to a maximum amount of £5 million. This obligation expires in 2028 due to the limitation period under the signed contract. |
| Innovate UK – Decommissioning costs (£2.6 million) | As at 31 March 2018 Innovate UK has a single contingent liability. The liability may arise if Innovate UK has to provide a grant to Narec (Natural Renewable Energy Centre) in order for it to be able to decommission a weather monitoring platform in the North Sea. This is currently collecting data to support the development of an offshore wind test site. This may take place anytime between 3 and 25 years from now dependent on the development of the site, at an estimated cost of £2.6m. |

| Basis of Recognition | Description |
|---|---|
| MRC – Dilapidation (£1.8 million) | Medical Research Council (MRC) has identified a contingent liability of £1.8 million (31 March 2017: £1.8 million) for dilapidation work. This may be required at the end of property leases which are due to expire within the next three years. |
| STFC – Decommissioning costs (£1.7 million) | The Science and Technology Facilities Council (STFC) has a contingent liability for European Synchrotron Radiation Facility (ESRF) decommissioning costs associated with the dismantling of the facility and infrastructures. Decommissioning occurs on winding up of ESRF. If exit by the UK (or any other Member) results in ESRF being wound up, the Members are required to arrange for decommissioning of ESRF's plant and buildings and to meet the costs of doing so in proportion to their share of capital at the time of dissolution. The contingent liability is estimated to be £1.7 million. |
| STFC – Reprocessing and staff commitments (£13.7 million) | STFC is responsible for Institut Laue-Langevin (ILL) staff related commitments and costs associated with reprocessing fuel elements. The contingent liability is estimated to be £13.7 million (31 March 2017: £16 million). |

# 24 Contingent assets

| Basis of Recognition | Description |
|---|---|
| **Unquantifiable** | |
| Coal Authority – Restructuring Schemes | By virtue of the seventh and ninth Coal Authority Restructuring Schemes (CARS 7 and 9), the Coal Authority is the beneficiary of restrictive covenants and clawback provisions relating to land and properties sold by the British Coal Corporation. In the event that the purchasers are able to retrospectively secure added value by obtaining planning consent for alternative uses, the Authority will receive a share of the added value. Quantification of this asset is not possible. |
| **Quantifiable** | |
| Core Department – Deed Relating to the British Coal Staff Superannuation Scheme (BCSSS) under Paragraph 2(9) of Schedule 5 to the Coal Industry Act 1994 (£1.7 billion) | Within 12 months of 31 March 2033, the trustee of the BCSSS shall pay to the 'the Guarantor' (the core Department) any surplus remaining on the scheme net of any amount retained for the obligation. The value of the surplus will depend on the value of scheme assets in relation to outstanding obligations. Based on the Government Actuary's Department's estimate of a £1.7 billion surplus as at 31 March 2015, the Department considers a receipt from the scheme to be probable. |

# 25 Related-party transactions

The core Department is the parent of the bodies listed in note 27 – these bodies are regarded as related parties and various material transactions have taken place during the reporting period between members of the Departmental Group. The related parties of the consolidating bodies are disclosed in their respective accounts. The core Department is also the sponsor of Companies House, UK Intellectual Property Office, the Met Office (Trading Funds), Ordnance Survey, NPL Management Limited, NNL Holdings Limited and British Nuclear Fuels Limited.

The core Department has had various material transactions with other Government departments, Government bodies and devolved administrations comprising the Northern Ireland Executive, Scottish Government and the Welsh Government. The most significant of these transactions have been with HM Treasury, Post Office, HM Treasury's consolidated fund, UK Green Investment Bank, Department for Education, UK Space Agency, Engineering and Physical Sciences Research Council, Office of Gas and Electricity Markets, Met Office, Department for International Trade, Department for Environment, Food and Rural Affairs, Ministry of Defence and Environment Agency.

No minister, board member, key manager of the group or other related party have undertaken any material transactions with the core Department during the year. Details of the Department's ministers and senior managers are shown in the Remuneration Report.

Professor Dame Ann Dowling, Non-Executive Director on the BEIS Departmental Board is an unpaid President and Chairman of the Board of Trustees of the Royal Academy of Engineering. The Royal Academy of Engineering received £23 million in grants from the core Department during the year.

Professor Dame Ann Dowling and her husband are employees of the University of Cambridge. The University of Cambridge received payments of £56 million from Medical Research Council during the year.

In the course of allocating funding during the year, the seven research councils entered into material transactions with various Higher Education Institutions. Where these bodies have board members who are also members of university councils, each body operates a policy that precludes interested parties from voting on the funding to the university in which they have an interest. Further details of the transactions can be found in the statutory accounts of the individual bodies.

# 26 Restatement of Statement of Financial Position and Statement of Comprehensive Net Expenditure as a result of changes to the Departmental boundary and other restatements

Changes to the Departmental boundary

In 2016-17 the Start-Up Loans Company was retrospectively reclassified to central government, to take effect from the date of the company's inception, 25 June 2012. This has been reflected on the Designation and Amendment Order in 2017-18, and the prior year figures have been restated to reflect the change in the Departmental boundary.

This change to the Departmental boundary has resulted in an increase in the Departmental Group's net assets of £104 million and £68 million in 2016-17 and 2015-16 respectively.

Machinery of Government (MoG) restatements

On 1 April 2017, European Region Action Scheme for the Mobility of University Students (ERASMUS) programme transferred from the Department to the Department for Education (DfE). The Departmental Group's comparative net expenditure and net assets were not restated due to the Machinery of Government change being immaterial to both the Department and DfE. Had the Departmental Group's comparative net expenditure been restated this would have resulted in a reduction in the core and Departmental Group's net expenditure for 2016-17 of £9.6m and a £0.2m increase in the core and Departmental Group's net assets.

Prior period adjustments

In the year to 31 March 2018 it was identified that the Dounreay Site Restoration Limited (DSRL) Section of the Combined Nuclear Pension Plan (CNPP), which is a defined benefit pension scheme, should have been recognised in the Departmental Group's accounts. An independent actuary was commissioned to provide the IAS 19 disclosures report, conforming to requirements specified in International Financial Reporting Standards, specifically IAS 19 'Employee Benefits'.

As this is the first year that the DSRL Section has been separately classified on the Consolidated Statement of Financial Position, the actuary's IAS 19 report included the comparator information in respect of the year to 31 March 2017. The Consolidated Statement of Financial Position for 2016-17 has been restated to include the prior year defined benefit obligation figure of £35 million, while the corresponding amount has been accounted for as a receivable from NDA. This resultant intra-Group receivable has been eliminated against the NDA Decommissioning Provision, applying the same consolidation treatment as for the other Site Licence Companies. There is no impact on the Departmental Group's net assets or net expenditure for 2016-17. Further information about this pension restatement can be found in the note 20.

Changes in accounting policy

No changes in accounting policies were adopted by the FReM in 2017-18.

## Impact of restatements on opening balances for the Departmental Group at 31 March 2017

| | Balance at 31 March 2017 per 2016-17 published accounts | Nature of restatement<br>Changes in the boundary | Restated balance at 31 March 2017 |
|---|---|---|---|
| | £m | £m | £m |
| **Consolidated Statement of Comprehensive Net Expenditure** | | | |
| Net expenditure for the period | 14,842 | (36) | **14,806** |
| Other comprehensive net income and expenditure | (140) | – | **(140)** |
| **Total comprehensive expenditure** | **14,702** | **(36)** | **14,666** |
| **Consolidated Statement of Financial Position** | | | |
| Non-current assets | 12,656 | 105 | **12,761** |
| Current assets | 6,484 | 3 | **6,487** |
| Current liabilities | (9,490) | (4) | **(9,494)** |
| Non-current liabilities | (181,650) | – | **(181,650)** |
| General fund | 175,252 | (104) | **175,148** |
| Revaluation reserve | (2,813) | – | **(2,813)** |
| Non-current assets held for sale revaluation reserve | (15) | – | **(15)** |
| Charitable funds | (319) | – | **(319)** |
| Non-controlling interests | (105) | – | **(105)** |
| **Statement of Parliamentary Supply** | | | |
| Resource DEL | 1,972 | (27) | 1,945 |
| Capital DEL | 10,835 | 14 | 10,849 |
| Resource AME | 3,523 | 41 | 3,564 |
| Capital AME | (15) | – | (15) |
| **Net outturn for the year** | **16,315** | **28** | **16,343** |

## Impact of restatements on opening balances for the Departmental Group at 1 April 2016

| | Balance at 31 March 2015 per 2015-16 published accounts | Nature of restatement<br>Changes in the boundary | Restated balance at 31 March 2016 |
|---|---|---|---|
| | £m | £m | £m |
| **Consolidated Statement of Financial Position** | | | |
| Non-current assets | 14,106 | 68 | **14,174** |
| Current assets | 3,414 | 5 | **3,419** |
| Current liabilities | (7,279) | (5) | **(7,284)** |
| Non-current liabilities | (180,316) | – | **(180,316)** |
| General fund | 173,156 | (68) | **173,088** |
| Revaluation reserve | (2,685) | – | **(2,685)** |
| Charitable funds | (311) | – | **(311)** |
| Non-controlling interests | (85) | – | **(85)** |

# 27 List of bodies within the Departmental Group

The table below shows the list of BEIS organisations that are included in the Government Resources and Accounts Act 2000 (Estimates and Accounts) Order 2017, known as the Designation Order. The individual Annual Report and Accounts for each of these bodies can be found on their own websites or via the Inside Government website (https://www.gov.uk/government/organisations/department-for-business-energy-and-industrial-strategy).

The bodies whose accounts have been consolidated within the Departmental Group accounts are shown in section (a) of the table.

Bodies within the Departmental Group but not consolidated, such as where net assets are not considered material to the Departmental Group accounts, are indicated separately in section (b) of this table.

As a result of changes made in the 2017-18 Designation Order, some additional bodies are now included in the Departmental Group accounts boundary. Where boundary changes have an impact on previously reported financial results, these are shown in note 26.

| **Designated Body** *(linked bodies are indicated in italics below their parent body)* | **Status** | **Website** *(further information about linked bodies or those closed during the year is also included)* |
|---|---|---|
| **(a) Bodies consolidated in Departmental Group accounts for 2017-18** | | |
| **Executive Agencies** | | |
| Insolvency Service | Executive Agency | gov.uk/government/organisations/insolvency-service |
| UK Space Agency | Executive Agency | gov.uk/government/organisations/uk-space-agency |
| **NDPBs and other designated bodies** | | |
| Advisory Conciliation and Arbitration Service[4] | NDPB | acas.org.uk |
| *Central Arbitration Committee* | *Linked but independent institution of ACAS* | *Consolidated by ACAS* |
| *Certification Office for Trade Union and Employers' Associations* | *Linked but independent institution of ACAS* | *Consolidated by ACAS* |
| The Arts and Humanities Research Council[4,5] | NDPB | ahrc.ukri.org |
| The Biotechnology and Biological Sciences Research Council[4,5] | NDPB | bbsrc.ukri.org |
| BIS (Postal Services Act 2011) Company Limited | Limited Company owned by BEIS | beta.companieshouse.gov.uk/company/07941521 |
| British Business Bank plc | Public Limited Company owned by BEIS | british-business-bank.co.uk |
| *British Business Bank Investments Ltd* | *Limited Company* | *Consolidated by British Business Bank plc* |
| *British Business Finance Ltd* | *Limited Company* | *Consolidated by British Business Bank plc* |
| *British Business Financial Services Ltd* | *Limited Company* | *Consolidated by British Business Bank plc* |
| *British Business Aspire Holdco Ltd* | *Limited Company* | *Consolidated by British Business Bank plc* |
| *Capital for Enterprise Fund Managers Limited* | *Limited Company* | *Consolidated by British Business Bank plc* |
| *Capital for Enterprise (GP) Limited* | *Limited Company* | *Consolidated by British Business Bank plc* |
| *Capital for Enterprise Limited* | *Limited Company* | *Consolidated by British Business Bank plc* |
| *The Start-Up Loans Company* | *Limited Company* | *Consolidated by British Business Bank plc* |
| Civil Nuclear Police Authority[4] | NDPB | gov.uk/government/organisations/civil-nuclear-police-authority |

| **Designated Body** (linked bodies are indicated in italics below their parent body) | **Status** | **Website** (further information about linked bodies or those closed during the year is also included) |
|---|---|---|
| Coal Authority[4] | NDPB | gov.uk/government/organisations/the-coal-authority |
| Committee on Fuel Poverty | NDPB | gov.uk/government/organisations/committee-on-fuel-poverty<br>Costs are included in the core Department's expenditure |
| Committee on Radioactive Waste Management | NDPB | gov.uk/government/organisations/committee-on-radioactive-waste-management |
| Competition Service | NDPB | catribunal.org.uk/244/Competition-Service.html |
| Competition Appeal Tribunal | NDPB | catribunal.org.uk |
| The Copyright Tribunal | NDPB | gov.uk/government/organisations/copyright-tribunal<br>No accounts produced as costs are included in the core Department's expenditure. It is funded by BEIS and operated by UK Intellectual Property Office |
| Cornwall and Isles of Scilly Investments Limited | Limited Company owned by BEIS | https://british-business-bank.co.uk/ourpartners/cornwall-isles-scilly-investment-fund-ciosif/ |
| Council for Science and Technology | Expert Committee | gov.uk/government/organisations/council-for-science-and-technology<br>No accounts produced as costs are included in the core Department's expenditure |
| Diamond Light Source Limited | Limited Company | diamond.ac.uk |
| Dounreay Site Restoration Limited | Limited Company | dounreay.com<br>Site Licence Company – private company, which operates sites on behalf of, and under contract from the NDA |
| The Economic and Social Research Council[4,5] | NDPB | esrc.ukri.org |
| The Engineering and Physical Sciences Research Council[4,5] | NDPB | epsrc.ukri.org |
| Enrichment Holdings Ltd | Limited Company owned by BEIS | This is a special purpose vehicle for the Government's investment in URENCO Limited |
| *Enrichment Investments Limited* | *Limited Company* | *Consolidated by Enrichment Holdings Limited* |
| Electricity Settlements Company Ltd | Limited Company owned by BEIS | emrsettlement.co.uk/ |
| Fleetbank Funding Limited | Limited Company owned by BEIS | This is a vehicle for the Government to facilitate the Enable Loan Guarantee Scheme |
| The Financial Reporting Council Limited | Limited Company | frc.org.uk |
| Harwell Science and Innovation Campus Public Sector Limited Partnership | Limited Partnership | Joint venture owned by STFC and UK Atomic Energy Authority |
| Industrial Development Advisory Board | Expert Committee | gov.uk/government/organisations/industrial-development-advisory-board<br>No accounts produced. Funded by BEIS and operated by the Insolvency Service. Costs are included as part of the core Department |
| LLW Repository Limited | Limited Company | llwrsite.com<br>Site Licence Company – private company, which operates sites on behalf of, and under contract from the NDA |

