Office of Gas and Electricity Markets (Ofgem)

Supplementary Estimate 2023-24: Estimates memorandum

1 Overview

1.1 Objectives

As per Ofgem's Forward Work Programme[1], the Gas and Electricity Markets Authority (the 'Authority'), consists of non-executive and executive members, and a non-executive chair. The Authority operates through the Office of Gas and Electricity Markets ('Ofgem'), which is a non-ministerial government department.

The Authority's principal objective is to protect consumers' interests now and in the future. In 2023-24, we propose to further this objective by:

- using our Consumer Interests Framework, to keep consumer priorities at the heart of our decision-making
- focusing our resources on our short, and longer-term strategic priorities
- delivering our core regulatory activities, and
- administering environmental and social schemes for government.

We will also continue to deploy our resources to our investment and enabling activities, that make us a more efficient and effective regulator.

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**"): a net limit comprising 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] 2023/24 Forward Work Programme | Ofgem

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.

Net £m	Amounts sought this year (Supplementary estimate 2023-24)	Original Budget (Main estimate 2023-24)	Change (2023-24)	Final Outturn Last year (Outturn 2022-23)
Resource DEL	£38.4	£24.1	£14.3	(£57.9)
Capital DEL	£2.8	£2.5	£0.3	£2.2
Non Budget	£0.0	£0.0	£0.0	£0.0

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 £14.3m. This is a result of a number of changes as set out in section 2.1, the most significant being budget for legal provision.

1.5 New policies and programmes; ambit changes

None noted

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 and regimes that Ofgem delivers on behalf of government. For this reason, income largely matches expenditure.

In addition, in this financial year Ofgem budgets include transfers from Department for Energy Security and Net Zero ('DESNZ') for advisory and preparatory work in the setup of Heat Networks Regulations, as well as budget for the green gas support scheme funded from green gas levy income generated to date.

1.7 Administration costs and efficiency plans

A key component of the Authority's strategy is constantly reviewing and prioritising work. This ensures that resources are deployed on activities that are most closely aligned to the Forward work plan and supports strategic objectives.

1.8 Funding: Spending Review and Budgets

Through the last Spending Review (SR21) Ofgem received approval for a core net budget in 2023/24 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.

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.

	This year (23-24 Supplementary Estimates budget sought) £ million	This Year (23-24 Main estimate budget approved) £ million	Change £million	Change %	See explanation note number
GEMA & D&S	£230.9	£172.2	£58.8	34%	1,3
Green Gas	£13.7	£23.4	(£9.7)	-41%	2,3
Gross expenditure	£244.7	£195.6	£49.0	25%	
Income	(£203.5)	(£169.0)	(£34.5)	20%	3
Total Voted RDEL	£38.4	£24.1	£14.3	59%	
Total Voted CDEL	£2.8	£2.5	£0.3	10%	4

Note 1

Increase of £58.8m:

- Provision of £28m for risk of legal 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.
- £31.8m increase primarily to support scaling up the organisation to support additional work that Ofgem has been asked to take on since the start of the energy crisis.
- Offset by £1.3m reduction of budget surrender

Note 2

The value and timing of Green Gas Support Scheme payments is dependent on registrations and biomethane injections; expenditure budget for 23/24 has been reduced by £9.7m to reflect latest demand and projections.

Note 3

Of the total income increase of £34.5m:

- £31.8m directly relates to associated expenditure changes as set out in note 1
- £2.7m increase to reflect anticipated Green Gas Levy income for the year

Note 4

The £0.3m net increase in CDEL largely relates to agreed uplift for estates costs.
There is also a prior period adjustment (captured under 'non budget'). This represents notional income and expenditure of Supplier of Last Resort levy for true-up decisions made in relation to prior year claims.

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 depreciation budget is largely in relation to leases and system costs.

	Amounts sought this year	Original Budget	Final Outturn Last Year
	Supplementary estimate 23-24	Main estimate 23-24	Outturn 22-23
Depreciation	£9.3 m	£9.3 m	£4.9 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.

Ofgem has identified six strategic priorities for our regulatory work, in the coming year – three short-term and three longer-term. Within the six, we have planned to deliver twenty priority projects and programmes that (short-term) address current market conditions, and (longer-term) will enable a low-cost transition to a net zero energy system.

Our short-term priorities:

- Ensuring prices are fair
- Creating resilience
- Monitoring and enforcing quality and standards

Our longer-term priorities:

- Facilitating infrastructure investment
- Developing and delivering market reforms.
- Reforming governance arrangements

The forward work programme sets out a description, objective and milestone for each of the priority projects, as published on 30 March 2023 for financial year 2023/24[2].

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 accounts[3].

[2] 2023/24 Forward Work Programme | Ofgem
[3] Ofgem annual report and accounts 2022 to 2023 | Ofgem

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
9 February 2024