



Future delivery options for GB energy administration

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1 Executive summary

The GB energy sector has changed significantly over the last 20 years. A market structure based on competition in generation and supply has evolved to one that is also rapidly delivering Government decarbonisation targets. Over time, not only has the number of generators and suppliers grown, but so has the number of industry administration organisations needed to support market and policy activities. There are now some 30 bodies involved in these activities, with costs of over £500 million pa¹. Around half of these are involved in policy delivery for DECC. These policy delivery bodies include, for example, the Environment Agency, Ofgem E-Serve and the Low Carbon Contracts Company (LCCC), administering payments from Government schemes running into billions of pounds.

When policy delivery administration is performed by so many bodies, it can result in additional cost and complexity. This raises the question of whether the delivery of energy policy administration in GB can be streamlined, and whether alternative delivery models may be applicable.

This independent report, commissioned by Gemserv, a service provider to the UK energy sector, has been prepared by KPMG to consider the most appropriate way in which these services might be delivered in the future. The report examines:

- The reasons why government policy may be better delivered by the private or public sector;
- Examples of situations where reform to provision has been applied; and
- How such private or public solutions might be applied to energy administration activities.

Our analysis shows that there are examples across the public sector where savings in the order of 20% have been achieved through private sector involvement. In general this is taking place in situations where private sector capabilities have been applied to these public sector delivery roles, and efficiency improvements have been achieved while maintaining or improving performance. We have calculated that the potential savings to Government in energy policy administration from obtaining private sector bids could total over £100 million discounted over the next 20 years. Efficiencies may be derived from the streamlining of administrative activities, such as registration and payment processing, for a range of different energy policy schemes. Further savings could also potentially be realised through administrative simplification which could also reduce administrative burdens for industry.

However it is not only private sector models that can deliver benefits. There are particular situations where Government control of activities is more important than efficiency savings and in such cases it is preferable that control is retained by government. Our analysis has compared a public sector Non Departmental Public Body (NDPB) delivery model against a private sector Government Owned Contractor Operated (GoCo) model to identify the advantages and disadvantages of applying each model to energy administration delivery.

Our analysis assumes that some consolidation of the many existing bodies takes place, in order to group similar activities together to realise both efficiency and greater effectiveness of delivery. We consider that a structuring around the types of customers and businesses that are served by these administrative bodies would be the most appropriate if consolidation were to occur.

We have concluded that there are benefits from both private and public sector models, but there are advantages in applying a private sector solution in that it provides greater management and resource flexibility within a clear contractual arrangement with government, to ensure appropriate control is maintained. The public sector approach also has benefits, in terms of allowing strong government accountability and control, and may also achieve efficiency savings. While under both private and public sector approaches, we have concluded that it's unlikely that it would be practical for all policy delivery activities to sit in a single entity.

¹ Policy Exchange Governing Power
<http://www.policyexchange.org.uk/images/publications/governing%20power.pdf>

On balance the private sector model is likely to achieve a superior long term value for money outcome. Government has already said that decisions need to be taken around the structure of Ofgem E-Serve in late 2016. Future plans will need to include a clear evaluation of possible private and public sector options, taking into account timescales for change, costs of change and the scope for disruption to the services being offered to industry.

As far as implementation is concerned, private sector models will require procurement processes as well as legislative change, whilst government models will require legislation change and similar arrangements for transferring people between organisations. Both models will take time to implement, probably around 2 years, but a public sector approach may be slightly faster.

2 Introduction

2.1 The challenge

The UK policy delivery landscape across the whole of government is complicated. The provision of services by or on behalf of the UK Government is provided by a myriad of different means, ranging from wholly owned public entities to full private provision. Across all of government the National Audit Office estimates² that there are at least 218 parent companies and 229 subsidiaries, which are either partly or wholly government owned, working to deliver services in the UK, excluding UK Academy Trusts. We believe a fragmented system can cause unnecessary complexity, increased regulatory burden and can ultimately increase costs for UK consumers and industry.

With fiscal budget deficits still hampering UK public finances, and the challenges from Brexit ahead, there is a need to identify potential savings to Government, and the streamlining of GB service delivery systems is a possible avenue to help meet the government deficit reduction plans, while also decreasing the regulatory burden on the private sector.

There are a variety of potential models that could realise efficiencies in providing services on behalf of Government, ranging from those where the Government retains ownership and close control over the delivery of the service, through to models where delivery is carried out by private sector providers with greatly reduced Government oversight. Along this spectrum of options, there is a trade-off between the control Government can exercise over service delivery, and the extent to which market disciplines can realise benefits in terms of efficiency, expertise and innovation.

Even within the overall landscape of Government policy delivery, energy sector administration stands out as particularly complex, with over 30 bodies currently involved in the administration of the energy industry. Some areas of energy policy delivery are high-risk or politically sensitive, such as nuclear decommissioning, resulting in strong arguments for public sector delivery. However, there are other aspects of delivery that are low-risk and largely free from political attention, such as the ongoing administration of the Government's environmental and social schemes, for example Feed in Tariffs (FiTs), Renewables Obligation (RO) or the Renewable Heat Incentive (RHI). In areas such as these, there is potentially a stronger case for exploring the potential benefits of a more market-based delivery model in order to deliver cost savings and innovation, to the benefit of both businesses and Government.