| **Designated Body**<br>*(linked bodies are indicated in italics below their parent body)* | **Status** | **Website**<br>*(further information about linked bodies or those closed during the year is also included)* |
|---|---|---|
| Low Carbon Contracts Company Ltd | Limited Company owned by BEIS | lowcarboncontracts.uk/ |
| Low Pay Commission | NDPB | gov.uk/government/organisations/low-pay-commission<br>No accounts produced as costs are included in the core Department's expenditure |
| Magnox Limited | Limited Company | magnoxsites.com<br>Site Licence Company – private company, which operates sites on behalf of, and under contract from the NDA |
| Medical Research Council[4,5] | NDPB | mrc.ukri.org |
| Midlands Engine Investments Limited | Limited Company owned by BEIS | british-business-bank.co.uk/ourpartners/midlands-engine-investment-fund/ |
| The Natural Environment Research Council[4,5] | NDPB | nerc.ukri.org |
| The NESTA Trust | Charitable Trust | www.nesta.org.uk |
| Northern Powerhouse Investments Limited | Limited Company owned by BEIS | british-business-bank.co.uk/ourpartners/northern-powerhouse-investment-fund/ |
| Nuclear Decommissioning Authority[4] | NDPB | gov.uk/government/organisations/nuclear-decommissioning-authority |
| *Radioactive Waste Management Limited* | *Limited Company* | *Consolidated by Nuclear Decommissioning Authority* |
| *Sellafield Limited* | *Limited Company* | sellafieldsites.com/<br>*Site Licence Company – private company, which operates sites on behalf of, and under contract from the NDA* |
| Nuclear Liabilities Financing Assurance Board | Expert Committee | gov.uk/government/organisations/nuclear-liabilities-financing-assurance-board<br>Costs are included in the core Department's expenditure. |
| Office of Manpower Economics[4] | Part of the core Department | gov.uk/government/organisations/office-of-manpower-economics<br>No accounts produced as costs are included in the core Department's expenditure |
| Oil and Gas Authority | Limited Company owned by BEIS | ogauthority.co.uk/ |
| Postal Services Holding Company Limited | Limited Company owned by BEIS | This is a vehicle for the Government's investment in Royal Mail Plc and Post Office Limited |
| Regulatory Policy Committee | NDPB | gov.uk/government/organisations/regulatory-policy-committee<br>No accounts produced as costs are included in the core Department's expenditure |
| The Science and Technology Facilities Council (STFC)[4,5] | NDPB | stfc.ukri.org |
| *STFC Innovations Limited* | *Limited Company* | *Consolidated by STFC* |
| South Tees Site Company Limited | Limited Company owned by BEIS | https://www.southteesdc.com/about-us/south-tees-site-company-ltd/<br>This is a vehicle for managing the Government investment in the South Tees Site |

| **Designated Body** *(linked bodies are indicated in italics below their parent body)* | **Status** | **Website** *(further information about linked bodies or those closed during the year is also included)* |
|---|---|---|
| Innovate UK (trading name of The Technology Strategy Board)[5] | NDPB | https://www.gov.uk/government/organisations/innovate-uk |
| UK Climate Investments LLP | Limited Partnership between BEIS and UK Green Investment Bank | greeninvestmentbank.com/funds/international/ |
| *UK Climate Investments Indigo Limited* | *Limited Company* | *Consolidated by the UK Climate Investments LLP* |
| *UK Climate Investments VC Limited* | *Limited Company* | *Consolidated by the UK Climate Investments LLP* |
| UK Green Infrastructure Platform Limited[2] | Public Limited Company owned by BEIS | Investment vehicle managed by UK Green Investment Bank Limited on behalf of BEIS. See GIB website below. |
| UK Green Investment Bank Limited[1,3] | Public Limited Company owned by BEIS | greeninvestmentgroup.com |
| *Aviva Investors Realm Energy Centres Limited Partnership[1]* | *Limited Partnership* | *Consolidated by UK Green Investment Bank Limited* |
| *UK Energy Efficiency Investments 1 L.P.[1]* | *Limited Partnership* | *Consolidated by UK Green Investment Bank Limited* |
| *Energy Saving Investments L.P.[1]* | *Limited Partnership* | *Consolidated by UK Green Investment Bank Limited* |
| *UK Green Investment Bank Financial Services Limited[1]* | *Limited Company* | *Consolidated by UK Green Investment Bank Limited* |
| *UK Green Investment Rhyl Flats Limited[1]* | *Limited Company* | *Consolidated by UK Green Investment Bank Limited* |
| *UK Green Sustainable Waste and Energy Investments L.P.[1]* | *Limited Partnership* | *Consolidated by UK Green Investment Bank Limited* |
| *UK Waste Resources and Energy Investments L.P.[1]* | *Limited Partnership* | *Consolidated by UK Green Investment Bank Limited* |
| *UK Green Community Lending Limited[1]* | *Limited Company* | *Consolidated by UK Green Investment Bank Limited* |
| *UK Green Investment Rampion Limited[1]* | *Limited Company* | *Consolidated by UK Green Investment Bank Limited* |
| *UK Green Investment Gwynt y Mor Limited[1]* | *Limited Company* | *Consolidated by UK Green Investment Bank Limited* |
| *UK Green Investment Climate International Limited[1]* | *Limited Company* | *Consolidated by UK Green Investment Bank Limited* |
| *The Recycling and Waste L.P.[1]* | *Limited Partnership* | *Consolidated by UK Green Investment Bank Limited* |
| *Green Investment Bank Offshore Wind Fund LP[1]* | *Limited Company* | *Consolidated by UK Green Investment Bank Limited* |
| *UK Green Investment Offshore Wind B L.P.[1]* | *Limited Company* | *Consolidated by UK Green Investment Bank Limited* |
| *UK Green Investment Co-investment Lyle Limited[1]* | *Limited Company* | *Consolidated by UK Green Investment Bank Limited* |
| *UK Green Investment FCG Limited[1]* | *Limited Company* | *Consolidated by UK Green Investment Bank Limited* |
| *UK Green Investment LID Limited[1]* | *Limited Company* | *Consolidated by UK Green Investment Bank Limited* |

| **Designated Body**<br>*(linked bodies are indicated in italics below their parent body)* | **Status** | **Website**<br>*(further information about linked bodies or those closed during the year is also included)* |
|---|---|---|
| *UK Green Investment Lyle Limited[1]* | *Limited Company* | *Consolidated by UK Green Investment Bank Limited* |
| *UK Green Investment Offshore Wind C L.P.[1]* | *Limited Partnership* | *Consolidated by UK Green Investment Bank Limited* |
| *UK Green Investment Offshore Wind Co-Investment L.P.[1]* | *Limited Partnership* | *Consolidated by UK Green Investment Bank Limited* |
| *UK Green Investment OSWF Lyle Limited[1]* | *Limited Company* | *Consolidated by UK Green Investment Bank Limited* |
| *UK Green Investment (OSW) GP Limited[1]* | *Limited Company* | *Consolidated by UK Green Investment Bank Limited* |
| *UK Green Investment Sheringham Shoal Limited[1]* | *Limited Company* | *Consolidated by UK Green Investment Bank Limited* |
| *GLID Wind Farms TopCo Limited[1]* | *Limited Company* | *Consolidated by UK Green Investment Bank Limited* |
| *Lyle JV Holdings Limited[1]* | *Limited Company* | *Consolidated by UK Green Investment Bank Limited* |
| UK Shared Business Services Limited | Limited Company | uksbs.co.uk |
| United Kingdom Atomic Energy Authority[4] | NDPB | gov.uk/government/organisations/uk-atomic-energy-authority (corporate)<br>ccfe.ac.uk (fusion research) |
| *AEA Insurance Limited* | *Limited Company* | *Consolidated by United Kingdom Atomic Energy Authority* |
| **(b) Bodies not consolidated in Departmental Group accounts for 2017-18** | | |
| Aerospace Technology Institute | Limited Company | ati.org.uk/<br>Turnover and net assets are not material to Departmental Group accounts |
| British Hallmarking Council | NDPB | gov.uk/government/organisations/british-hallmarking-council<br>Turnover and net assets are not material to Departmental Group accounts |
| Committee on Climate Change[4] | NDPB | theccc.org.uk/about/<br>Turnover and net assets are not material to Departmental Group accounts |
| Daresbury SIC (PubSec) LLP | Limited Liability Partnership | https://beta.companieshouse.gov.uk/company/OC360004<br>A joint venture between the Science and Technology Facilities Council and Halton Borough Council. Turnover and net assets are not material to Departmental Group accounts |
| Daresbury Science & Innovation Campus Limited | Company Limited by Guarantee | www.sci-techdaresbury.com<br>A joint venture between the Science and Technology Facilities Council and Langtree. Turnover and net assets are not material to Departmental Group accounts |
| East Midlands Early Growth Fund Limited | Limited Company owned by BEIS | Recorded as investment in core Department accounts. Turnover and net assets are not material to Departmental Group accounts |

| **Designated Body**<br>*(linked bodies are indicated in italics below their parent body)* | **Status** | **Website**<br>*(further information about linked bodies or those closed during the year is also included)* |
|---|---|---|
| Groceries Code Adjudicator | Office Holder and Corporation Sole | gov.uk/government/organisations/groceries-code-adjudicator<br>Turnover and net assets are not material to Departmental Group accounts |
| NDA Archives Limited | Limited Company | gov.uk/government/organisations/nuclear-decommissioning-authority<br>Turnover and net assets are not material to Departmental Group accounts |
| NW VCLF HF LLP | Limited Liability Partnership | Recorded as investment in Core Department accounts. Turnover and net assets are not material to Departmental Group accounts. |
| Pubs Code Adjudicator | Office Holder and Corporation Sole | gov.uk/government/organisations/pubs-code-adjudicator<br>Turnover and net assets are not material to Departmental Group accounts |
| Research Sites Restoration Limited | Limited Company | Dormant – Site Licence Company<br>No costs or activities incurred in 2017-18 as the activities transferred to Magnox in 2016-17 |
| Small Business Commissioner | NDPB | https://www.smallbusinesscommissioner.gov.uk/<br>Turnover and net assets are not material to Departmental Group accounts |

Notes:

1. These entities have been classified as assets held for sale up to 17 August 2017, the date HM Government sold the Green Investment Bank Limited and its related subsidiaries to the private sector, in accordance with Annex H of the Accounts Direction 2017-18 issued by HM Treasury on 19 December 2017.
2. The Green Infrastructure Platform Limited has been consolidated from 17 August 2017, the date HM Government purchase the entity as part of the sale of the Green Investment Bank Limited, in accordance with Annex H of the Accounts Direction 2017-18 issued by HM Treasury on 19 December 2017.
3. UK Green Investment Bank plc changed its name to UK Green Investment Bank Limited before it was sold. This was updated as part of Amendment Order 2017-18.
4. Entities fall in scope of the Trade Union (Facility Time Publication Requirements) Regulations 2017. Disclosure regarding Facility Time can be found in the relevant accounts.
5. These entities have combined to form United Kingdom Research and Innovation (UKRI) on 30 March 2018 and began operations on 1 April 2018 (see note 28).

# 28 Events after the Reporting Period

### Creation of UK Research and Innovation

United Kingdom Research and Innovation (UKRI) was formed on 30 March 2018 and began operations on 1 April 2018. UKRI brings together the assets, liabilities and functions of the following organisations into one unified body:

- Arts and Humanities Research Council
- Biotechnology and Biological Sciences Research Council
- Economic and Social Research Council
- Engineering and Physical Sciences Research Council
- Medical Research Council
- Natural Environment Research Council
- Science and Technology Facilities Council
- Innovate UK
- The England-only responsibilities of Higher Education Funding Council for England (HEFCE) in relation to research and knowledge exchange

UKRI was established under the Higher Education and Research Act 2017 and was created following a report by Sir Paul Nurse, the President of the Royal Society, who recommended the merger in order to increase integrative cross-disciplinary research.

### Transfer of Geospatial contracts to the Cabinet Office

From 1 April 2018 the Geospatial contracts transferred from the Secretary of State for Business, Energy and Industrial Strategy to the Secretary of State for the Cabinet Office. The programmes encompass:

- Public Sector Mapping Agreement
- Postcode Address File
- Open Source Data Agreement

A budget of £86 million for 2018-19 will be transferred with these programmes. The total commitments related to the contracts as at 31 March 2018 of £91 million was included in other commitments (note 21.3.2).

