



Department for Energy Security & Net Zero

Spending Insight

An Open & Candid Insights Report – September 2024

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Background

In February 2023, the government established a new department called the Department for Energy Security & Net Zero (DESNZ). DESNZ consists of four business units:

- **Energy Markets & Supply**
- **Energy Infrastructure**
- **Net Zero Buildings & Industry**
- **Net Zero, Nuclear & International**

It works with 14 agencies and public bodies to deliver its objectives. DESNZ aims to secure a long-term energy supply, reduce bills, and halve inflation. It is responsible for:

- **Delivering energy supply security**
- **Ensuring properly functioning energy markets**
- **Encouraging greater energy efficiency**
- **Seizing net zero opportunities to lead the world in new green industries**

DESNZ Priorities for 2023

1. **Ensure the security of energy supply this winter, next winter, and in the long term – lowering energy bills and reducing inflation.**
2. **Keep the UK on track to meet its legally binding net zero commitments while supporting economic growth by accelerating the delivery of network infrastructure and domestic energy production.**
3. **Improve energy efficiency in UK homes, businesses, and public sector buildings to meet the 15% demand reduction goal.**
4. **Deliver current schemes that support energy consumers with their bills, while developing options for long-term reforms to improve how the electricity market works for families and businesses.**
5. **Capitalise on the economic benefits of net zero, including jobs and growth through investment in new green industries.**
6. **Pass the Energy Bill to support emerging sectors like carbon capture, utilisation and storage (CCUS), and hydrogen; update the governance of the energy system; and reduce the time required to consent offshore wind projects.**

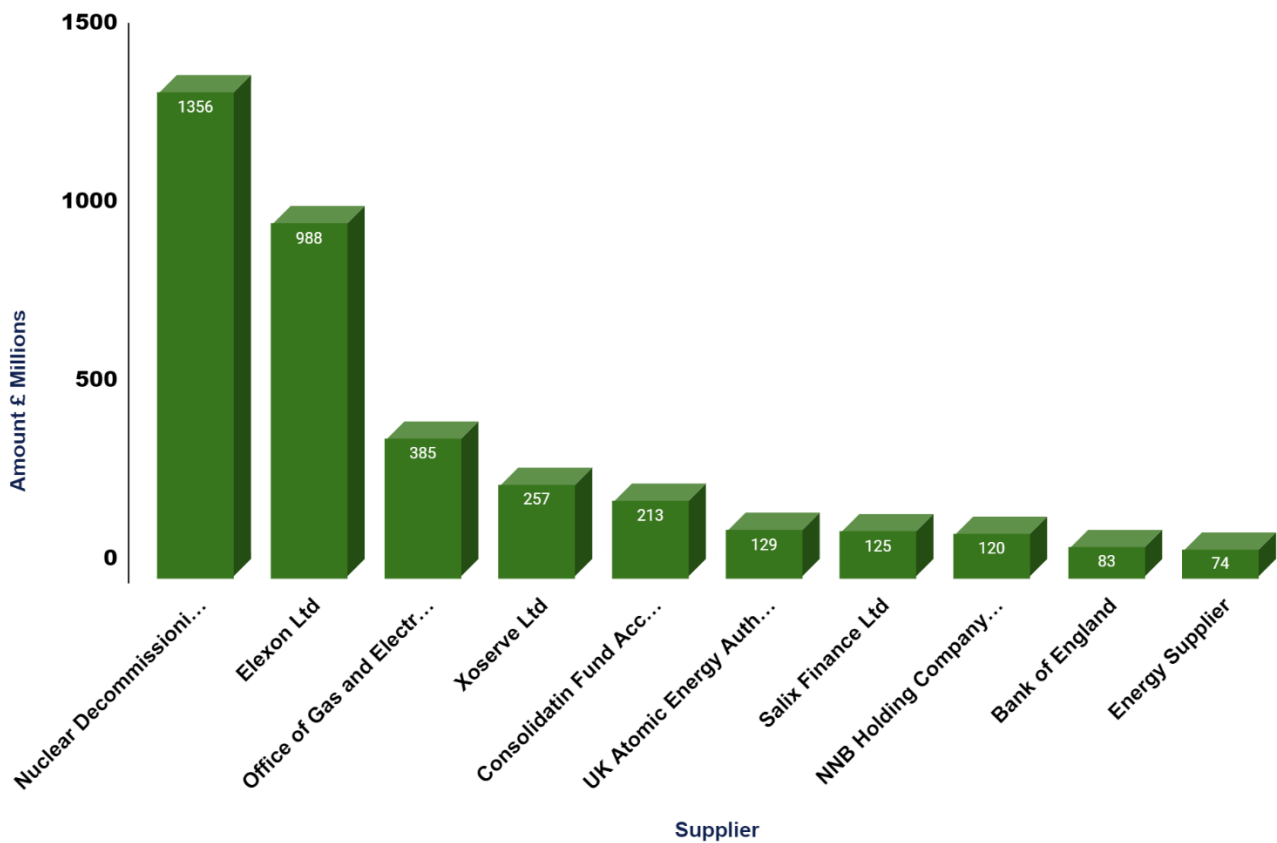
Spend Review

DESNZ (August 2023 – December 2023)

The department spent £4.177 billion, with the top 10 suppliers accounting for £3.724 billion (89%).