2.2 Structure and purpose of this report

This report will outline possible solutions to the issues facing public service provision in Great Britain, with a particular focus on GB energy policy administration. Our report is structured to identify and clearly articulate future roadmaps for changes in GB policy delivery:

- **Context – identify the need for change.** Firstly we will provide context for public service delivery reform in the UK economy, identifying the reason for existing inefficiencies, examples of best practice reform and estimates of possible savings.
- **Energy Administration – current landscape.** We will review the way administration within the energy sector is currently delivered and we will identify where efficiency gains are possible from service reform.
- **Model Reviews – the possible options.** We will review a range of different policy delivery models which could be applied to streamline service provision within energy administration in GB. We highlight these models with reference to a range of criteria (efficiency savings, governance and delivery performance).

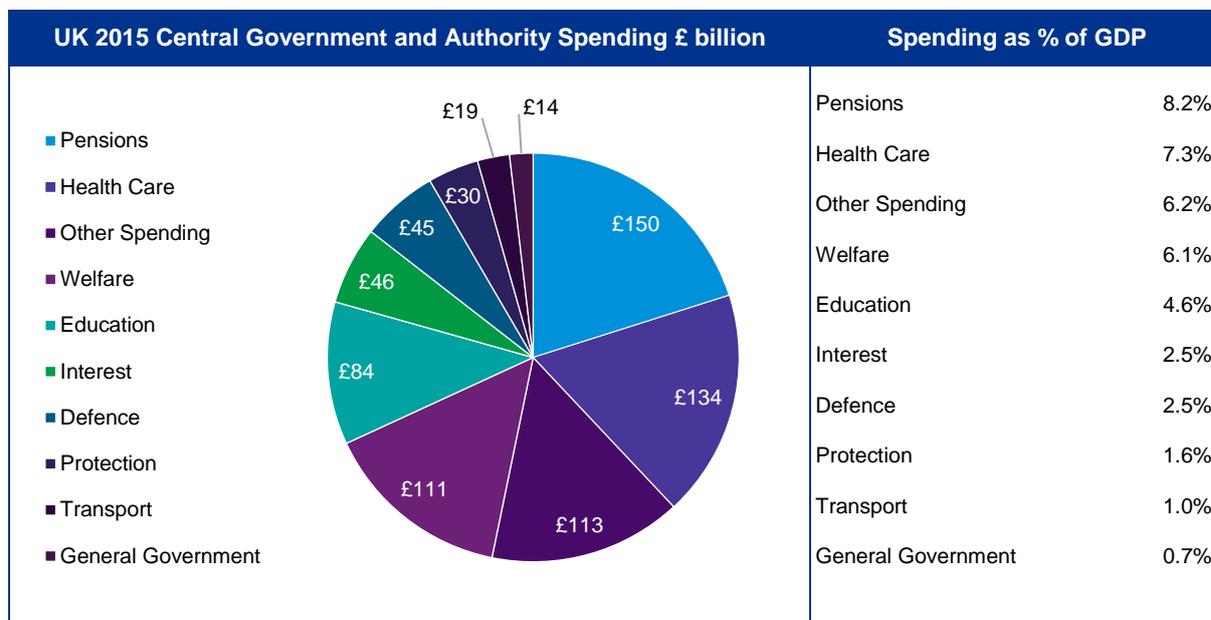
² National Audit Office Companies in Government
https://www.nao.org.uk/wp-content/uploads/2015/12/Companies-in-Government_updated.pdf

- **Options Analysis – comparison of possibilities.** We make a detailed comparison of the two most suitable options for the provision of energy administration. This sets out potential operating models at a high level, and looks in more detail at how these models could achieve efficiency savings and the requisite degree of Government oversight. We quantify the level of potential savings in the delivery of a selection of the Government’s social and environmental schemes.
- **Conclusions – next steps.** We conclude our report with a clear portrayal of the pros and cons of our analysed options. We will highlight important considerations for each, and a possible implementation timeline with key decision points.

3 Context

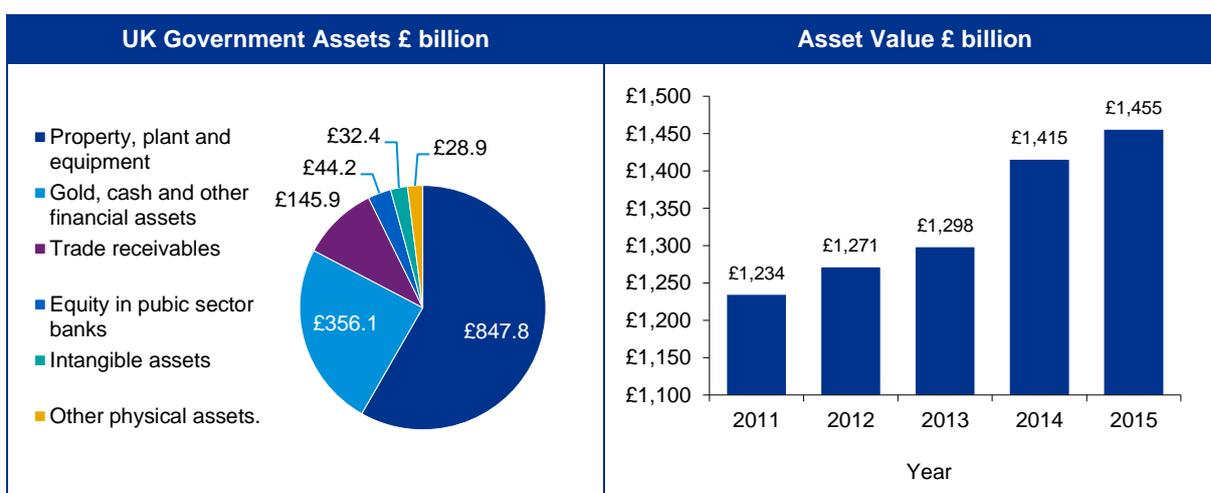
3.1 Delivery of Public Services

In order to facilitate the delivery of services to the public, the UK Government during the 2015 fiscal year spent some **£750 billion**³, which was broken down as follows:



The Government held a total asset base during the previous fiscal year of **£1,455 billion**⁴, an increase from **£1,415 billion** in 2013/14. The level of the government asset base has increased despite a perceived “sell off”, due to investment in national infrastructure and changes in financial assets, notably shareholdings in Government owned banks. A breakdown of the asset base is shown below:

The UK Government asset base as of the end of 2014/2015 stands at £1,455 billion



³ UK Public Spending

http://www.ukpublicspending.co.uk/year_spending_2015UKbt_15bc1n#ukgs302

⁴ National Accounts

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/525617/WEB_whole_of_gov_accounts_2015.pdf

These publicly controlled assets and expenditures can be categorised into several distinct groups, where direct government oversight is deemed necessary. These include:

- **Strategic** – To aid in the national and economic security of the nation. E.g. Defence, military infrastructure, strategic industries and nuclear decommissioning.
- **Service Provision** – To aid in the provision of services deemed necessary by the state. E.g. Provision of health, education, welfare and national administration.
- **Investment and Policy** – Public infrastructure, revenue generation and monetary policy. E.g. Sovereign wealth funds and financial assets.
- **Independence** – Areas of state provision which by law must be independently governed. E.g. Competition and market power monitoring.

There are certain assets which should remain in public hands, principally where decisions and risks are of a nature that cannot be managed by the private sector e.g. assets relating to national security. However, there are many other areas where private sector providers can manage related risks and deliver Government policy, while also providing the benefits of commercial incentives, such as Public Sector Research Establishments.

In instances such as these, there is merit in exploring alternative public service delivery models which involve private sector participation as a means of realising efficiencies and innovation, and which can increase the quality of public service provision from a customer perspective.

3.2 Drivers for change

The current UK budget deficit has put fiscal prudence at the forefront of the political agenda, putting pressure on the Government to cut spending and increase asset sales to alleviate debt. During the 2015 spending review, the Chancellor committed to reductions in the government department administration budgets that do not directly support front line public services, of around **18% in real terms**,⁵ a saving which equates to around **£1.2 billion** per year by 2019/20.

The recent 'Brexit' referendum decision relating to the UK's membership of the European Union is likely to place increased pressure on public finances. The Chancellor has recently abandoned the Government's target of a budget surplus in 2021, and has noted a high likelihood of increased spending cuts and tax increases in order to mitigate possible negative short term effects of UK independence. It is crucial to ensure that the quality of Government service delivery is maintained even as budgets are cut, which means, where possible, finding efficiency savings which won't lead to decreases in the quality of service provision.

Below is a table showing administration costs as a proportion of the resource budget for a range of Government departments⁶ in 2015 prices. Total administration budgets for the 2015 fiscal year were estimated at over **£10 billion**, with their share of the overall departmental budget ranging from **0.6%** within education to **29.2%** for other departmental resource budgets. Overall, administration costs make up **1.5%** of Government Totally Managed Expenditure. This wide range is mainly due to the functional requirements within different departments.

⁵ Table 1.B Administration Budgets
<https://www.gov.uk/government/publications/spending-review-and-autumn-statement-2015-documents/spending-review-and-autumn-statement-2015>

⁶ Public Expenditure Statistical Analysis, Departmental Budgets
<https://www.gov.uk/government/statistics/public-expenditure-statistical-analyses-2015>

Table 1: Government departmental spending 2015/2016

Department	Admin Cost £m	Resource Budget £m	Admin % Resource Budget
Education	309	54,734	0.6%
Health	3,119	113,326	2.8%
Transport	275	3,756	7.3%
Business, Innovation and Skills	607	17,838	3.4%
Home Office	406	10,445	3.9%
Justice	555	6,871	8.1%
Law Officers' Departments	47	535	8.8%
Defence	1,520	36,641	4.1%
Foreign and Commonwealth Office	184	1,991	9.2%
International Development	113	7,423	1.5%
Energy and Climate Change	196	1,400	14.0%
Environment, Food and Rural Affairs	517	1,772	29.2%
Culture, Media and Sport	163	1,325	12.3%
Work and Pensions	1,001	6,459	15.5%
Cabinet Office	214	2,914	7.3%

Given the pressure on administration budgets, Government departments are looking for ways in which to bring these costs down, while also addressing the current government Public Sector Net Debt, which stands at **£1.6trillion**⁷.