### 28.1 Date Accounts authorised for issue

BEIS's Accounting Officer has authorised these Accounts to be issued on the same day as they were certified.

# Trust Statement

Blyth wind farm: The UK has been at the forefront of the global move towards clean growth, with projects such as the Blyth wind farm in the north East of England

# Accounting Officer's foreword to the Trust Statement

## Scope

The Department for Business, Energy and Industrial Strategy is responsible for collection and allocation of receipts from:

- the EU Emissions Trading Scheme (EU ETS)
- the Carbon Reduction Commitment (CRC) Scheme
- the Climate Change Agreements (CCA) Scheme
- the Energy Savings Opportunity Scheme (ESOS)

The core Department is also responsible for expenses incurred in the collection of these receipts; the revenue and expenditure; and the cash flows.

The Departmental Trust Statement reports the:

- revenues, expenditure, assets and liabilities relating to proceeds received from the UK auctions of European Allowances under Phase III of the EU ETS and Aviation allowances of the EU ETS for the financial year 2017-18. These amounts are collected by the Department for payment into the Consolidated Fund
- revenues and assets relating to the receipts of CRC Allowances under the CRC Energy Efficiency Scheme Order (2010) as amended by CRC Energy Efficiency Scheme Order (2013) for the financial year 2017-18. These amounts are collected by the Department for payment to the Consolidated Fund
- revenues and assets relating to the receipts of CCA Buy-out payments for the Target 2 reporting period
- civil penalties levied against participants in the EU ETS, CRC, ESOS and CCA Schemes. These amounts are collected by the Department for payment to the Consolidated Fund

From 1 April 2016, the responsibility for accounting for the Petroleum Licensing regime receipts transferred to the Oil and Gas Authority (OGA). The OGA prepares a separate Trust Statement for the Petroleum Licences. The OGA Trust Statement is published as part of the OGA's Annual Report. Included in the Department's Trust Statement at 1 April 2016 is the transfer of the Petroleum Licences net assets of £19.216 million to OGA. The Department's Trust Statement prior year comparatives do not include any other income or expenditure relating to the Petroleum Licensing regime.

This statement is also prepared to provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.

# The EU Emissions Trading Scheme (EU ETS)

## Background

The EU Emissions Trading System is designed to reduce greenhouse gas (GHG) emissions at the lowest cost to the economy. It also aims to provide greater certainty that the UK and the EU will meet emission reduction targets.

The EU ETS includes approximately 11,000 power stations and industrial plants across the EU, as well as airlines. Around 1,000 of these are sited in the UK and comprise power stations, oil refineries, offshore oil and gas platforms and industries that produce iron and steel, cement and lime, paper, glass, ceramics and chemicals.

Other organisations may also be covered by the EU ETS, including universities and aviation operators, although there is an opt-out for hospitals and smaller emitters.

The EU ETS works on a 'cap and trade' basis: there is a 'cap' or limit set on the total greenhouse gas emissions allowed by participants covered by the System. This cap is converted into tradable emission allowances.

Tradable emission allowances are allocated to participants in the market; in the EU ETS this is done via a mixture of free allocation and auctions. One allowance gives the holder the right to emit one tonne of $CO_2$ (or its equivalent). Participants covered by the EU ETS must monitor and report their emissions each year and surrender enough allowances to cover their annual emissions.

Participants who are likely to emit more than their allocation have a choice between taking measures to reduce their emissions or buying additional allowances, either from installations who will emit less, from the secondary carbon market or from Member State-held auctions.

The carbon price signifies the amount participants in the EU ETS are willing to pay per EU allowance (EUA) which is based on demand and supply. There are currently separate Aviation Allowances (EUAAs) for airline operators.

The first phase of the EU ETS ran from 2005 to 2007 and the second phase ran from 2008 to 2012 to coincide with the first Kyoto Commitment Period. The current phase of the EU ETS (2013 to 2020) builds upon the previous two phases and was significantly revised to make a greater contribution to tackling climate change.

In the current phase (Phase III) there is a single EU-wide cap. Each Member State was required to submit a list of all the participants that will be included in Phase III, setting out its proposed levels of free allocation in accordance with the revised ETS Directive.

For Phase III at least 50% of allowances are auctioned across the EU, a far greater percentage than in the previous phases. This includes full auctioning for the power generation sector in the UK and most Member States, and for all Member States by 2020.

The UK appointed ICE Futures Europe to conduct auctions of EU ETS Phase III EUAs and EUAAs on behalf of the Department from November 2012. The contract with ICE was then extended by a further two years (the maximum allowed for in the EU Auctioning Regulation), until 9 November 2017. Following an open-competition through the Official Journal of the European Union to re-procure the UK's auction platform upon expiry of the original contract, ICE Futures Europe were awarded a new contract to conduct UK auctions from 10 November 2017. The full schedule for Phase III auctions is available on the ICE emissions auctions web pages at www.theice.com/emissions/auctions

The UK held 23 auctions of EUA allowances in 2017-18. A total of 92.228 million allowances were auctioned successfully.

There was one EUAA auction of 725,500 allowances held in 2017-18. This was held on the 11 October 2017 and covered the 2017 compliance year. The auction cleared successfully.

## Future developments

Phase IV of the EU ETS (which runs from 2021 to 2030) has now been agreed within the European Union, and work on accompanying implementing legislation is now underway.

No decision has yet been made on the UK's long-term participation, or otherwise, in the EU ETS following the UK's exit from the EU. The Government is considering all factors, in consultation with stakeholders.

As the Clean Growth Strategy sets out we remain firmly committed to carbon pricing as an emissions reduction tool whilst ensuring energy and trade intensive businesses are appropriately protected from any detrimental impacts on competitiveness, and we will seek to ensure that our future approach is at least as ambitious as the existing scheme and provide a smooth transition for the relevant sectors.

### Financial Summary

The UK held 23 European Union Allowance (EUA) auctions and 1 European Union Aviation Allowance (EUAA) auction. This yielded a total income of £571 million (2016-17: £387 million) – as shown in note 2.2 of the Trust Statement. All auctions were wholly competitive auctions. The total income was passed to the Consolidated Fund within a few days of each auction. Auctions were completed in Euros and converted to sterling. Exchange rate differences amounted to £424,000 (2016-17: £211,000). The exchange differences are recognised in the Statement of Revenue, Other Income and Expenditure.

The Environmental Agency, as regulator, imposed 137 civil penalties amounting to £1,892,941 (2016-17: 54 penalties totalling £970,000). Most of the penalties relate to non-compliance in meeting installation targets under the UK small emitter opt-out scheme, for those who have opted-out of the main requirements of the ETS. The opt-out requires that installations must keep their emissions below a set target. A penalty is charged for every tonne of $CO_2$ above the emission target. Some of these penalties (for example on aviation) relate to previous compliance years.

OPRED (Offshore Petroleum Regulator for Environment and Decommissioning) also issued 7 penalties in 2017-18, amounting to £127,643 (2016-17: 9 penalties totalling £1.5 million). The offshore industry is regulated by OPRED, a discrete directorate within BEIS. The sanctions relate to a backlog of failures to surrender sufficient allowances and to comply with a permit condition. OPRED expects the number of penalties to increase as they identify more compliance issues. The relevant Civil Sanctions Guidance has been published alongside the civil penalties. The costs associated with administering the scheme were borne by the Department – shown in note 3 and included within the Department's Accounts

## Carbon Reduction Commitment (CRC) Scheme

### Background

The CRC Energy Efficiency Scheme (CRC) is a mandatory UK-wide trading scheme that was brought into law via the CRC Energy Efficiency Scheme Order 2010 (SI 2010/768) (the 'CRC Order') and simplified via the CRC Energy Efficiency Scheme Order 2013 (SI 2013/1119). The scheme is designed to incentivise large public and private sector organisations to take up cost-effective energy efficiency opportunities through the application of a range of drivers and thereby drive down the carbon emissions throughout the UK. The CRC Scheme is designed to tackle the four main barriers to the take up of energy efficiency highlighted by the Carbon Trust report in 2005, namely insufficient financial incentives to reduce emissions, uncertain reputational benefits of demonstrating leadership, split incentives between landlord and tenants and organisational inertia.

The CRC is designed to improve energy efficiency and thereby reduce emissions primarily from large non-energy intensive organisations in the private and public sectors. The sectors being targeted include large retail organisations, banks, large offices, universities, large hospitals, large local authorities and central government departments.

The Environment Agency in its role of UK Scheme Administrator, administers the scheme's registry on behalf of the Department and the Devolved Administrations. Participants use it to report annually their energy supply data and purchase and surrender allowances as required each compliance year. The Environment Agency along with the devolved scheme regulators, namely Scottish Environment Protection Agency, Northern Ireland Environment Agency and Natural Resources Wales, are responsible for the audit and enforcement of the scheme, including the issue of Civil Penalties as required. The Environment Agency report to the Department who are responsible for the overall monitoring and reporting of CRC, ensuring that the figures recorded in the Trust Statement are complete and correct.

The scheme started in April 2010 with a four-year introductory phase. The second phase of the scheme commenced in 2014 and will run until 2019. There are around 2,000 participants in the scheme for the second phase.

The CRC is designed to tackle the barriers to energy efficiency in three ways. Firstly, the CRC has standardised and structured reporting requirements which require participants to monitor and report their emissions; secondly it has a reputational driver through the publication of data, and thirdly its financial element which requires participants to buy allowances for the carbon they emit. This brings the cost-benefits of energy efficiency to the attention of Finance Directors and aims to make it a boardroom issue.

In Phase II there are 2 allowance sales each year, a forecast sale in April for the compliance period starting that month and a compliance sale in October for the previous compliance year. The allowance price in the forecast sale is set at a lower price than that in the later buy-to-comply sale for the same compliance year. This is to incentivise participants to better forecast their energy use in order that they can, if they wish, make use of the cheaper forecast sale price. In addition, there is a special allocation sale that runs from November to the following April for use where participants are found to need to purchase additional allowances to comply with the scheme. The special allocation allowance price is set at the same value as the equivalent compliance buy to comply price.

This financial year 2017-18 saw the fourth forecast sale for Phase II of the scheme (for compliance year 2017-18) and second the buy-to-comply sale for Phase II of the scheme (for compliance year 2016-17).

For the current phase, the following prices have been announced:

| CRC Scheme Year | Forecast Sale Price | Compliance Sale Price |
|---|---|---|
| 2014-15 | £15.60 | £16.40 |
| 2015-16 | £15.60 | £16.90 |
| 2016-17 | £16.10 | £17.20 |
| 2017-18 | £16.60 | £17.70 |
| 2018-19 | £17.20 | £18.30 |

## Future developments

As part of the Budget in March 2016, the Government announced the decision to close CRC following the 2018-19 compliance year, with no purchase of allowances required to cover emissions for energy supplied from April 2019. Government stated that organisations will report under the CRC for the last time by the end of July 2019, with a surrender of allowances for emissions from energy supplied in the 2018-19 compliance year by the end of October 2019. The government stated that it will work with the devolved administrations on scheme closure arrangements.

## Financial Summary

This financial year 2017-18 saw the 4th forecast sale for Phase II of the scheme. Allowance sales under the CRC generated £580 million (2016-17: £750 million). There were 5 civil penalties levied against CRC participants. The civil penalties amounted to £49,000 (2016-17: £59,420). The costs incurred in administering the CRC Scheme were borne by the Department as shown in note 3 and included within the Department's Accounts.

# Climate Change Agreements (CCA)

## Background

Climate Change Agreements (CCAs) are voluntary agreements that allow eligible energy-intensive sectors to receive up to 90% reduction in the Climate Change Levy (CCL) if they sign up to stretching energy efficiency targets agreed with Government. The CCA scheme was launched on 1 April 2013 and covers 53 industrial sectors. The scheme runs until 2023 and if all sectors meet their targets from 2013 to 2020 against agreed baselines, the scheme is estimated to deliver an overall 11% energy efficiency improvement and savings to participants on the CCL of around £300 million each year.

The CCA generates 3 potential money streams:

Charging Income
Paid by CCA participants to the Administrator on an annual basis, in accordance with a charging scheme established under paragraph 52C Finance Act 2000, Schedule 6 (as amended by Finance Act 2012). These monies are retained by the Environment Agency and will not feature in the Trust Statement.

Civil Penalties
Payments received by the Administrator for minor infractions, passed by the Department to the Consolidated Fund in accordance with powers given in 52F Finance Act 2000, Schedule 6 (as amended by Finance Act 2012). The amounts are specified in The Climate Change Agreements (Administration) Regulations 2012.

Buy-out Payments
Payments made by participants at the end of each 2-year target period in cases where CCA targets are not met. For the first two target periods for the scheme up to 31 December 2016, payments were calculated on the basis of £12 per tonne of $CO_2$ by which the target is exceeded. From 1 January 2017, this has been increased to £14 per tonne of $CO_2$, for which the powers are given in 52F Finance Act 2000, Schedule 6 (as amended by Finance Act 2012). The amount is specified in The Climate Change Agreements (Administration) Regulations 2012 (as amended in 2016).

The collection of buy-out payment income commenced in 2015-16 in respect of the first Target Reporting Period and will continue for both buy-out payments and civil penalties, until the scheme ends in 2023. The income distribution is explained under the section on Financial Review.

## Future developments

The CCA scheme is scheduled to continue until the end of 2023.

