

Office of Gas and Electricity Markets (Ofgem)

Supplementary Estimate 2022-23: Estimates memorandum

1 Overview

1.1 Objectives

As per Ofgem's Forward Work Programme¹, the Gas and Electricity Markets Authority (the 'Authority'), consists of non-executive and executive members and a non-executive chair, and operates through the Office of Gas and Electricity Markets ('Ofgem'), which is a non-ministerial government department.

Our principal objective is to protect consumers' interests now and in the future by working to deliver a greener, fairer energy system. We do this by:

- Working with governments, industry and consumer groups to deliver a net zero economy, at lowest cost to consumers.
- Stamping out sharp and bad practice, ensuring fair treatment for all consumers, especially the vulnerable.
- Enabling competition and innovation, which drives down prices and results in new products and services for consumers.

1.2 Spending controls

Ofgem's net spending is broken down into different spending totals, for which Parliament's approval is sought.

The spending totals which Parliament votes are:

- Resource Departmental Expenditure Limit ("**RDEL**"): a net limit comprising day-to-day running costs, less income as set out in our ambit;
- Capital Departmental Expenditure Limit ("**CDEL**"): investment in capital equipment and software such as IT and systems; and
- Non-budget Expenditure Limit: to account for Prior Period Adjustments ("**PPA**").

In addition, Parliament votes a net cash requirement, designed to cover the elements of the above budgets which require Ofgem to pay out cash in year.

1.3 Comparison of net spending totals sought

The table below shows how the net spending totals sought for OFGEM compare with Main Estimate and with last year.

¹ [2022/23 Ofgem Forward Work Programme | Ofgem](#)

	Amounts sought this year	Original Budget	Change	Final Outturn Last Year
Net £ m	(Supplementary Estimate 2022-23)	(Main Estimate 2022-23)	(2022-23)	(Outturn 2021-22)
Resource DEL	£7.0 m	£1.9 m	£5.1 m	-£9.8 m
Capital DEL	£5.1 m	£1.0 m	£4.1 m	£3.6 m
Non Budget	£0.0 m	£0.0 m	£0.0 m	£0.0 m

A breakdown of spending and income within the net total is shown in section 2.1.

1.4 Key drivers of spending changes since original budget this year

The net Resource DEL has increased by 5.1m. This is a result of a number of changes as set out in section 2.1, the most significant being budget for legal provision.

The net capital DEL proposed is an increase of £4.1m. The change is largely for office leases and associated rent modifications as well as equipment and systems development.

1.5 New policies and programmes; ambit changes

Ofgem is implementing IFRS16 (Financial Reporting Standard for Leases) from 1 April 2022 and the impact will bring most leases on balance sheet.

Ofgem's ambit has been updated to include Supplier of Last Resort (SoLR) levy, which is Notional tax and spend budget related to the process to make a claim for a Last Resort Supply Payment.

1.6 Spending and income trends

OFGEM receives income mainly from the industry we regulate in the form of licence fees, but also additional funding for the work that we perform on administering various environmental and social schemes that Ofgem delivers on behalf of government. For this reason, RDEL income matches expenditure for the majority of our work. In addition, in this financial year Ofgem has received funding for advisory and preparatory work in the setup of Heat Networks Regulations, as well as budget for legal provision. Finally in the first full year of the Green Gas Levy and Green gas support scheme, 22-23 budgets have been adjusted to reflect an anticipated income surplus; this will remain available for future GGSS payments and reduce obligated suppliers' future payments.

1.7 Administration costs and efficiency plans

A key component of the Authority's strategy is the delivery of a challenging efficiency plan. Our efficiency planning has two key strands, these are:

- Reductions to our cost base – We expect to realise savings over a range of activities including estates rationalisation, increased automation and reductions in external resourcing.
- Transforming Ofgem with improved central processes and developing a dynamic and flexible workforce that can respond rapidly to the increased demands in the Energy sector.

We intend that savings released by these measures will be recycled into higher priority activities.

1.8 Funding: Spending Review and Budgets

Through the last Spending Review (SR21) Ofgem received approval for a core net budget in 2022/23 of £1.3m Resource DEL and £1m Capital DEL, given expenditure is largely funded through income. Additional funding sought through this Supplementary Estimate is outlined at section 2.1; with the majority also budget neutral in-year, the main exceptions relating to legal provisions and green gas levy.

2. Spending and income detail

2.1 Explanations of changes in spending and income

The table below shows how spending plans compare with Main Estimates.

