Office of Gas and Electricity Markets (Ofgem)

Supplementary Estimate 2021-22: 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 and operates through the Office of Gas and Electricity Markets ('Ofgem'), which is a non-ministerial government department.

The Authority determines strategic direction, sets policy priorities and makes decisions on a wide range of regulatory issues, including price controls and enforcement.
Our 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 government, industry and consumer groups to deliver a net-zero economy, at the 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 ("**Resource DEL**"): a net limit comprising day-to-day running costs, less income as set out in our ambit; and
• Capital Departmental Expenditure Limit ("**Capital DEL**"): investment in capital equipment and software such as IT and systems.

In addition, Parliament votes a net cash requirement, designed to cover the elements of the above budgets that 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] https://www.ofgem.gov.uk/publications/forward-work-programme-202122-consultation#Who%20we%20are%20and%20our%20objective

Net £ m	Amounts sought this year (Supplementary Estimate 2021-22)	Original budget (Main Estimate 2021-22)	Change (2021-22)	Final outturn last year (Outturn 2020-21)
Resource DEL	£78.6 m	£-7.3 m	£85.9 m	£12.0m
Capital DEL	£3.8 m	£1.5 m	£2.3 m	£2.2m

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 to £79 m. This budget increase of £86m primarily reflects provision for legal costs associated with possible challenges to Ofgem's work in managing insolvency issues in the GB energy retail market and adapting the regulatory environment to create a more financially resilient sector.

The net capital DEL proposed is an increase of £2.2m. This change is largely the cost of developing systems to support the delivery of new environmental schemes, such as the Green Gas Support Scheme.

1.5 New policies and programmes; ambit changes

Ofgem budgets relating to Green Gas Support Scheme Regulations (2021) are included under subhead C. See section 2.2.

1.6 Spending and income trends

OFGEM receives income mainly from the industry we regulate in the form of licence fees, and also 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 largely matches expenditure. In addition, in this financial year Ofgem has received funding received directly from other Government departments for advisory and preparatory work in the setup of new energy regulations, such as Heat Networks and Green Gas. We have also made a reserve claim for possible legal challenges to Ofgem's work, as set out in section 1.4.

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 have again set ourselves a challenging target this year, with savings expected over a range of activities including estates rationalisation, increased automation and reductions in external resourcing.
- Rigorous reprioritisation – Ensuring that resources are allocated to the highest priority activities that are more closely aligned to strategic change programmes.

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 (SR20) Ofgem received approval for a core net budget in 2021/22 of £0.7m Resource DEL and £1.5m Capital DEL, given expenditure is largely funded through income. Additional funding sought through this Supplementary Estimate is outlined at section 2.1; the most significant change being a £79m reserve claim for legal provisions.

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 (2021-22 Supplementary Estimates budget sought)	*This year (2021-22 Main Estimates budget approved)*	Change		
	£ million	£ million	£ million	%	See explanation, note number
GEMA	218.0	139.9	78.1	55.8%	1, 3
Green Gas	1.8	0.0	1.8	-	2
Gross expenditure	**219.8**	**139.9**	**79.9**	**57.1%**	
Income	-141.1	-147.2	6.1	-4.1%	3
Total voted RDEL	**78.6**	**-7.3**	**85.9**		
Total voted CDEL	**3.8**	**1.5**	**2.3**	**153.3%**	3, 4

Note 1
A reserve claim for £78m of expenditure budget is primarily provision for legal costs associated with possible challenges to Ofgem's work in managing insolvency issues in the GB energy retail market and adapting the regulatory environment to create a more financially resilient sector.

Note 2
Both resource and capital costs have been incurred in the current year as a result the Green Gas Support Scheme Regulations 2021. Department for Business, Energy and Industrial Strategy (BEIS) are funding initial design and setup costs via a budget transfer and ongoing costs and payments will be financed by the Green Gas Levy. The setup costs that relate to development of new systems are classified as Capital DEL (note 4).

Note 3
Resource DEL Income estimate has reduced by £6m, largely as result of historic tax liabilities settling at less than anticipated, resulting in a lower cost passed on to the licence fee.

A budget neutral change includes £8m of expenditure budget for additional costs to Ofgem in responding to the impact of the global gas price increases on the energy market and ensuring customers remain protected through OFGEM's safety net. We have written to network companies about the revised licence fees payable for 2021-2022 which reflect these higher costs. Ofgem will ensure that all expenditure strictly adheres to value for money protocols to minimise the cost to consumers, and any unused expense will be returned by the credit note process in the next financial year.

Lastly, there has been a reclassification from resource to capital in respect of system development costs (see note 4).

Note 4

The change to capital budget at supplementary estimate is largely for investment in the creation of intangible assets relating to bespoke software developed by Ofgem for new schemes that we run on behalf of government.

2.2 Restructuring

There is a new estimate row (C) for green gas. This is for the design, administration and payments made as well as the levies collected under the Green Gas Support Scheme Regulations 2021.

2.3 Ring fenced budgets

Within the expenditure totals, the following elements are ring fenced i.e. savings in these budgets may not be used to fund pressures on other budgets

	Amounts sought this year (Supplementary Estimate 2021-22)	**Original budget (Main Estimate 2021-22)**	**Final outturn last year (Outturn 2020-21)**
Depreciation	£2.1m	£1.5m	£1.4m

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:

- To enable investment in low carbon infrastructure at a fair cost.
- To deliver full-chain flexibility in how we generate, use and store energy.
- To deliver a future retail market that works for all consumers and the planet.

- To unlock the benefits of data and digitalisation.
- To ensure energy system governance, including Ofgem, are fit for the future.

The forward work programme sets out a description and objective for each of the priority projects.

On 17 January 2022, a consultation was published[2] for stakeholder to provide Ofgem with feedback on our proposed programme of work for the 2022/23 financial year.

3.2 Measures of performance against each priority

Ofgem published its performance against the priorities set out in its forward work programmes in its annual report and accounts[3].

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] https://www.ofgem.gov.uk/publications/202223-forward-work-programme-consultation
[3] https://www.ofgem.gov.uk/publications/ofgem-annual-report-and-accounts-2020-21