## Financial Summary

In 2017-18, the income from buy-out payments generated £22.966 million (£94,000 in 2016-17), – as shown in note 2.3 of the Trust Statement. The Target Reporting Period II deadline was 1st May 2017, therefore, the primary buy-out payments were made in June 2017, in order to achieve compliance by 5 July 2017. The lower income in relation to prior year comparatives is explained by the fact that 2016-17 was a period of secondary reporting for target reporting period I, where participants make further top-up buy-out payments after an audit or they receive a refund if they have been overpaid.

# Energy Savings Opportunity Scheme (ESOS)

### Background

The Energy Savings Opportunity Scheme is an energy assessment scheme, mandatory for all large undertakings in the UK. The Government established ESOS in response to the requirements of Article 8 (4-6) of the EU Energy Efficiency Directive (2012/27/EU).

Qualifying organisations must have carried out audits of the energy used by their buildings, industrial processes and transport to identify cost-effective energy saving measures by 5 December 2015 and every 4 years thereafter, until 5 December 2027.

The Department's analysis estimates around 7,500 Ultimate Parent organisations will participate in the scheme. ESOS is estimated to deliver a net benefit to the UK of £1.6 billion (over 15 years). Most of these savings would be felt by businesses through lower energy bills. This benefit would be realised if each participant in the scheme makes an average reduction of 0.7% as a result of implementing cost-effective energy efficiency opportunities identified through audits.

The Environment Agency and equivalent regulators in the devolved administrations are responsible for ensuring ESOS compliance. Participants who fail to comply with the scheme could be fined up to £50,000 by the Environment Agency.

There are currently no charges for registering with the scheme, however penalties for non-compliance will be issued for those who do not comply. The first penalties under ESOS were imposed in March 2018

### Future developments

The ESOS scheme is tabled to operate for four compliance periods so far completing on 5 December 2027.

### Financial Summary

The income stream consists of non-compliance penalties. The first tranche of penalties were issued in March 2018. This comprised 5 penalties totalling £17,110 income.

# Remote Contingent Liabilities

Audited information

On 29 March 2017, the UK Government submitted its notification to leave the EU in accordance with Article 50. The triggering of Article 50 starts a two-year negotiation process between the UK and the EU. Any subsequent changes in legislation, regulation and funding arrangements are subject to the outcome of the negotiations. As a result, an unquantifiable contingent liability is disclosed. In accordance with accounting standards, no contingent assets can be recognised.

Further information on the core Department's remote contingent liability relating to the UK leaving the EU is detailed on page 114.

# Auditors

These financial statements have been audited, under the Exchequer and Audit Departments Act 1921, by the Comptroller and Auditor General, who is appointed under statute and reports to Parliament. The audit opinion is on pages 231 to 233. The auditor's notional remuneration is included within the Department's Accounts. There were no fees in respect of non-audit work.

# Basis for preparation

The HM Treasury Accounts Direction, issued in accordance with Section 2 of the Exchequer and Audit Departments Act 1921 requires the Department to prepare the Trust Statement to give a true and fair view of the state of affairs relating to the collection and allocation of the carbon allowance auction receipts for the EU Emissions Trading Schemes, the allowances sales from the CRC scheme, buy-out payments from the CCA Scheme and civil penalties receivable under the EU ETS, CRC, CCA and ESOS schemes. Regard is given to all relevant accounting and disclosure requirements given in Managing Public Money and other guidance issued by HM Treasury.

## Accounting judgements

As the Accounting Officer, it is my responsibility to apply suitable accounting policies in the preparation of the Trust Statement. Revenues are recognised in the period in which the event that generates the revenue takes place, consequently the anticipated proceeds from future auctions and licences as detailed in note 2 are not recognised as assets within this statement.

All the transactions within the Trust Statement reflect transactions that have taken place.

## Events after the reporting period

Details of events after the reporting period are given in note 10 to the Trust Statement.

## Governance Statement

The Department's Governance Statement, covering both the Accounts and the Trust Statement, is included in the Governance section of this report.

**Alex Chisholm**
Permanent Secretary and
Principal Accounting Officer

3 July 2018

# Statement of the Accounting Officer's responsibilities in respect to the Trust Statement

Under section 2 of the Exchequer and Audit Departments Act 1921, HM Treasury has directed the Department for Business, Energy and Industrial Strategy to prepare for each financial year a Trust Statement in the form and on the basis set out in the Accounts Direction.

HM Treasury has appointed the Permanent Secretary as Accounting Officer of the Department for Business, Energy and Industrial Strategy with overall responsibility for preparing the Trust Statement and for transmitting it to the Comptroller and Auditor General.

The Accounting Officer is responsible for ensuring that: there is a high standard of financial management, including a sound system of internal control; that financial systems and procedures promote the efficient and economical conduct of business and safeguard financial propriety and regularity; that financial considerations are fully taken into account in decisions on policy proposals; and that risk is considered in relation to assessing value for money.

The Accounting Officer is responsible for the fair and efficient administration of the EU ETS including conducting the auction of EU Allowances in the UK for Phase III of the Scheme and Aviation allowances of the EU ETS, collection of the proceeds and onward transmission of the funds in their entirety to the Consolidated Fund. The Accounting Officer is also responsible for the collection of CRC Allowances and CCA buy-out payments for onward transmission to the Consolidated Fund and, the collection of civil penalties levied under the EU ETS, CCA, CRC, and ESOS schemes for onward transmission to the Consolidated Fund.

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

The Trust Statement must give a true and fair view of:

- the statement of affairs of the EU ETS, CCA Schemes and penalties issued under the EU ETS, ESOS, CCA and CRC Schemes

These streams of income are recognised on an accruals basis;

- the state of affairs of the CRC Allowance Scheme sales which are recognised on a cash received basis
- the revenue collected, and expenditure incurred together with the net amounts surrendered to the Consolidated Fund

In preparing the Trust Statement, 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
- prepare the Trust Statement on a going-concern basis

### Accounting Officer's confirmation

I have taken all 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.

The annual report and accounts as a whole is fair, balanced and understandable. I take personal responsibility for the annual report and accounts and the judgements required for determining that it is fair, balanced and understandable.

**Alex Chisholm**
Permanent Secretary and
Principal Accounting Officer

3 July 2018

# The Trust Statement Audit Report of the Comptroller and Auditor General to the House of Commons

## Opinion on financial statements

I have audited the financial statements of the Department for Business, Energy and Industrial Strategy Trust Statement ("the Trust Statement") for the year ended 31 March 2018 under the Exchequer and Audit Departments Act 1921. The financial statements comprise the Statement of Revenue, Other Income and Expenditure, the Statement of Financial Position, the Statement of Cash Flows and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them.

In my opinion:

- the Trust Statement gives a true and fair view of the state of affairs of balances stemming from: the collection of EU Emissions Trading Scheme (ETS) auction receipts; Carbon Reduction Commitments (CRC) allowance sales; Climate Change Agreements (CCA) receipts; and EU ETS, CRC, CCA, and Energy Savings Opportunity Scheme (ESOS) civil penalties as at 31 March 2018 and of the net revenue for the year then ended
- the financial statements have been properly prepared in accordance with the Exchequer and Audit Departments Act 1921 and HM Treasury directions issued thereunder

## Opinion on regularity

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

## Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate.

Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Department in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

## Responsibilities of the Accounting Officer for the audit of the financial statements

As explained more fully in the Statement of the Accounting Officer's responsibilities in respect to the Trust Statement, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

## Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and report on the Trust Statement in accordance with the Exchequer and Audit Department Act 1921.

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department for Business, Energy and Industrial Strategy's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Department's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

## Other Information

The Accounting Officer is responsible for the other information. The other information comprises information included in the Accounting Officer's Foreword to the Trust Statement and Statement of the Accounting Officer's responsibilities in respect to the Trust Statement, other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

## Opinion on other matters

In my opinion:

- the information given in the Accounting Officer's Foreword to the Trust Statement and Statement of the Accounting Officer's responsibilities in respect to the Trust Statement for the financial year for which the financial statements are prepared is consistent with the financial statements

## Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

## Report

I have no observations to make on these financial statements.

**Sir Amyas C E Morse**
Comptroller and Auditor General

6 July 2018

National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

# Statement of Revenue, Other Income and Expenditure

## for the year ended 31 March 2018

| | | 2017-18 | 2016-17 |
|---|---|---|---|
| Revenue | Note | £'000 | £'000 |
| **Licence fees and taxes** | | | |
| Carbon Reduction Commitment allowance sales | 2.1 | 580,201 | 750,179 |
| EU Emissions Trading Scheme auction income | 2.2 | 570,688 | 387,264 |
| Climate Change Agreements buy-out payments income | 2.3 | 22,966 | 94 |
| **Total licence fees and taxes** | | **1,173,855** | **1,137,537** |
| **Fines and penalties** | | | |
| Civil penalties – EU Emissions Trading scheme | 2.4 | 2,021 | 2,472 |
| Civil penalties – Energy Savings Opportunity Scheme | 2.4 | 17 | – |
| Civil penalties – Carbon Reduction Commitment Scheme | 2.4 | 49 | 59 |
| **Total fines and penalties** | | **2,087** | **2,531** |
| **Total revenue and other income** | | **1,175,942** | **1,140,068** |
| **Expenditure** | | | |
| EU Emissions Trading Scheme costs | 3.1 | (432) | (218) |
| Credit losses – debts written off | 3.2 | (972) | – |
| **Total expenditure** | | **(1,404)** | **(218)** |
| **Net revenue for the Consolidated Fund** | | **1,174,538** | **1,139,850** |
| **Transfer of Petroleum Licence Net Assets to OGA** | | **–** | **(19,216)** |
| **Net Revenue for the Consolidated Fund** | | **1,174,538** | **1,120,634** |

There were no recognised gains or losses accounted for outside the above Statement of Revenue, Other Income and Expenditure.

The notes on pages 237 to 242 form part of this statement.

# Statement of Financial Position

## as at 31 March 2018

| | Note | 31 March 2018 £'000 | 31 March 2017 £'000 |
|---|---|---|---|
| **Current assets** | | | |
| Receivables and accrued fees | 4 | 1,471 | 2,453 |
| Cash and cash equivalents | 5 | 23,921 | 17,087 |
| **Total current assets** | | **25,392** | **19,540** |
| **Current liabilities** | | | |
| Payables | 6 | (404) | (518) |
| **Total current liabilities** | | **(404)** | **(518)** |
| **Net current assets** | | **24,988** | **19,022** |
| **Total net assets** | | **24,988** | **19,022** |
| **Represented by:** | | | |
| **Balance on Consolidated Fund Account** | **7** | **24,988** | **19,022** |

The notes on pages 237 to 242 form part of this statement.

**Alex Chisholm**
Permanent Secretary and
Principal Accounting Officer

3 July 2018

# Statement of Cash Flows

## for the year ended 31 March 2018

| | Note | 2017-18<br>£'000 | 2016-17<br>£'000 |
|---|---|---|---|
| **Net cash flows from operating activities** | **A** | **1,175,406** | **1,140,126** |
| Cash paid to the Consolidated Fund | 7 | (1,168,572) | (1,136,546) |
| Cash for Petroleum Licences paid to Consolidated Fund | | – | (15,177) |
| **Increase/(decrease) in cash in this period** | **B** | **6,834** | **(11,597)** |

### Notes to the Statement of Cash Flows

| | Note | 2017-18<br>£'000 | 2016-17<br>£'000 |
|---|---|---|---|
| **A: Reconciliation of Net Cash Flow to Movement in Net Funds** | | | |
| Net Revenue for the Consolidated Fund | | 1,174,538 | 1,120,634 |
| Non-cash movement – Transfer of petroleum licences to OGA | 7 | – | 19,216 |
| (Increase)/decrease in receivables and accrued fees | 4 | 982 | (242) |
| Increase/(decrease) in payables | 6 | (114) | 518 |
| **Net cash flows from operating activities** | | **1,175,406** | **1,140,126** |
| **B: Analysis in changes in Net Funds** | | | |
| Increase/(decrease) in cash in this period | | 6,834 | (11,597) |
| Net Funds as at 1 April (net cash at bank) | 5 | 17,087 | 28,684 |
| **Net Funds as at 31 March (closing balance)** | **5** | **23,921** | **17,087** |

# Notes to the Trust Statement

## 1 Statement of Accounting Policies

### 1.1 Basis of Accounting

The Trust Statement is prepared in accordance with the accounts direction issued by HM Treasury under section 2 of the Exchequer and Audit Departments Act 1921. The Trust Statement is prepared in accordance with the accounting policies detailed below. These have been agreed between the Department for Business, Energy and Industrial Strategy (the Department) and HM Treasury and have been developed in accordance with International Financial Reporting Standards (IFRS) and other relevant guidance. The accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

The income and associated expenditure contained in the Departmental Trust Statement are those flows of funds which the Department administers on behalf of the Consolidated Fund.

The financial information in the Trust Statement is rounded to the nearest £'000.

The Trust Statement is presented in pounds sterling, which is the functional currency of the Department.

### 1.2 Accounting convention

The Trust Statement has been prepared in accordance with the historical cost convention.

### 1.3 Revenue recognition

Revenue is recognised when it can be measured reliably and it is probable that the economic benefits will flow to the Exchequer. It is measured at the fair value of amounts received or receivable, net of repayments.

EU ETS receipts represent proceeds from the auction of carbon allowances under Phase III and aviation allowances of the EU ETS. Revenue is recognised at the close of each competitive auction, when the revenue can be measured reliably.

Revenue in respect of CRC allowance sales is recognised on a cash received basis by agreement with HM Treasury.

Revenue in respect of CCA buy-out payments is recognised on an accruals basis, albeit the recognition point is when the income is received.