DECC's administration costs are the third highest as a proportion of their overall resource budget within our analysed sample, after Defra and DWP. This is partly due to the significant administrative costs involved with the delivery of energy policy schemes, which we have calculated later in this report. In the 2016 Budget, the Government highlighted their desire to consolidate the current delivery landscape of GB energy scheme delivery, stating that:

*"The Department of Energy and Climate Change (DECC) is committed to consolidating its delivery providers and will set out the future of consumer-facing functions, including those currently undertaken by E-Serve."*⁸

They could seek to do this by:

- **Addressing the complexity of the delivery landscape:** A complex delivery landscape can lead to inefficiencies and duplication. Furthermore, it can have detrimental effects on growth and competition. Potential industry participants can be dissuaded from entry into a particular market because of the strength of regulatory hurdles, leading to less industry participation and increased market dominance by incumbents. Addressing these concerns can lead to savings for government, industry and consumers.
- **Considering alternative delivery models:** Increased use of private sector provision means that market disciplines and incentives can drive innovation which reduces costs, improves the customer experience and helps drive competition and growth. While purpose built public delivery models can streamline administrative activities, reduce costs and increase flexibility.

⁷ ONS Public Sector Finance

<https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance>

⁸ Budget 2016 2.348

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/508193/HMT_Budget_2016_Web_Accessible.pdf

3.3 What's been done before elsewhere?

Here we explore previous attempts to use alternative delivery models for public service delivery.

3.3.1 Public Sector Research Establishments (PSREs)

PSREs provide UK standard laboratory and testing services on behalf of government and for commercial purposes. The National Physical Laboratory (NPL) provides standardised measurement to underline UK physical accuracy and consistency, while organisations such as the Health and Safety Laboratory (HSL) research new methods of industrial safety. These highly technical experimental establishments perform core services in support of government. They provide a useful insight into how independent process based activities may be performed.

Since the early 1990s, the UK Government has reformed the delivery models used to supply public sector research for government departments, with the aim of introducing private sector leading expertise, greater technology transfer and cost efficiencies.

There were previously 17 PSRE laboratory schemes, managed on a Government Owned Government Operated (GoGo) basis, such as the Health Protection Agency and the NPL⁹. The GoGo term represents a range of different government based models, which we have highlighted in Table 2.

Non-core-government revenues now account for as much as 40% of earnings for some previously Government run entities.

Table 2: Makeup of the Public Sector Research Establishments

Split of the 17 PSREs		Split of the 7 remaining GoGos	
Model	Labs	Model	Labs
Government Owned Government Operated	7	Executive Agency (GoGo)	4
Government Owned Contractor Operated	3	Trading Fund (GoGo)	1
Privatised	7	Wholly Government Company (GoGo)	1
		NDPB (GoGo)	1

Reorganisation took the form of establishing a range of Government Owned Contractor Operated (GoCo) facilities, alongside the full scale privatisation of a number of PSREs. Seven facilities were left using the GoGo models, which were split across a range of systems including four Executive Agencies. The GoCo models included the NPL, the National Nuclear Laboratory (NNL) and the Atomic Weapons Establishment (AWE). These establishments provide a good comparison set of the possible benefits of new delivery mechanics, and the possibilities available for government service delivery.

The Government decided that some highly strategic establishments involved in national security, such as the NPL, would become GoCo organisations, as these models allowed for significant government influence when warranted. Other institutions, where possible, were privatised. GoCo models relied on contracting operational aspects of these entities to private sector participants. For example the AWE, was run by a consortium which consisted of high level industry firms, including Lockheed Martin.

⁹ Centre Forum Page 7
<http://www.centreforum.org/assets/pubs/psre.pdf>

A study by Centre Forum¹⁰ analysed the performance of the PSREs. Their analysis was based on delivery quality and financial performance. They found that all PSREs were fulfilling their contractual obligations to a high standard¹¹. Delivery performance of laboratory services was noted as high across the board as judged by peer reviews and customer assessment. But within financial and organisational performance there was divergence, with some GoGo Government models underperforming. An example of this was the Forensic Science Service which was subsequently closed in 2012 having suffered over **£50 million** in losses in 2010 alone.

The key elements identified as causes of underperformance for the GoGo models included:

- **Public sector operating constraints** – Such as slow decision making, adverse culture.
- **Over-dependence on government** – Highly exposed to funding changes.
- **Extent of technology transfer** – Leveraging commercial opportunities.

The move to private delivery models for the PSREs provided large financial benefits for the respective establishments. Financial performance for the three GoCo models has been strong, with all three growing since their inception. While continuing to deliver on their key delivery indicators, NNL has seen its revenue grow from **£77 million**¹² in 2006 to over **£100 million** in 2014, with a significant proportion reinvested into the organisation through shared government and NNL schemes. Their financial KPIs, which are directly linked to remuneration, include trading profit, which has increased to just under **£30 million** in 2015 and has been consistently profitable since its new format in 2006.

NPL's financial success has been similar, with revenues growing from **£50 million** in 2006 to almost **£80 million** in 2014. One of the contractor operators highlighted a **50%** reduction in NPL overheads since they took control. NPL has estimated that its competitively-won revenue growth since 2004 has averaged **12%** per annum (p.a.).¹³ NPL was transferred back into state control in 2015, in order to implement strategic partnerships with a variety of academic institutions.

The wider economic benefits of technology innovation and sharing is also highlighted as a benefit of a private involvement. GoCo models provide an example of this: for example, the NPL has been working in partnership with 75 universities and 2,500 private companies and has benefits to the wider economy through technology sharing and innovation of over **£600 million** p.a.