	<i>This year (2022-23 Supplementary Estimates budget sought)</i>	<i>This year (2022-23 Main Estimates budget approved)</i>	Change		
	£ million	£ million	£ million	%	See explanation, note number
GEMA and D&S	311.1	151.6	159.5		1, 3
Green Gas	14.4	39.7	-25.3		2, 3
Gross expenditure	325.5	191.3	134.2	70.1%	
Income	-318.5	-189.4	-129.1	68.2%	3
Total voted RDEL	7.0	1.9	5.1		
Total voted CDEL	5.1	1.0	4.1	413.0%	4

Note 1

Increase of £159m:

- Provision of £42.5m for estimated legal costs associated with possible challenges to Ofgem's work in managing ongoing issues in the GB energy retail market and adapting the regulatory environment to create a more financially resilient sector. This will only be drawn down if legal risks materialise.
- £94m of SoLR levy notional spend budget (as classified by Office of National Statistics), fully offset by notional tax income budget so overall budget neutral, relating to 22/23 levy claims. Note that there is also a prior period adjustment (captured under 'non budget') relating to notional income and expenditure of SoLR levy for true up decisions made this year in relation to 21/22 claims.
- £14.4m to enable Ofgem to continue the work primarily aimed at short term stabilisation of the market: monitoring and ensuring compliance, developing financial resilience and regulation, and preparing for the risks faced this winter with unprecedented energy bills and the increased risk of further supplier failure, offset by an increase to licence fee income so overall budget neutral.
- £12.6m for new Government initiatives implemented in 22/23 to provide energy bill support to consumers with increased energy costs. Ofgem supports these in its statutory obligation as a regulatory body ensuring that energy providers are compliant with the rules of the government led initiatives, offset by an increase to income so overall budget neutral.
- The remaining -£4m difference is largely as a result of a switch from resource to capital, and for associated depreciation charges, relating to investment in the creation of intangible assets

relating to bespoke software developed by Ofgem for new schemes that Ofgem run on behalf of government, such as Boiler Upgrade Scheme.

Note 2

The value and timing of Green Gas Support Scheme payments is dependent on registrations and biomethane injections and expenditure budget for 22/23 has been reduced by £25m to reflect latest projections.

Note 3

Of the total income increase of £129m:

- £121m directly relates to associated expenditure changes as set out in note 1 (SoLR levy notional tax income £94m; £14.4m licence fee income, £12.6m new energy schemes)
- The remaining £8m overall net increase largely relates to Green Gas Levy. Any in-year surplus will be factored into the calculation of the following year's levy rate. Funds will remain available for GGSS payments and reduce obligated suppliers' future payments.

Note 4

The increase of £4.1m comprises £2.5m largely for office leases and associated rent modifications as a result of the adoption of IFRS16, well as £1.6m for systems development and equipment.

2.2 Ring fenced budgets

Within the expenditure totals, the following elements are ringfenced i.e. savings in these budgets may not be used to fund pressures on other budgets. The increase in depreciation is largely as a result of the way we account for leases (IFRS16) as well as depreciation associated with system development costs.

	Amounts sought this year (Supplementary Estimate 2022-23)	Original budget (Main Estimate 2022-23)	Final outturn last year (Outturn 2021-22)
Depreciation	£7.1 m	£4.3 m	£1.3 m

3. Priorities and performance

3.1 How spending relates to objectives

Each year, the Authority has a statutory duty under the Utilities Act (2000) to publish a forward work programme, that sets out priority projects for the financial year ahead.

This forward work programme is structured around Ofgem's strategic framework, which is made up of two enduring priorities and five strategic change programmes.

Enduring priorities:

- Our core regulatory functions to regulate the sector and protect the interests of consumers.
- The delivery of current and new government schemes to support vulnerable consumers and advance decarbonisation.

Strategic change programmes:

- Deliver a future retail market that works for all consumers and the environment

- Enable investment in low carbon infrastructure at a fair cost
- Deliver full-chain flexibility in how we generate, use and store energy
- Ensure energy system governance, including Ofgem, are fit for purpose
- Unlock the benefits of data and digitalisation.

The forward work programme sets out a description and objective for each of the priority projects, as published on 30 March 2022 for financial year 2022/23².

3.2 Measures of performance against each priority

Ofgem publishes its performance against the priorities set out in its forward work programmes in its annual report and accounts³.

4. Other information

No additional information.

5. Accounting Officer Approval

This memorandum has been prepared according to the requirements and guidance set out by HM Treasury and the House of Commons Scrutiny Unit, available on the Scrutiny Unit website. The information in this Estimates Memorandum has been approved by myself as Departmental Accounting Officer.

Jonathan Brearley
Accounting Officer
Office of Gas and Electricity Markets
31 January 2022

² [2022/23 Ofgem Forward Work Programme | Ofgem](#)

³ [Ofgem Annual Report and Accounts 2021-22 | Ofgem](#)