Revenue in respect of civil penalties is recognised when the penalty is imposed. In 2017-18, civil penalties for the ESOS are recognised for the first time.

CRC participants may request refunds for over-surrendered allowances (note 9 Contingent Liabilities refers). These are accounted for in the period in which the refund request is authorised and processed.

### 1.4 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets and financial liabilities are recognised in the Statement of Financial Position when the Department becomes a party to the contractual provisions of an instrument.

### 1.5 Financial assets

The Department classifies financial assets into the following categories:

- Loans and receivables
- Cash and cash equivalents

Loans and receivables comprise:

- for EU ETS the amounts due from Primary Participants in respect of established auction liabilities for which, at the financial year end, payments had not been received; the amounts due are measured at fair value calculated at the close of each auction and have a maturity of less than three months; and civil penalties levied against participants in the EU ETS, ESOS, CCA and CRC Schemes, amounts for which have not been received at the financial year end

The carrying amount of these assets approximates to their fair value.

Cash and cash equivalents comprises current balances with banks and other financial institutions, which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value and have an original maturity of three months or less. The carrying amount of these assets approximates to their fair value.

## 1.6 Financial liabilities

The Department classifies financial liabilities into the following 2 categories:

- Financial liabilities at fair value through profit or loss
- 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.

For the purposes of this Trust Statement the Department holds financial liabilities in the following category:

- Other financial liabilities

Other financial liabilities comprise

- Payables in the Statement of Financial Position. Payables are amounts established as due at the reporting date, but where payment is made subsequently

Since these balances are expected to be settled within 12 months of the reporting date there is no material difference between fair value, amortised cost and historical cost.

## 1.7 Foreign currency

Transactions that are denominated in a foreign currency are translated into sterling at the rate of exchange ruling on the date of each transaction. Monetary assets and liabilities denominated in foreign currency at the year-end are translated at the rates ruling at that date unless a forward rate has been fixed with the Bank of England. All translation differences are included in the Statement of Revenue, Other Income and Expenditure for the period.

## 1.8 Applicable accounting standards issued but not yet adopted and FReM changes for 2018-19

**IFRS 15 ‘Revenue from Contracts with Customers’** IFRS 15 ‘Revenue from Contracts with Customers’ replaces IAS 18 ‘Revenue’ and IAS 11 ‘Construction Contracts’ and will be adopted by the public sector from 1 April 2018. The FReM extends the definition of a contract under IFRS 15 para 9 to include legislation and regulations which enable an entity to obtain revenue that is not classified as a tax by the Office of National Statistics (ONS). As both EU-ETS auction income and CRC allowances sales are classified as taxes by ONS and CCA income is expected to meet the definition of a tax under ONS’s guidance, IFRS 15 will not be applicable to the material revenue streams of the BEIS Trust Statement.

Income from these schemes will continue to be recognised under the current revenue recognition policies when IFRS 15 is adopted on 1 April 2018. This will result in no material difference to the income recognition.

# 2 Revenue

## 2.1 Carbon Reduction Commitment Allowance sales

| | 2017-18 | 2016-17 |
|---|---|---|
| | £'000 | £'000 |
| Allowance sales | 580,201 | 750,179 |
| **Total** | **580,201** | **750,179** |

## 2.2 EU Emissions Trading Scheme auction income

| | 2017-18 | 2016-17 |
|---|---|---|
| | £'000 | £'000 |
| Phase III Auctions Income | 565,933 | 382,461 |
| Aviation Auctions Income | 4,755 | 4,803 |
| **Total** | **570,688** | **387,264** |

Auctions under Phase III of the scheme were held from November 2012, and aviation allowance auctions were held from September 2014. For further details please see the Foreword.

Dates for the carbon allowances auctions under Phase III and aviation allowances of the EU ETS, along with the number of units to be auctioned are available on the Intercontinental Exchange website on the auction calendar link at www.theice.com/emissions/auctions

## 2.3 Climate Change Agreement income

| | 2017-18 | 2016-17 |
|---|---|---|
| | £'000 | £'000 |
| Buy-out payment income receivable | 22,966 | 94 |
| **Total** | **22,966** | **94** |

In 2017-18, the income from buy-out payments generated £22.966 million (£94,000 in 2016-17). This is due to the primary reporting period being invoked for Target Reporting Period II. The income relating to buy-out payments for the prior year comparatives is lower since 2016-17 was a period of secondary reporting for Target Reporting Period I, where participants make further top-up buy-out payments after an audit or they receive a refund if they have been overpaid.

## 2.4 Civil penalties

| | 2017-18 | 2016-17 |
|---|---|---|
| | £'000 | £'000 |
| Levied under EU ETS Scheme | 2,021 | 2,472 |
| Levied under ESOS Scheme | 17 | – |
| Levied under CRC Scheme | 49 | 59 |
| **Total** | **2,087** | **2,531** |

There were 144 civil penalties totalling £2,020,584 (2016-17: 64 penalties totalling £2,471,990), levied under the EU ETS scheme for the year under review. CRC penalties of £49,000, were recognised in 2017-18, (2016-17, £59,420). 5 penalties totalling £17,110 were recognised for the first time for the ESOS scheme in 2017-18.

# 3 Expenditure and disbursements

## 3.1 Costs incurred in the collection of receipts

| | 2017-18 | 2016-17 |
|---|---|---|
| | £'000 | £'000 |
| Foreign currency translation costs (EU ETS) | 424 | 211 |
| Interest charges on Euro auction bank account (EU ETS) | 8 | 7 |
| **Total** | **432** | **218** |

## 3.2 Credit losses

| | 2017-18 | 2016-17 |
|---|---|---|
| | £'000 | £'000 |
| De-recognition due to successful appeal – EU ETS Penalties | 969 | – |
| De-recognition of CRC penalty | 3 | – |
| **Total** | **972** | **–** |

2 EU ETS penalties were successfully appealed and were written back in 2017-18.

No disbursements are now paid out via the BEIS Trust Statement. However, the Department incurred expenditure of £606,340 (2016-17: £664,175) in administering EU ETS and £430,037 (2016-17: £657,787) in respect of the CRC Scheme. Expenditure to administer the CCA scheme totalled £363,124. (2016-17: £457,610). Expenditure incurred administering the ESOS scheme in 2017-18 amount to £1,190,555 (2016-17: £nil). Expenditures on EU ETS, ESOS, CRC and CCA are included in the Department's Accounts because there is no express statutory provision for these costs to be deducted from the revenue collected and paid over to the Consolidated Fund.

# 4 Receivables and accrued fees

| | 2017-18 | 2016-17 |
|---|---|---|
| | £'000 | £'000 |
| Civil Penalties receivable | 1,471 | 2,453 |
| **Total** | **1,471** | **2,453** |

Civil penalties receivable represent the amounts due from the participants where invoices for payment have been issued but not paid for at the year end.

# 5 Cash and cash equivalents

| | 2017-18 | 2016-17 |
|---|---|---|
| | £'000 | £'000 |
| Balance as at 1 April | 17,087 | 28,684 |
| Net change in cash and cash equivalent balances | 6,834 | (11,597) |
| **Balance at 31 March** | **23,921** | **17,087** |
| The following balances at 31 March were held at: | | |
| Government Banking Service | 23,921 | 17,087 |
| **Total** | **23,921** | **17,087** |

# 6 Payables

| | 2017-18 | 2016-17 |
|---|---|---|
| | £'000 | £'000 |
| Other | 404 | 518 |
| **Total** | **404** | **518** |

# 7 Balance on the Consolidated Fund Account

| | 2017-18 | 2016-17 |
|---|---|---|
| | £'000 | £'000 |
| Balance on the consolidated Fund as at 1 April | 19,022 | 34,934 |
| Net revenue for the Consolidated Fund | 1,174,538 | 1,139,850 |
| Transfer of Petroleum licences to OGA | – | (19,216) |
| Less amounts paid to the Consolidated Fund | (1,168,572) | (1,136,546) |
| **Balance on the Consolidated Fund as at 31 March** | **24,988** | **19,022** |

# 8 Financial instruments

## 8.1 Classification and categorisation of financial instruments

| | note | 2017-18 | 2016-17 |
|---|---|---|---|
| | | £'000 | £'000 |
| **Financial assets:** | | | |
| Cash | 5 | 23,921 | 17,087 |
| Civil penalties receivable | 4 | 1,471 | 2,453 |
| **Total loans and receivables** | | **25,392** | **19,540** |
| **Financial liabilities:** | | | |
| Other Payables | 6 | (404) | (518) |
| **Total other financial liabilities** | | **(404)** | **(518)** |

## 8.2 Risk exposure to financial instruments

EU Emissions Trading Scheme

The EU Emissions Trading Scheme is exposed to foreign currency risk due to the timing difference in recognising the proceeds at the auction exchange rate and the date at which the proceeds are converted into Sterling, which is one day after the close of the auction; this results in either an exchange loss or gain. As shown in note 3.1 there was an exchange loss incurred this financial year of £424,000 (2016-17: £211,000). The scheme is not exposed to interest rate or liquidity risk and its exposure to market risk is limited due to there being a current demand for carbon allowances.

The civil penalties imposed under the EU ETS scheme are subject to credit risk, but this risk is assessed by management as minimal due to the nature of the participants in the scheme. However 2 aviation civil penalties were written off in 2017-18 (note 3.2) as the companies successfully appealed the penalties.

CRC Scheme

The allowance sales under the Carbon Reduction Commitment are subject to credit risk, but this risk is assessed by management as low. This is borne out in the results from previous years of the scheme.

The civil penalties imposed under the CRC scheme are subject to credit risk, but this risk is assessed by management as minimal due to the nature of the participants in the scheme.

CCA Scheme

The buy-out payment revenue collected under the CCA scheme is subject to credit risk, but this risk is assessed by management as low, due to the nature of participants in the scheme. All fees under the regime are received in sterling minimising any other risks.

Information which will allow Trust Statement users 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 other risks arising from financial instruments can be found in note 22 to the Department's Accounts.

# 9 Contingent Liability

A contingent liability exists for refunds the Department may have to pay to participants in the CRC Energy Efficiency Scheme who have over-surrendered allowances. This is as a result of legislation included in the CRC Order 2013, which came into force in May 2013. The refunds are contingent upon participants being able to prove that the over-surrender was due to a reporting error and must be agreed by the Secretary of State. The Department is unable to quantify the amount of future refunds, but based on the most recent information available from the scheme administrators, the refunds are not expected to be significant. Future refunds will be paid as and when they fall due out of future scheme receipts. The Department has issued guidance to participants detailing the refund process.

Furthermore, for the CCA scheme a contingent liability also exists in the secondary reporting phase of each Target Reporting Period. This is where a participant has undergone review or audit procedures and it is deemed they have overpaid. Thus, the participant is due a refund. The department must retain sufficient funds in order to satisfy this requirement of the CCA scheme.

# 10 Events after the reporting period

There were no significant events after the reporting period that require disclosure.

The Accounting Officer has duly authorised the issue of the Trust Statement on the date of the Comptroller and Auditor General's audit certificate.

# Annex D

## Accounts Direction given by HM Treasury in accordance with section 2 of the Exchequer and Audit Departments Act 1921

1. This direction applies to those government departments listed in appendix 2.
2. The Department shall prepare a Trust Statement ("the Statement") for the financial year ended 31 March 2018 for the revenue and other income, as directed by the Treasury, collected by the department as an agent for others, in compliance with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual by HM Treasury ("FReM") which is in force for 2017-18.
3. The Statement shall be prepared, as prescribed in Appendix 1, so as to give a true and fair view of (a) the state of affairs relating to the collection and allocation of taxes, licence fees, fines and penalties and other income by the Department as agent and of the expenses incurred in the collection of those taxes, licence fees, fines and penalties insofar as they can properly be met from that revenue and other income; (b) the revenue and expenditure; and (c) the cash flows for the year then ended.
4. The Statement shall also be prepared so as to provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.
5. When preparing the Statement, the Department shall comply with the guidance given in the FReM (Chapter 8). The Department shall also agree with HM Treasury the format of the Principal Accounting Officer's Foreword to the Statement, and the supporting notes, and the accounting policies to be adopted, particularly in relation to revenue recognition. Regard shall also be given to all relevant accounting and disclosure requirements in Managing Public Money and other guidance issued by HM Treasury, and to the principles underlying International Financial Reporting Standards.

6. Compliance with the requirements of the FReM will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the FReM is inconsistent with the requirement to give a true and fair view, the requirements of the FReM should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the FReM. Any material departure from the FReM should be discussed in the first instance with HM Treasury.
7. The Statement shall be transmitted to the Comptroller and Auditor General for the purpose of his examination and report by a date agreed with the Comptroller and Auditor General and HM Treasury to enable compliance with the administrative deadline for laying the audited accounts before Parliament before the Summer Recess.
8. The Trust Statement, together with this direction (but with the exception of the related appendices) and the Report produced by the Comptroller and Auditor General under section 7(2) of the Government Resources and Accounts Act 2000 shall be laid before Parliament at the same time as the Department's Resource Accounts for the year unless the Treasury have agreed that the Trust Statement may be laid at a later date.