DESNZ: Highest Spend Top 10 Aug 23 to Dec 23

(Amount in £ Millions. e.g. 1356 = £1.356 billion)



Nuclear Decommissioning Authority (NDA)

Spend: £1.356 billion

The NDA is an executive non-departmental public body, created through the Energy Act 2004, sponsored and funded by DESNZ. In 2022-2023, NDA's annual report shows expenditure of £3.75 billion, of which DESNZ and its predecessor BEIS contributed £2.7 billion. NDA reported £1.06 billion in income, primarily driven by Reprocessing/Waste contracts and spent fuel management, with only £9 million coming from energy sales. The Sellafield site accounts for 67% of NDA's running costs. The reported £28 million in stores losses requires further investigation.

Elexon Ltd

Spend: £989 million

Elexon administers the Balancing and Settlement Code (BSC) for the UK electricity system. Established in 1999, it is owned by National Grid PLC. DESNZ provided £988 million in funding for:

- Energy Price Guarantee GB - Domestic AME-Current Grants to Private Sector – NPISH
- Energy Bills Relief Scheme AME - Subsidies to the Private Sector – Companies
- Energy Bill Discount Scheme AME - Subsidies to the Private Sector – Companies

Elexon's published accounts for the year ending 31/03/24 do not mention this funding.

OFGEM

Spend: £385 million

The Office of Gas and Electricity Markets regulates the UK's electricity and natural gas markets. OFGEM received £385 million from DESNZ, with 78% allocated to the Non-Domestic Renewable Heat Incentive (NDRHI), a programme designed to boost renewable heat adoption and reduce carbon emissions. The NDRHI scheme closed to new applicants in March 2021, with some able to apply until March 2023 under specific conditions.

Xoserve Ltd

Spend: £257 million

Xoserve provides data and information services to gas shippers and transporters in the UK. Funded by several major gas networks, Xoserve received £257 million from DESNZ for Energy Bill Discount Scheme subsidies. As with Elexon, this funding is not reflected in its published accounts.

Consolidated Fund Account 6622

Spend: £213 million

The Consolidated Fund is the Government's general account with the Bank of England. Payments totalling £213 million were made to the treasury, comprising £142.4 million for the Coal Pension Scheme Guarantors Fund, £45.6 million for grants to the NDA, and £24.5 million for the North Sea Transition Authority.

UK Atomic Energy Authority (UKAEA)

Spend: £129 million

The UKAEA, responsible for developing fusion energy, received £129 million from DESNZ, with £122 million recorded as grant-in-aid. UKAEA's largest expenditure was £15 million with recruitment firm Rullion Engineering.

Salix Finance Ltd

Spend: £125 million

Salix Finance Ltd, a non-departmental public body owned by the government, manages funding schemes aimed at improving energy efficiency in public sector buildings. We could not ascertain details of their spending, although they currently manage one open fund.

NNB Holding Company (SZC) Ltd

Spend: £120 million

A joint venture between DESNZ and EDF Energy, NNB Holding Company (Sizewell C Holding Ltd) is responsible for the development of Sizewell C power station. This spend highlights DESNZ's substantial financial commitment to nuclear projects, with around 50% of the department's spend directed to nuclear-related programmes.

Bank of England

Spend: £83 million

DESNZ's spend with the Bank of England is recorded as International Climate Finance (ICF) ODA promissory notes, likely related to the UK government's pledge of £11.6 billion in climate finance by 2026.

Energy Supplier (unnamed)

Spend: £74 million

An unnamed energy supplier (or multiple suppliers) received £74 million from DESNZ. The lack of transparency in reporting has been raised with the department.

Category Spend

Other notable spend categories by DESNZ include:

- **Capital Grants to Local Government:** £116 million to support the transition to Net Zero for domestic properties, with Liverpool City Region (£7.5 million), Clarion Housing Group (£7.1 million), and West of England Combined Authority (£6.7 million) among the top recipients.
- **Capital Grants to the Private Sector:** £17 million to fund companies transitioning to Net Zero, including Bradford Energy Ltd (£4.1 million) and Simpsons Malt Ltd (£1.4 million).
- **Consultancy & Advice Services:** £26 million, with PricewaterhouseCoopers as the largest beneficiary.
- **Current Grants to Local Authorities:** £16 million.
- **Capital Grants to Overseas Bodies:** £3.6 million, with the World Resources Institute in the USA receiving £2.5 million.

Key Insights

Complexity

The transition to Net Zero is complex, with DESNZ encompassing many strands. A name change to the "Department for Energy" could provide clarity. The renaming from BEIS was the right decision.

Transparency

DESNZ lags behind in transparency regarding spend reporting. Grouping spend into Nuclear, Renewables, and Other categories would provide better insight.

Communication

DESNZ's communication strategy needs simplification. A DESNZ interim annual report would offer more transparency and detail than BEIS's previous reports.

Objectives

The department's six objectives for 2023 lack clarity in terms of achievement. Future government objectives for the next five years should be published.

Progress

The lack of frequent progress reports is fuelling misinformation and confusion.

Recommendations

The following seven-point plan could guide the UK's transition to Net Zero:

- 1. Improve transparency and timeliness from DESNZ and its arm's-length bodies.**
- 2. Simplify reporting categories, distinguishing Nuclear from Renewables funding.**
- 3. Increase the frequency of progress reports, highlighting challenges.**
- 4. Publish five-year objectives for DESNZ.**
- 5. Enhance communication strategies around Net Zero to combat misinformation.**
- 6. Split communication strategies between Upstream and Downstream models.**
- 7. Review the structure and responsibilities of OFGEM.**

Methodology

This report is based on open data sources, compiled by Open & Candid. The data used is from August 2023 to December 2023, with accuracy confirmed as of 4th September 2024.

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