Many GoCos, alongside their private counterparts, have been able to leverage technology transfer and innovations to succeed in a competitive environment, with NPL's non-core-government earning now accounting for more than **40%** of the firm's gross revenue.¹⁴

¹⁰ Centre Forum

<http://www.centreforum.org/assets/pubs/psre.pdf>

¹¹ Centre Forum Page 10

<http://www.centreforum.org/assets/pubs/psre.pdf>

¹² Centre Forum Appendix

<http://www.centreforum.org/assets/pubs/psre-appendix-now.pdf>

¹³ Highlights

<http://www.npl.co.uk/upload/pdf/npl-corporate-plan-2015-2019.pdf>

¹⁴ NPL Chair Pack

<https://publicappointments.cabinetoffice.gov.uk/wp-content/uploads/2015/01/NPL-Chair-Application-Pack.pdf>

3.3.2 Local Authority Trading Companies

'More than half of councils (58%) own a trading company, and at the rate it is increasing, full coverage by 2020 is a possibility.'

Government Owned Trading Companies have also shown that private and public cooperation can provide multiple benefits to public service provision. There has recently been a rise in the number of local councils setting up Local Authority Trading Companies (LATCs)¹⁵. Trading Companies span a range of industries and roles including airport groups such as Manchester Airport, but the success of many LATCs has shown that alternative delivery schemes can help find cost efficiencies alongside better delivery for public services. The recently established Trafford Council LATC is contracted to deliver a minimum of 20% savings against the net budget.¹⁶

These wholly owned Trading Bodies compete for additional services in the market, on top of those provided to their respective council, and are given special provision to earn up to 20%¹⁷ of their revenues from alternative services. LATCs often hold specialised council appointees on the board, with additional voting rights to control their decisions. **Eight out of ten** councils say they would have to cut services and raise taxes if not for the use of LATCs¹⁸.

LATC models can potentially reduce costs through increased economies of scale from increasing their provision of services to the commercial sector¹⁹. These additional privately earned revenue streams can be used to safeguard public services, as any profits made by a LATC can be reinvested in other council services. LATCs can also provide more financial certainty and fundamental changes in the culture of their respective council, developing a more commercial attitude. A good example of LATC diversification is the NORSE Holding Company, owned by Norfolk County Council²⁰. Norse has current revenues of **£251 million**²¹ and employs around 10,000 staff in its council related and commercial activities nationwide. The company's commercial services include management consultancy, residential care homes and property.

3.3.3 MyCSP

A new development in government service provision has been MyCSP, the Civil Service Pension Administrator, which was transformed into a Mutual Joint Venture in 2012. Due to the significant involvement of the private sector in Joint Venture models, they can deliver substantial efficiency savings and value for money. MyCSP is tasked with a very similar role to energy policy scheme administrators. In 2011 MyCSP paid pension scheme members £4.9 billion, managing all payments and administrative activities.

The recent transition of the organisation to a Mutual Joint Venture is expected to provide savings of around **25%** on operating costs²², by the end of its seven year contract. The benefits are expected to come from large scale IT transformations and private sector expertise, as well as reductions in headcount.

¹⁵ Local government: alternative models of service delivery

<http://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN05950#fullreport>

¹⁶ Reshaping Trafford

<http://www.trafford.gov.uk/residents/news/articles/2015/20150326-reshaping-trafford-new-partnership-with-amey-announced.aspx>

¹⁷ CIPFA Teckal explained

<http://www.cipfa.org/policy-and-guidance/articles/teckal-the-basics-explained>

¹⁸ Commercial Councils

<http://www.localis.org.uk/wp-content/uploads/2016/02/Localis-Commercial-Councils-FINAL.pdf>

¹⁹ General Power for Local Authorities to Trade in Function Related Activities Through a Company: 16