**Ian Bulmer**

Deputy Director, Government Financial Reporting Her Majesty's Treasury

## Appendix 1 to Annex D

Trust Statement for the year ended 31 March 2018

1. The Trust Statement shall include:
   - a Foreword by the Principal Accounting Officer
   - a Statement of the Principal Accounting Officer's Responsibilities
   - a Governance Statement
   - a Statement of Revenue, Other Income and Expenditure
   - a Statement of Financial Position
   - a Cash Flow Statement
   - such notes as may be necessary to present a true and fair view
2. The notes shall include among other items:
   - the accounting policies, including the policy for revenue recognition and estimation techniques and forecasting techniques together with statements explaining any significant uncertainty surrounding estimates and forecasts
   - a breakdown of material items within the accounts
   - any assets, including intangible assets and contingent liabilities
   - summaries of losses, write-offs and remissions
   - post balance sheet events
   - any other notes agreed with HM Treasury and the National Audit Office

## Appendix 2 to Annex D

### Application of the accounts direction

| Sponsoring Department | Income Stream | Responsible Entity |
|---|---|---|
| Department for Business, Energy and Industrial Strategy | EU Emissions Allowance | BEIS |
| | Fines and Penalties | BEIS |
| | CRC Allowances | BEIS |
| | CCA Buy-Out Payments | BEIS |

# Annexes

East Devon: We will ensure that local areas continue to receive flexible funding for their local needs.

# Annex A: Our major projects and programmes

BEIS had 8 major projects listed in the Government Major Projects Portfolio (GMPP) as at September 2017 – summarised in table below. BEIS also had 3 major projects which left the GMPP between September 2016 and September 2017 – shaded below. Transparency data on project cost and delivery confidence are published annually alongside the Infrastructure and Projects Authority's Annual Report.

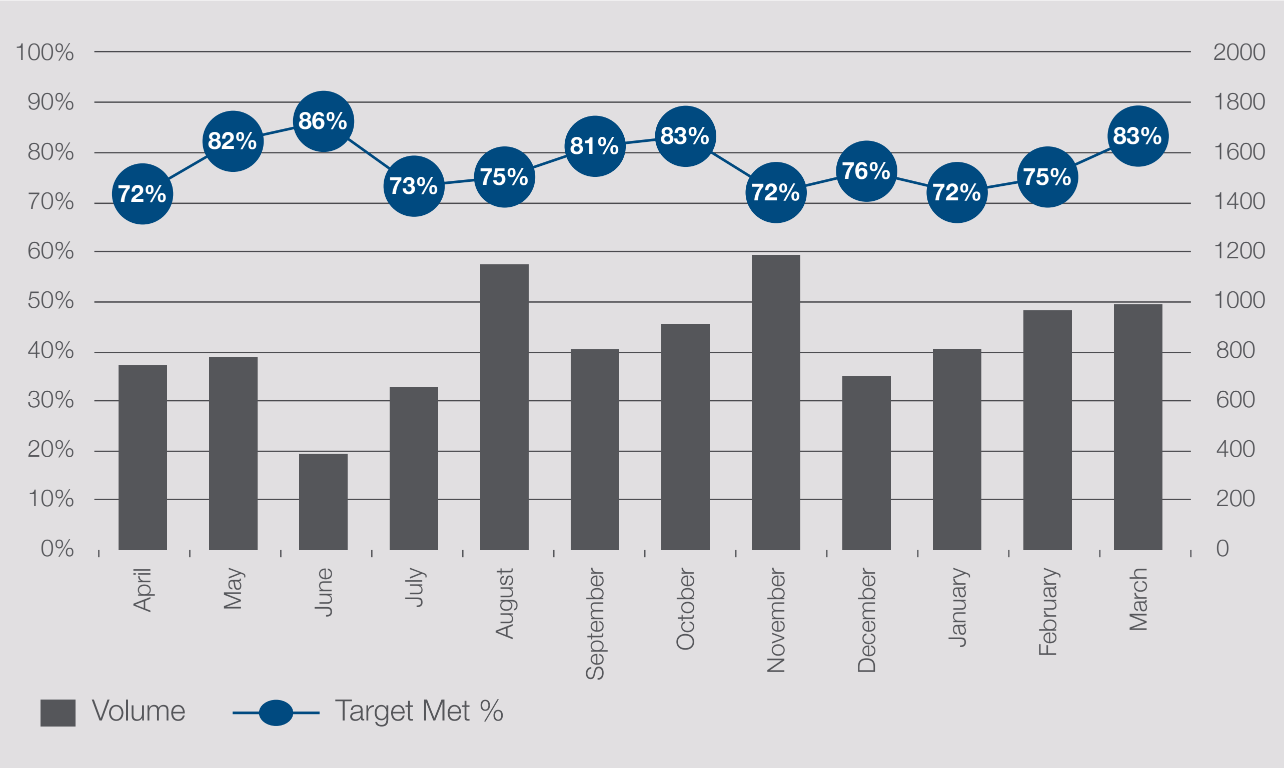
| Project | Description |
|---|---|
| **Geological Disposal Facility (GDF) Programme** | To site and construct a safe, secure and environmentally responsible permanent geological disposal facility for higher-activity radioactive waste in the UK, excluding Scotland. |
| **Heat Networks Investment Project** | To provide £320m of time-limited capital support to help create a sustainable heat network market in England & Wales. |
| **Local Land Charges (LLC) Programme** | Deliver a single LLC Register Service for England to provide a national resilient service, consistency of customer experience and fees, implementing the powers granted to HM Land Registry under the Infrastructure Act 2015. |
| **Magnox and Research Sites Restoration Limited (RSRL) Parent Body Organisation (PBO) Competition** | To secure a reduction in the cost to deliver the outcomes of the Magnox Optimised Decommissioning Plan and the Optimised Research Sites Restoration Limited (RSRL) baseline by securing a new Parent Body Organisation for the Magnox and RSRL Site Licence Companies. |
| **New Polar Research Vessel** | Royal Research Ship Sir David Attenborough will replace two existing polar research/supply vessels with one dual purpose ship. Single ship option planned to save £102m over 30 years. The ship is due to be delivered in September 2018 and will enter service in 2020 after completing a trials and test programme. |
| **Sellafield Model Change** | Creating the environment for success at Sellafield by moving from a Parent Body Organisation model to a Subsidiary model. |
| **Smart Metering Implementation Programme** | Enable consumers to save energy and money and to benefit from smarter energy systems by ensuring that every household and small business has been offered a smart meter by the end of 2020. |
| **UK Research & Innovation (UKRI) Implementation Programme** | Establishment of UKRI to strengthen the focus on promoting economic growth; facilitate greater co-ordination of strategic research and innovation; increase the impact and commercialisation of research; and deliver growth of disciplinary expertise and capacity and capability for multi and interdisciplinary research UKRI was established on 30 March 2018. |
| **Financial Investment Decision Enabling for Hinkley Point C** | To avert an investment hiatus in the deployment of low carbon electricity generation caused by the announced reform of the electricity market, in the period between the publication of the Electricity Market Reform (EMR) white paper and the full implementation of the EMR Contracts for Difference (CfD). |
| **Francis Crick Institute** | To establish a new research institution, with the construction of a new facility located close to St Pancras station, London. The Francis Crick Institute is a joint venture between the UK's largest biomedical research and academic institutions: the Medical Research Council (MRC), Cancer Research UK (CRUK), the Wellcome Trust, University College London, Kings College, London and Imperial College, London. |
| **Project Eagle** | The Shareholder Executive is taking forward consideration of a sale of Government's one-third shareholding in URENCO, a uranium enrichment company. |

# Annex B: Other annual report data

### Correspondence

We aim to respond to 80% of our correspondence within 15 working days. In 2017-18, we received 10,042 written enquiries from ministers and the public. We responded to 77% of cases within 15 working days. The table shows our monthly performance.

**Monthly performance**




BEIS delivered a joint £1.5 million communications campaign with the Gender Equalities Office to raise awareness to employees and employers of the Government's Shared Parental Leave scheme and increase its uptake among parents.

The campaign was launched in February and aimed at around 2 million new and prospective parents in England, Scotland and Wales. It included advertising online, on social media and on posters at major city transport hubs. Other activity included delivering key messages in partnerships with online bloggers as well as through tailored articles in Shortlist and Stylist magazines.

The aim of the campaign was to spark conversations between parents about sharing parental leave and encourage employers to promote SPL in the workplace. Help and support was available on the campaign website www.gov.uk/sharetheleave, which also featured case studies of parents who have already taken SPL.

The campaign prompted a national conversation, with extensive coverage in national print, broadcast and online media, driving around 150,000 visits to the website.

## Complaints to the parliamentary ombudsman

| | |
|---|---|
| No of complaints accepted for investigation | 5 |
| Investigations fully upheld | 0 |
| Investigations partly upheld | 0 |
| Investigations not upheld | 5 |

Data has been obtained from the Parliamentary Ombudsman complaints report 2016-17, the latest available.

BEIS works on a two stage complaints process managed within the Enquiry Unit team. We aim to respond to formal complaints within 20 working days. Every complaint was answered within this timeframe in the 16/17 year. Our complaints procedure is published online: https://www.gov.uk/government/organisations/department-for-business-energy-and-industrial-strategy/about/complaints-procedure

# Annex C: Common core tables

## Table 1 – Public spending

This table provides a summary of departmental net expenditure using the same headings as voted within the Estimate.

| | 2013-14 outturn | 2014-15 outturn | 2015-16 outturn | 2016-17 outturn | 2017-18 outturn | 2018-19 plans | 2019-20 plans |
|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Resource DEL | | | | | | | |
| Deliver an ambitious industrial strategy | 300,436 | 288,168 | 438,821 | 425,590 | 382,886 | 155,108 | 160,600 |
| Maximise investment opportunities and bolster UK interests | 7,535 | 3,980 | 19,368 | 25,651 | 40,218 | 63,000 | 65,000 |
| Promote competitive markets and responsible business practices | 85,943 | 70,324 | 71,495 | 73,792 | 86,230 | 93,557 | 94,840 |
| Delivering affordable energy for households and businesses | 45,947 | 355,160 | 342,329 | 36,365 | 32,381 | 54,304 | 54,499 |
| Ensuring that our energy system is reliable and secure | 22,151 | 18,822 | 11,560 | 5,823 | 4,201 | 13,447 | 11,827 |
| Taking action on climate change and decarbonisation | 76,446 | 115,824 | 95,211 | 27,236 | 91,076 | 36,158 | 40,201 |
| Managing our energy legacy safely and responsibly | 336,433 | 318,312 | 306,343 | 291,203 | 265,752 | 252,879 | 230,630 |
| Science and Research | (15,051) | 10,819 | 13,540 | (1,985) | 5,088 | – | 3,620 |
| Capability | 370,967 | 408,745 | 361,322 | 307,082 | 320,301 | 473,333 | 391,032 |
| Government as Shareholder | 387,362 | 243,220 | 199,823 | 156,140 | 112,900 | 128,274 | 136,345 |
| Deliver an ambitious industrial strategy (ALB) net | – | – | – | 5,433 | 15,172 | – | – |
| Promote competitive markets and responsible business practices (ALB) net | 59,821 | 49,766 | 49,295 | 48,127 | 51,648 | 53,653 | 53,693 |
| Ensuring that our energy system is reliable and secure (ALB) net | – | (280) | 674 | 1,707 | (1,628) | 1 | – |
| Taking action on climate change and decarbonisation (ALB) net | 3,710 | 4,416 | 4,894 | 2,399 | 4,834 | 3,473 | 2,611 |
| Managing our energy legacy safely and responsibly (ALB) net | 29,121 | 23,188 | 46,977 | 39,234 | 34,711 | 22,958 | 22,874 |
| Science and Research (ALB) net | 49,225 | 41,696 | 88,406 | 257,413 | 234,283 | 224,133 | 319,039 |
| Capability (ALB) net | 68,597 | 59,268 | 39,218 | 39,818 | 33,635 | 9,800 | 9,800 |
| Government as Shareholder (ALB) net | 72,153 | 16,238 | (30,023) | (56,431) | (73,072) | (30,303) | (44,477) |
| NDA and SLC expenditure | 1,413,249 | 1,431,342 | 1,414,542 | 1,287,445 | 1,254,752 | 1,362,000 | 1,437,000 |
| Nuclear Decommissioning Authority Income (CFER) | (892,139) | (1,008,787) | (974,558) | (1,026,768) | (1,176,795) | (976,000) | (978,000) |