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/8311/133628.pdf

²⁰ Norse Group

http://www.ncsgrp.co.uk/about_norse.htm

²¹ Norse Group

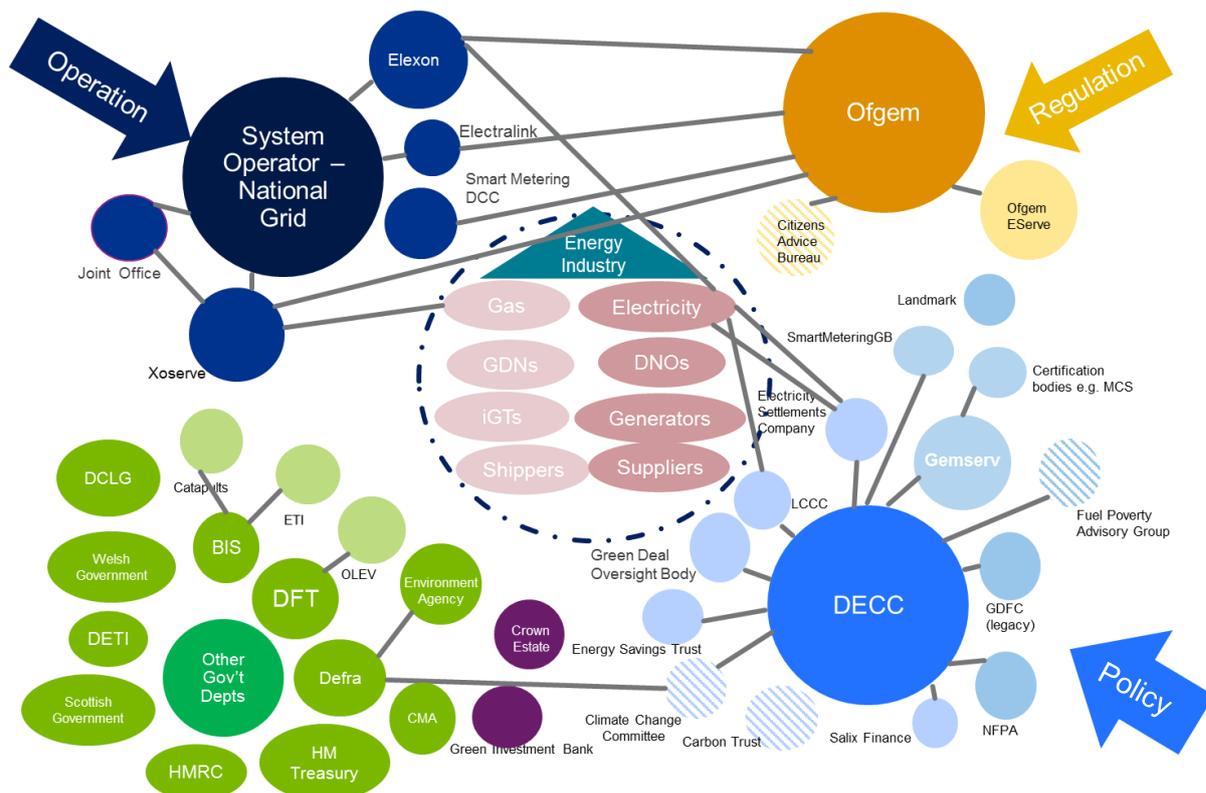
http://www.ncsgrp.co.uk/about_norse.htm

²² National Audit Office

<https://www.nao.org.uk/wp-content/uploads/2013/09/10176-001-MyCSP-Book-Copy.pdf>

4 Energy sector policy delivery

In this section we consider in more detail the nature of the energy delivery landscape. Using evidence from the introduction of alternative delivery models across the UK, we consider the scope for savings in relation to the delivery of the Government's social and environmental schemes in the energy sector.



Source - KPMG analysis

4.1 Energy Administration

The current energy administration landscape is complex, as the chart above illustrates. It has been formed from the culmination of decades of energy policy regulation and system shaping. Legacy systems and regulation have been continuously overlain with new initiatives, most recently with the aim of promoting renewable and social policy. Policy Exchange highlights that there are currently over **30**²³ separate bodies involved in energy administration in GB, and estimates the costs of their collective administrative activities to have reached over **£500 million** p.a., not including DECC's direct costs.

The UK energy system is facing a time of unprecedented change, with low-carbon energy sources becoming more prevalent as the UK seeks to meet environmental targets and regulations²⁴, maintain affordability and ensure security of supply (the 'Energy Trilemma'). Central to these efforts are a range of schemes designed to incentivise the low-carbon transition and deliver social objectives.

²³ Policy Exchange Governing Power <http://www.policyexchange.org.uk/images/publications/governing%20power.pdf>

²⁴ These targets include the UK's 2020 Renewables Target

These schemes involve substantial payments to different groups in the energy sector, and are currently administered by a range of stakeholders. These are predominately multiple governmental or Government-owned bodies such as the Environment Agency, Ofgem E-Serve and the Low Carbon Contracts Company (LCCC), but also include private sector participants such as Gemserv.

DECC previously (in 2011) considered the introduction of new models to enable energy delivery. The final decision was that a new energy body at the current time was not appropriate due to the significance of the undertaking, and that there was a lack of critical mass of schemes to warrant complete delivery reform.²⁵ We believe it is appropriate to revisit this decision, due to the need for administration costs savings and the possibilities demonstrated by recent reform activities.

Given current pressures on public finances, the streamlining/rationalisation of energy administration, alongside the use of alternative delivery models, could help reduce Government costs and burdens on business. The rest of this chapter looks at evidence around savings when alternative delivery models have been used in other sectors, and assesses potential efficiency savings in the delivery of the Government’s social and environmental schemes.

4.2 Evidence of reform success

There is a considerable body of evidence around the impacts of using different delivery models in the UK for the provision of public services, at both the local and national level. We have highlighted within Annex 1 a range of government efficiency savings identified across various sectors when delivery models have been changed. These include NHS Shared Business Services providers, the initiative for IT solutions for the Driver and Vehicle Agency in Northern Ireland, and general Operational Efficiency Programmes across government.

All these successful initiatives have enabled the private sector to find savings within administration, while also continuing to provide high quality service provision with often additional benefits. The evidence on savings from changes to the delivery model are summarised in Table 3 below.

These examples provide the basis for making an indicative estimate of the savings that may be available from applying alternative delivery models in energy administration. As Table 3 indicates, there is a wide range in potential estimates of savings from changes in delivery models, and there is significant uncertainty about the levels of savings which can be achieved in energy administration.