| | 2013-14 outturn | 2014-15 outturn | 2015-16 outturn | 2016-17 outturn | 2017-18 outturn | 2018-19 plans | 2019-20 plans |
|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Nuclear Safeguards Development | – | – | – | – | 1,189 | (2,275) | – |
| Electricity Market Reform | (4,851) | – | – | – | – | – | – |
| **Total Resource DEL** | **2,417,055** | **2,450,221** | **2,499,237** | **1,945,274** | **1,719,762** | **1,937,500** | **2,011,134** |
| Of which: | | | | | | | |
| Staff costs | 527,935 | 518,385 | 548,832 | 523,874 | 533,290 | * | * |
| Purchase of goods and services | 2,279,269 | 2,200,717 | 2,116,691 | 1,996,182 | 1,944,289 | * | * |
| Income from sales of goods and services | (1,027,176) | (1,157,876) | (1,144,381) | (1,172,788) | (1,079,179) | (1,019,703) | (1,026,542) |
| Current grants to local government (net) | 7,253 | 18,354 | 25,513 | 12,055 | 9,587 | 7,745 | 11,980 |
| Current grants to persons and non-profit bodies (net) | 167,028 | 585,126 | 548,517 | 178,351 | 135,838 | 253,919 | 209,540 |
| Current grants abroad (net) | 44,913 | 31,427 | 41,307 | 58,511 | 59,465 | 88,955 | 91,194 |
| Subsidies to private sector companies | – | – | 246,476 | 274,038 | 526,638 | 88,000 | 84,000 |
| Subsidies to public corporations | 350,250 | 230,402 | 183,035 | 145,239 | 95,170 | 60,000 | 50,000 |
| Net public service pensions[2] | 27,640 | (7) | – | – | (9) | – | – |
| Rentals | (63,075) | (63,400) | (47,642) | 41,330 | 49,177 | 41,440 | 38,412 |
| Depreciation[1] | 304,701 | 293,609 | 268,978 | 355,397 | 266,467 | 279,303 | 283,669 |
| Take up of provisions | (25) | 23 | (30) | 780 | (165) | – | – |
| Change in pension scheme liabilities | 37 | 12 | 35 | 128 | 1,372 | 170 | 170 |
| Other resource | (201,695) | (206,551) | (288,094) | (467,823) | (822,178) | (152,184) | (158,115) |
| Resource AME | | | | | | | |
| Deliver an ambitious industrial strategy | (142,334) | (93,804) | (7,428) | 215,413 | 17,448 | (46,575) | (76,737) |
| Maximise investment opportunities and bolster UK interests | – | 3,881 | (457) | 1,844 | 1,586 | 2,000 | – |
| Promote competitive markets and responsible business practices | 68,858 | 74,000 | 102,008 | 133,000 | 7,000 | 94,000 | 150,000 |
| Ensuring that our energy system is reliable and secure | (1,484) | 342,599 | (309,667) | (3,204) | (415) | (4,140) | (27) |
| Taking action on climate change and decarbonisation | – | 497,618 | 841,397 | (1,337,205) | – | – | – |
| Managing our energy legacy safely and responsibly | (396,981) | (96,723) | (308,924) | (258,615) | (885,264) | (182,953) | (162,470) |
| Science and Research | 34,544 | 87,581 | 49,871 | 41,888 | 45,578 | 60,150 | 85,000 |
| Capability | (34,742) | (29,793) | (21,783) | (6,012) | 13,557 | (19,813) | (19,771) |

| | 2013-14 outturn | 2014-15 outturn | 2015-16 outturn | 2016-17 outturn | 2017-18 outturn | 2018-19 plans | 2019-20 plans |
|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Government as Shareholder | (21,894) | 25,524 | (60,526) | (12,313) | (73,714) | 16,544 | 5,673 |
| Renewable Heat Incentive | 52,367 | 158,946 | 372,420 | 545,426 | 687,275 | 900,000 | 1,010,000 |
| Deliver an ambitious industrial strategy (ALB) net | 3,208 | (4,159) | 7,741 | (10,853) | 4,962 | 15,700 | (11,300) |
| Promote competitive markets and responsible business practices (ALB) net | (561) | (243) | (161) | (59) | 87 | 785 | 181 |
| Taking action on climate change and decarbonisation (ALB) net | – | 1,987,931 | 9,281,975 | 1,065,496 | 3,558,227 | – | – |
| Managing our energy legacy safely and responsibly (ALB) net | 378 | (65,835) | 1,906,630 | 2,025 | 1,507,140 | 8,831 | 29,315 |
| Science and Research (ALB) net | (25,416) | 48,830 | 107,287 | 91,411 | 94,536 | 21,300 | 8,985 |
| Capability (ALB) net | (113) | – | 2 | (400) | – | 2 | – |
| Government as Shareholder (ALB) net | (130,671) | (148,034) | (56,337) | 14,081 | (25,628) | (27,038) | (20,591) |
| Nuclear Decommissioning Authority | 5,309,642 | 5,644,353 | 89,797,932 | 2,850,516 | 69,911,856 | 3,005,000 | 1,069,000 |
| Nuclear Decommissioning Authority Income (CFER) | (898) | – | – | – | – | – | – |
| Government as Shareholder | 316,071 | 239,776 | 254,256 | 231,511 | 259,815 | 350,000 | 212,000 |
| Government as Shareholder | 77,341 | – | – | – | – | – | – |
| **Total Resource AME** | **5,107,315** | **8,672,448** | **101,956,236** | **3,563,950** | **75,124,046** | **4,193,793** | **2,279,258** |
| Of which: | | | | | | | |
| Staff costs | – | – | – | – | – | * | * |
| Purchase of goods and services | 127,354 | 19,776 | 23,450 | 36,665 | 101,425 | * | * |
| Income from sales of goods and services | (10,578) | (152) | – | – | – | – | – |
| Current grants to persons and non-profit bodies (net) | 448,509 | 392,622 | 429,826 | 429,011 | 353,221 | 555,880 | 499,737 |
| Subsidies to private sector companies | 52,367 | 158,943 | 372,420 | 545,426 | 687,275 | 900,000 | 1,010,000 |
| Rentals | – | (139) | (81) | (718) | (2,456) | – | – |
| Depreciation[1] | 53,750 | 2,653,848 | 10,126,954 | 100,581 | 4,397,424 | 24,338 | 37,625 |
| Take up of provisions | 5,400,115 | 6,022,459 | 91,967,474 | 2,984,041 | 71,236,030 | 3,178,949 | 1,229,507 |
| Release of provision | (448,607) | (407,513) | (692,733) | (352,371) | (316,703) | (333,343) | (294,386) |
| Change in pension scheme liabilities | 12,337 | 29,627 | 19,199 | 20,375 | 34,554 | – | – |
| Unwinding of the discount rate on pension scheme liabilities | 1,464 | 43,398 | 37,423 | 38,095 | 36,924 | – | 80 |

| | 2013-14 outturn | 2014-15 outturn | 2015-16 outturn | 2016-17 outturn | 2017-18 outturn | 2018-19 plans | 2019-20 plans |
|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Release of provisions covering payments of pension benefits | (27,758) | – | – | – | – | – | – |
| Other resource | (501,638) | (240,421) | (327,696) | (237,155) | (1,403,648) | (134,798) | (204,208) |
| **Total Resource Budget** | **7,524,370** | **11,122,669** | **104,455,473** | **5,509,224** | **76,843,808** | **6,131,293** | **4,290,392** |
| Of which: | | | | | | | |
| Depreciation[1] | 358,451 | 2,947,457 | 10,395,932 | 455,978 | 4,663,891 | 303,641 | 321,294 |
| **Capital DEL** | | | | | | | |
| Deliver an ambitious industrial strategy | 9,744 | (345,273) | 289,783 | 371,491 | 214,936 | 128,174 | 59,955 |
| Maximise investment opportunities and bolster UK interests | 374,500 | 190,635 | 319,887 | 303,527 | 289,791 | 284,000 | 270,000 |
| Promote competitive markets and responsible business practices | 446 | 47 | (12,700) | 376 | 2,375 | – | – |
| Delivering affordable energy for households and businesses | 81,312 | 137,266 | 131,102 | 42,201 | 43,633 | 42,580 | 58,009 |
| Ensuring that our energy system is reliable and secure | – | 1,158 | 5,071 | (548) | 60 | 319 | 319 |
| Taking action on climate change and decarbonisation | 48,575 | 47,620 | 54,871 | 39,569 | 51,578 | 254,855 | 244,681 |
| Managing our energy legacy safely and responsibly | 6,883 | 7,103 | 5,017 | 7,747 | 7,944 | – | – |
| Science and Research | 474,623 | 597,152 | 518,629 | 2,596,657 | 2,634,812 | 919,950 | 1,752,287 |
| Capability | 26,178 | 11,027 | 11,929 | 10,181 | 18,777 | 226,354 | 141,637 |
| Government as Shareholder | 121,200 | 106,569 | 227,462 | 8,535 | 38,701 | 13,970 | 9,331 |
| Deliver an ambitious industrial strategy (ALB) net | – | – | – | 5 | 32 | – | – |
| Promote competitive markets and responsible business practices (ALB) net | 1,543 | 1,559 | 940 | 1,027 | 1,377 | – | – |
| Ensuring that our energy system is reliable and secure (ALB) net | – | 2,207 | 975 | 1,005 | – | – | – |
| Taking action on climate change and decarbonisation (ALB) net | – | 4,004 | 959 | 601 | 39 | 260 | 60 |
| Managing our energy legacy safely and responsibly (ALB) net | 3,497 | 5,895 | 12,243 | 8,778 | 13,559 | 15,939 | 15,123 |
| Science and Research (ALB) net | 6,053,238 | 6,133,277 | 6,260,785 | 4,257,684 | 4,761,522 | 7,030,739 | 6,734,609 |
| Capability (ALB) net | 7,257 | 773 | 641 | 480 | 43 | – | – |

| | 2013-14 outturn | 2014-15 outturn | 2015-16 outturn | 2016-17 outturn | 2017-18 outturn | 2018-19 plans | 2019-20 plans |
|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Government as Shareholder (ALB) net | 603,759 | 616,035 | 595,189 | 1,229,109 | 334,300 | 637 | 352,558 |
| NDA and SLC expenditure | 1,697,841 | 1,845,932 | 1,827,695 | 1,970,695 | 2,051,013 | 1,851,000 | 1,927,000 |
| Nuclear Decommissioning Authority Income (CFER) | (337) | (2,916) | (51,639) | – | – | – | (176,000) |
| **Total Capital DEL** | **9,510,259** | **9,360,070** | **10,198,839** | **10,849,120** | **10,464,492** | **10,768,777** | **11,389,569** |
| Of which: | | | | | | | |
| Staff costs | 481,265 | 499,390 | 480,109 | 477,642 | 481,092 | * | * |
| Purchase of goods and services | 598,356 | 604,949 | 648,188 | 400,772 | 570,893 | * | * |
| Income from sales of goods and services | (107,129) | (122,637) | (131,102) | (258,776) | (276,222) | (117,169) | (112,625) |
| Current grants to persons and non-profit bodies (net) | 4,248,076 | 4,465,923 | 4,666,325 | 3,098,274 | 3,582,865 | 5,860,452 | 6,555,940 |
| Current grants abroad (net) | 321,542 | 317,714 | 302,460 | 317,400 | 330,130 | 304,799 | 309,220 |
| Subsidies to public corporations | (452) | (1,238) | (2,655) | 224,350 | 98,737 | – | – |
| Capital support for local government (net) | 77,095 | 21,570 | 54,528 | 42,270 | 41,473 | 42,000 | 57,500 |
| Capital grants to persons & non-profit bodies (net) | 1,247,048 | 968,596 | 999,113 | 424,678 | 482,446 | 836,580 | 840,166 |
| Capital grants to private sector companies (net) | 93,124 | 131,354 | 155,115 | 239,455 | 21,138 | 414,072 | 365,778 |
| Capital grants abroad (net) | 362,976 | 203,769 | 425,981 | 525,993 | 483,289 | 296,838 | 282,254 |
| Capital support for public corporations | 118,832 | 90,278 | 170,203 | 147,126 | 81,835 | 38,010 | 50,290 |
| Purchase of assets | 1,958,591 | 2,071,328 | 2,059,177 | 2,243,477 | 2,412,651 | 2,126,922 | 2,139,381 |
| Income from sales of assets | (84,335) | (37,628) | (92,106) | (65,827) | (142,274) | – | (176,000) |
| Net lending to the private sector and abroad | 322,515 | 519,050 | 630,964 | 1,124,835 | 253,812 | 92,546 | 201,483 |
| Other capital | (127,245) | (372,348) | (167,461) | 1,907,451 | 2,042,627 | 36,565 | 128,974 |
| **Capital AME** | | | | | | | |
| Deliver an ambitious industrial strategy | – | (35,000) | – | – | – | – | – |
| Maximise investment opportunities and bolster UK interests | (19,723) | 17,413 | 2,310 | – | – | – | – |
| Managing our energy legacy safely and responsibly | (490,707) | (620,294) | 61,891 | (38,273) | 611,792 | (41,157) | (45,742) |
| Science and Research | – | – | – | 834 | 864 | – | – |
| Government as Shareholder | (763,521) | 291,559 | 210,202 | 129,181 | (1,909) | – | – |
| Renewable Heat Incentive | 13,770 | 1,697 | (22) | – | – | – | – |

| | 2013-14 outturn | 2014-15 outturn | 2015-16 outturn | 2016-17 outturn | 2017-18 outturn | 2018-19 plans | 2019-20 plans |
|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Deliver an ambitious industrial strategy (ALB) net | – | 7,159 | 17,299 | 84,842 | (3,474) | 1,000 | 40,000 |
| Science and Research (ALB) net | (1,108) | (71,497) | (55,972) | (61,156) | (63,845) | – | – |
| Government as Shareholder (ALB) net | (1,063,420) | (1,206,678) | (430,678) | (129,935) | (119,122) | (109,240) | (77,070) |
| Government as Shareholder (CFER) | (1,979,829) | – | – | – | (1,621,078) | – | – |
| Government as Shareholder (ALB) net | – | – | (1,434,995) | – | – | – | – |
| **Total Capital AME** | **(4,304,538)** | **(1,615,641)** | **(1,629,965)** | **(14,507)** | **(1,196,772)** | **(149,397)** | **(82,812)** |
| Of which: | | | | | | | |
| Staff costs | – | (25,110) | (16,992) | (18,461) | (18,719) | – | – |
| Purchase of goods and services | – | – | – | 834 | (7,325) | – | – |
| Capital grants to persons & non-profit bodies (net) | 13,770 | 1,697 | (22) | – | – | – | – |
| Capital grants to private sector companies (net) | (1,003,821) | (500,441) | (12,798) | (4,819) | (184,787) | – | – |
| Capital grants abroad (net) | (19,723) | 17,413 | 2,310 | – | – | – | – |
| Capital support for public corporations | (763,521) | 292,000 | 53,248 | 134,000 | 36,000 | – | – |
| Purchase of assets | 3,334 | 79 | 350 | 54,158 | 318 | – | – |
| Income from sales of assets | (111,446) | (264,404) | (32,150) | 15 | – | – | – |
| Net lending to the private sector and abroad | (2,218,695) | (1,070,518) | (1,753,009) | (141,781) | (1,638,862) | (159,240) | (88,070) |
| Other capital | (204,436) | (66,357) | 129,098 | (38,453) | 616,603 | 9,843 | 5,258 |
| **Total Capital Budget** | **5,205,721** | **7,744,429** | **8,568,874** | **10,834,613** | **9,267,720** | **10,619,380** | **11,306,757** |
| **Total departmental spending**[3] | **12,371,640** | **15,919,641** | **102,628,415** | **15,887,859** | **81,447,637** | **16,447,032** | **15,275,855** |
| Of which: | | | | | | | |
| Total DEL | 11,622,613 | 11,516,682 | 12,429,098 | 12,438,997 | 11,917,787 | 12,426,974 | 13,117,034 |
| Total AME | 749,027 | 4,402,959 | 90,199,317 | 3,448,862 | 69,529,850 | 4,020,058 | 2,158,821 |

1. Includes impairments.
2. Pension schemes report under FRS 17 accounting requirements. These figures therefore include cash payments made and contributions received, as well as certain non-cash items.
3. 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.