Table 3: Evidence Base for Cost Savings Potential

Evidence Base	Potential Savings
Public Sector Research Establishments	50% reduction in overheads at NPL
Local Authority Trading Companies	20% expected savings from LATCs
Administrative Mutual Joint Venture	25% expected savings from private administration
Outsourcing and reform (Annex 1)	10% to 40% savings from outsourcing arrangements

Based on a range of sources on estimates of savings from private sector delivery potential within public service provision, including scheme administration, we have made an indicative estimate of the savings gained from private provision as **20%**.²⁶

²⁵ Review of DECC’s Delivery Landscape 7.34

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/48075/1656-delivery-review.pdf

²⁶ Annex 1 where we have taken the average value of the savings gained quoted from previous reports

4.3 Possible savings for energy administration

Table 4, on the following page, illustrates expected administrative costs of low risk politically neutral social and environmental energy scheme provision within the public sector. It contains a range of schemes and their expected administrative delivery costs to 2035, taken from government and industry estimates. At a conservative estimate, the total cumulative discounted administrative spending associated with these schemes, which is not exhaustive, is expected to reach around **£570 million**²⁷ by 2035. There is significant scope for savings from these schemes contributing towards administrative spending reduction targets for DECC and Government as a whole.

Table 4 gives more details around the schemes, in terms of how they are currently administered, the duration of each scheme, and the level of administration costs associated with each. By 2019/20, DECC has been tasked with finding savings of around **£220 million**²⁸ from their total resource budget annually, with a significant portion expected to come from decreased administrative costs. Our analysis forecasts that the administrative spend for the energy policy delivery schemes we have analysed will be around **£50 million** per annum up until 2019/2020.

We have calculated that up until 2019/2020 the costs of administration for our set of analysed energy policy delivery schemes will be around £50 million per year.

Alongside efficiency savings, removal of overlaps and overheads across bodies could provide reductions in administration costs as well as simplifying interactions with scheme participants. For example, there is potential duplication of helpdesk provision for schemes such as FiTs and the RHI, as well as of scheme databases, which are currently used for processing applications for the RHI, registering Microgeneration Certification Scheme (MCS) compliant installations and issuing payments under FiTs. There are also a variety of overlapping consumer and installer standards. We do not believe that the amalgamation of all of the schemes we have analysed into a single body is possible, due to the large differences in the underlying mechanics of these operations and the bodies which currently administer the schemes. But there is significant scope for the streamlining of similar services, a grouping of schemes, which can be used to leverage efficiency gains across energy administration.

The figures in Table 4 are likely to underestimate the level spent on scheme delivery administration, due to the exclusion of contractors and other payroll information from many of the scheme figures.

We have based our analysis on existing examples of private sector involvement, such as the PSRE reform and outsourcing examples as described within Annex 1. Annual savings within energy scheme administration alone up to 2019/20 could total around **£10 million**, based on our indicative estimate of a possible 20% saving from private involvement in scheme administration. DECC could utilise energy administration reform to help meet their 2019/20 target. This value could be even higher when factoring in the additional savings potentially available from simpler interactions with scheme participants. A total possible present value (discounted) saving over the next 20 year period of over **£100 million**.

It should be noted that a granular breakdown of scheme administration costs was not available for all schemes. Our approach has been to take a lower bound estimate where information is not complete. For some schemes, such as FiTs, our analysis includes staffing costs for staff involved in scheme administration. In others such as for the LCCC, our analysis is based on operating costs excluding payroll, due to information deficiencies. We consider that the total **£570m** figure and our subsequent analysis is likely be a low estimate of true administrative costs, due to the exclusion of payroll figures connected to the administration of some schemes.

²⁷ Annex 1 KPMG NPV Analysis

²⁸ DECC 2015 Spending Review

<https://www.gov.uk/government/news/deccs-settlement-at-the-spending-review-2015>

We have estimated the lifetime costs of these schemes based on current assumptions, including that Government will not make retrospective changes to financial commitments. However, some changes to these forecasts may be expected. For example, changes in relation to the Energy Savings Opportunity Scheme (ESOS) and the EU Emissions Trading Scheme (EU-ETS) may result from the recent vote to leave the European Union.

4.4 Scheme analysis

Table 4: Analysis of public sector, Energy and Social Scheme Delivery

Initiative	Responsible Organisation		Forecast Until	NPV Admin Costs 2016 (m)
FiTs	Ofgem	Supplier made payments to a range of small-scale renewable and low-carbon electricity generators.	2035	£30
RO	Ofgem	Administration of Renewables Obligation Certificates (ROCs), renewal generator claims through ROCs.	2035	£110
RHI	Ofgem	Provides financial support to the owner of renewable heating systems for seven years (Domestic) and twenty years (Non-Domestic).	2035	£150
ECO	Ofgem	Obligations placed on energy suppliers have to deliver energy efficiency measures to homes in Great Britain.	2022	£10
WHD	Ofgem	Discounts to energy bills through lower supplier costs to consumers.	2035	£30
OLR	Ofgem	Last resort scheme to promote the availability of power purchase agreements (PPA).	2034	£10
NFPA	NFPA owned by various suppliers	Provides administration of generation contracts awarded under the Non-Fossil Fuel Orders (NFFOs).	2035	£40
LCCC	DECC	Acting as the counterparty to Contracts for Difference (CFDs), processing and administering contracts.	2035	£50
ESC	DECC	Provides settlement of the Capacity Market, ensuring that regular payments are made to capacity providers.	2035	£20
CRC	EA	Administration of the reporting and payment scheme that covers large public and private sector organisations.	2019	£10
CCA	EA	Voluntary agreements made by industry to the EA to reduce energy use and carbon emissions.	2020	£10
ESOS	EA	A mandatory energy assessment for organisations in the UK that meet the qualification criteria.	2030	£10
CCL	DECC	An additional tax delivered to non-domestic energy users within the UK.	2030	£80
EU – ETS	EA/DECC	EU based multi-sector greenhouse gas emissions trading system.	2035	£10
	Sources²⁹		Total	£570 million