* Figures for Plans for staff costs and purchase of goods and services, which include assumptions on future price and pay movements, are redacted in line with HMT guidance.

**Notes:**

The large increase in spend in 2014-15 and 2015-16 on Delivering affordable energy for households and businesses Resource DEL is due to the Government Electricity Rebate.

Resource DEL expenditure for Nuclear Safeguards Development is shown separately in 2017-18 as this expenditure was funded through a Contingencies Fund advance, pending passage of the Nuclear Safeguards Bill through Parliament. Repayment of that advance in 2018-19 will be made against Managing our energy legacy safely and responsibly Resource DEL, offset by the credit shown against Nuclear Safeguards Development. Repayment of a similar advance for Electricity Market Reform in 2013-14 for expenditure funded through a Contingencies Fund advance in 2012-13 which was pending passage of the Energy Bill through Parliament, was made against Ensuring that our energy system is reliable and secure Resource DEL, offset by the credit shown against Electricity Market Reform.

The increase in spend in 2016-17 and 2017-18 against Science and Research Capital DEL and decrease against Science and Research (ALB) Capital DEL reflects the reclassification of expenditure for the Higher Education Funding Council for England (HEFCE) for Science and Research following the Machinery of Government transfer of HEFCE to the Department for Education. With effect from 2018-19 this expenditure falls under Research England as part of UKRI, under Science and Research (ALB).

The figure for Depreciation in Resource AME in 2014-15, 2015-16, 2016-17 and 2017-18 includes the movement in fair value for Contracts for Difference, shown against Taking action on climate change and decarbonisation and Taking action on climate change and decarbonisation (ALB).

The figures for Science and Research (ALB) include the expenditure of Innovate UK, which are shown in the Statement of Parliamentary Supply against Deliver an ambitious industrial strategy (ALB).

The large increases in take up of provisions within Resource AME in 2015-16 and 2017-18 is due to negative movements in the long-term discount rate for provisions. This largely impacts the lines for Nuclear Decommissioning Authority and Managing our energy legacy safely and responsibly (ALB).

The receipt against Government as Shareholder (CFER) Capital AME reflects the proceeds from the sale of the Green Investment Bank.

# Table 2 – Administration budgets

| | 2013-14 outturn | 2014-15 outturn | 2015-16 outturn | 2016-17 outturn | 2017-18 outturn | 2018-19 plans | 2019-20 plans |
|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Resource DEL | | | | | | | |
| Deliver an ambitious industrial strategy | 2,662 | 1,935 | 583 | – | – | – | – |
| Promote competitive markets and responsible business practices | (528) | 796 | 818 | 827 | 814 | 840 | 840 |
| Managing our energy legacy safely and responsibly | – | – | – | (3,801) | – | – | – |
| Science and Research | 53 | 58 | 59 | – | 2 | – | 3,620 |
| Capability | 335,497 | 345,965 | 327,944 | 288,546 | 280,222 | 316,714 | 309,161 |
| Government as Shareholder | 3,465 | 3,108 | 3,885 | 4,299 | 3,876 | 4,644 | 4,644 |

| | 2013-14 outturn | 2014-15 outturn | 2015-16 outturn | 2016-17 outturn | 2017-18 outturn | 2018-19 plans | 2019-20 plans |
|---|---|---|---|---|---|---|---|
| | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** |
| Promote competitive markets and responsible business practices (ALB) net | 12,206 | 10,102 | 8,630 | 7,362 | 8,735 | 8,580 | 8,620 |
| Taking action on climate change and decarbonisation (ALB) net | 3,710 | 4,043 | 3,752 | 3,535 | 3,447 | 3,472 | 2,611 |
| Managing our energy legacy safely and responsibly (ALB) net | 4,629 | 5,536 | 10,191 | 12,104 | 7,044 | 4,400 | 4,900 |
| Science and Research (ALB) net | 618 | 7,305 | 4,685 | 986 | 3,371 | 4,097 | 95,407 |
| Capability (ALB) Net | 68,597 | 59,268 | 39,218 | 39,818 | 33,635 | 9,800 | 9,800 |
| Government as Shareholder (ALB) net | 4,626 | 267 | 251 | 162 | 27 | 186 | 187 |
| NDA and SLC expenditure | 41,790 | 37,110 | 34,992 | 38,195 | 42,121 | 51,000 | 55,000 |
| Nuclear Decommissioning Authority Income (CFER) | (1,875) | – | – | – | – | – | – |
| Electricity Market Reform | (200) | – | – | – | – | – | – |
| **Total administration budget** | **475,250** | **475,493** | **435,008** | **392,033** | **383,294** | **403,733** | **494,790** |
| Of which: | | | | | | | |
| Staff costs | 349,871 | 341,753 | 365,590 | 329,069 | 326,207 | * | * |
| Purchase of goods and services | 191,654 | 179,482 | 145,800 | 159,274 | 154,657 | * | * |
| Income from sales of goods and services | (115,081) | (123,790) | (135,538) | (37,585) | (31,151) | (32,909) | (40,452) |
| Current grants to persons and non-profit bodies (net) | (439) | 30 | 29 | 38 | 493 | (12,119) | (3,639) |
| Current grants abroad (net) | 36 | 18 | 108 | 106 | 170 | – | – |
| Subsidies to private sector companies | – | – | – | – | 9 | – | – |
| Net public service pensions | 1,219 | (7) | – | – | (9) | – | – |
| Rentals | 20,131 | 27,074 | 31,852 | 30,117 | 34,299 | 25,985 | 25,120 |
| Depreciation | 33,203 | 30,738 | 29,956 | 27,034 | 22,901 | 34,764 | 34,754 |
| Take up of provisions | – | (12) | 2 | – | (50) | – | – |
| Change in pension scheme liabilities | (12) | (65) | 25 | 106 | 184 | – | – |
| Other resource | (5,332) | 20,272 | (2,816) | (116,126) | (124,416) | (6,076) | (9,867) |

* Figures for Plans for staff costs and purchase of goods and services, which include assumptions on future price and pay movements, are redacted in line with HMT guidance.

# Annex D: Glossary

ACAS: Advisory, Conciliation and Arbitration Service
AFS: Available for Sale
AHRC: Arts and Humanities Research Council
AME: Annual Managed Expenditure
ARAC: Audit and Risk Assurance Committee
BAES: BAE Systems
BBB: British Business Bank Plc
BBIL: British Business Investments Ltd
BBSRC: Biotechnology and Biological Sciences Research Council
BEIS: Our Department, the Department for Business, Energy and Industrial Strategy
BFP: Business Finance Partnership
BIS: Department for Business, Innovation and Skills, one of our predecessor departments
BNFL: British Nuclear Fuels Ltd
BVCA: British Venture Capital Association
CAT: Competition Appeal Tribunal
CAV: Connected Autonomous Vehicles
CCA: Climate Change Agreements
CCL: Climate Change Level
CCUS: International Carbon, Capture & Storage
CERN: European Organisation for Nuclear Research
CETV: Cash Equivalent Transfer Value
CFD: Contracts for Difference
CFP: Committee on Fuel Poverty
CNPA: Coal Nuclear Police Authority
CNPP: Civil Nuclear Pension Plan
CRC: Carbon Reduction Commitment
CSOPS: Civil Servant and Other Pension Scheme
DDM: Dynamic Dispatch Model
DECC: Department for Energy and Climate Change, one of our predecessor departments
Defra: Department for Food, Environment and Rural Affairs
DEL: Departmental Expenditure Limit
DfE: Department for Education
DTUS: Departmental Trade Union Side
ECF: Enterprise Capital Fund
EDFE: EDF Energy Nuclear Generation Limited
EFG: Enterprise Financial Guarantee
EHL: Enrichment Holdings Limited
EII: Energy Intensive Industries
EMR: Electricity Market Reform
EPSRC: Economic and Physical Sciences Research Council
ERDF: European Regional Development Fund
ESA: European Space Agency
ESC: Electricity Settlements Company
ESO: European Southern Observatory
ESOS: Energy Savings Opportunity Scheme
ESRC: Economic and Social Research Council
EUA: European Union Allowance
EUAA: European Union Aviation Allowance
EUETS: EU Emissions Trading Scheme
EUV: Existing-use Value
FDP: Funded Decommissioning Programme
FIDeR: Financial Investment Decision Enabling for Renewables
FLS: Future Leaders Scheme
FRC: Financial Reporting Council
FReM: Government Financial Reporting Manual
FVPTL: Fair Value for Profit and Loss
GCRF: Global Challenges Research Fund
GDF: Geological Disposal Facility
GDPR: General Data Protection Regulation
GGC: Government Greening Commitments
GHG: Greenhouse Gas
GIB: Green Investment Bank Ltd
GMPP: Government Major Projects Portfolio
GPA: Government Property Agency
GRAA: Greenhouse Resources and Accounts Act
HMT: Her Majesty's Treasury
HPC: Hinkley Point C
HPDS: High Potential Development Scheme
IAEA: International Atomic Energy Agency
IDB: Inter-American Development Bank
IDP: Individual Development Programme
IFRS: International Financial Reporting Standards
INSS: Insolvency Service
IRR: Internal Rate of Return
ISCF: Industrial Strategy Challenge Fund
ITER: International Thermonuclear Experimental Reactor
JET: Joint European Torus
JPA: Joint Procurement Agency
KPI: Key Performance Indicators
LCC: Local Land Charges
LCCC: Low Carbon Contracts Company Ltd
LOLE: Loss of Load Expectation
LTP: Life Time Plan
MEIL: Midlands Engine Investment Ltd
MRC: Medical Research Council
MRCPS: Medical Research Council Pension Scheme
NAO: National Audit Office
NDA: Nuclear Decommissioning Authority
NDC: Nationally Determined Contributions
NDPB: Non-Departmental Public Bodies
NERC: Natural Environment Research Council

NESTA: National Endowment for Science, Technology and the Arts

NGC: Nominations and Governance Committee

NIF: National Insurance Fund

NMDF: National Battery Manufacturing Development Facility

NNHL: National Nuclear Holdings Ltd

NPIL: Northern Powerhouse Investment Ltd

NPLML: NPL Management Ltd

OCI: Other Comprehensive Income

ODA: Official Development Assistance

OGA: Oil and Gas Authority

ONS: Office for National Statistics

OPRED: Offshore Petroleum Regulator for Environment and Decommissioning

OSL: Ordnance Survey Limited

PBL: Parliamentary Business and Legislation Committee

PBO: Parent Body Organisation

PCFP: Parliamentary Contributory Pension Fund

PCSPS: Principal Civil Service Pension Scheme

PDC: Public Dividend Capital

PES: Public Expenditure System

PEVC: International Private Equity and Venture Capital

PFRC: Performance Finance and Risk Committee

PHS: Postal Services Holding Company Ltd

PIC: Projects and Investment Committee

PID: Project Initiation Documents

PNC: Police National Computer

PO’s: Partner Organisations

POC: People and Operations Committee

POL: Post Office Ltd

PPE: Property, Plant and Equipment

PV: Present Value

QA: Quality Assurance

R&D: Research and Development

RMPP: Royal Mail Pension Plan

RPC: Regulatory Policy Committee

RPS: Redundancy Payment Services

RSRL: Research Sites Restoration Limited

RWM: Committee on Radioactive Waste Management

SCS: Senior Civil Service

SDG: Sustainable Development Goals

SDP: Single Departmental Plans

SFLGC: Small Firms Loan Guarantee Scheme

SI: Statutory Instrument

SIP: UK Sustainable Infrastructure Programme

SLC: Site Licence Company

SLS: Senior Leaders Scheme

SME: Small and Medium enterprise engagement

SoCNE: Statement of Comprehensive Net Expenditure

SoFP: Statement of Financial Position

SoPS: Statement of Parliamentary Statement

SOSIA: Secretary of State Investor Agreement

SPRC: Strategic Policy Review Committee

SRMC: Short Run Marginal Cost

STFC: Science and Technology Facilities Research Council

STSC: South Tees Site Company Ltd

SULC: Start Up Loans Company

TCD: Target Commissioning Date

TCW: Target Commissioning Window

TLM: Transmission Loss Multiplier

TME: Total Managed Expenditure

UKAEA: UK Atomic Energy Authority

UKGIP: UK Green Infrastructure Platform Ltd

UKIIF: UK Innovation Investment Fund

UKRI: UK Research and Innovation

UKSA: UK Space Agency

UKSBS: UK Shared Business Services Ltd

VAT: Value Added Tax

WTC: Waste Transfer Contract

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hello@design102.co.uk