²⁹ Annex 2 KPMG Analysis

5 Models overview

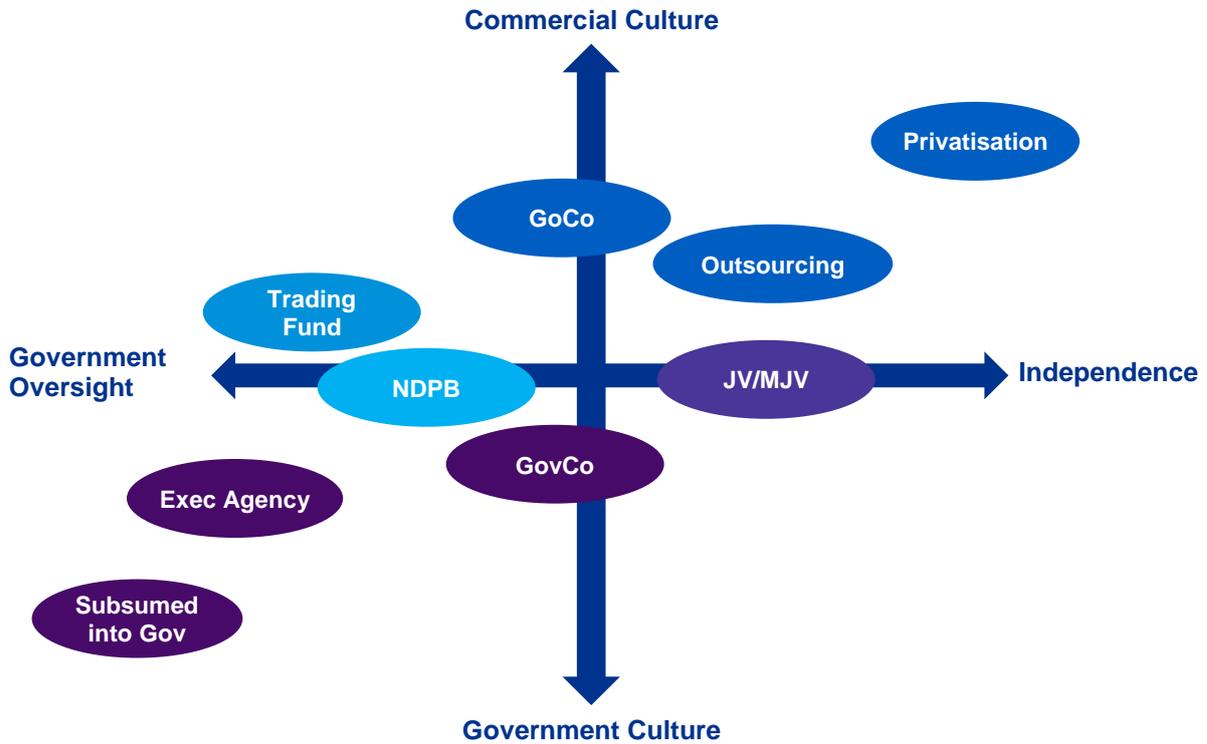
5.1 A new energy delivery model

After identifying the potential for a variety of possible future savings, our next step is to focus on the possible models which could be applied to the current landscape for energy administration. This section seeks to identify which models can fully utilise the potential to reduce energy scheme administration costs whilst still delivering high quality service provision with the requisite degree of government control. We have outlined the main delivery models used for government service provision below, analysing each in turn.

Table 5: Overview of possible delivery models

Mechanism	Example	Overview
Subsumed into Government	UKTI	Delivery administration is subsumed into a Government Department.
Executive Agency	Oil and Gas Authority	An agency which is part of a particular government department with a separate managerial and financial oversight, but governed by a clear agreement of frameworks and not legally separated. The Chief Executive will be under direct accountability to an appropriate government minister, who themselves is responsible to parliament for the agency's work.
Trading Fund	Companies House	Set up through Statutory Instruments under the Government Trading Funds Act (GTFA). These are very similar to executive agencies but not all accounting and expenditure is consolidated within that of their government department. They are suitable when large proportions of their revenues come from commercial activities.
Non Departmental Public Body (NDPB)	Committee on Climate Change	Separated from government, these self-determining bodies are usually established with unique legislation or through the Companies Act. NDPBs having varying degrees of autonomy but are tasked with the provision of a specific objective through a strategic framework.
Government Owned Company	UKGI	100% in public ownership and managed by a public authority. Secretary of State and Board approval is required for significant operational changes.
Government Owned Contractor Operated (GoCo)	NNL	A "government owned" company, tasked with service provision by government, but contractually operated by private entities. Government can retain part or full ownership including one special share in the company, giving it authority to retain control over actions and the company's assets. Day to day management and decision making delegated to private partners.
Outsourcing	Operational Efficiency Programme	Tendering to private sector on a contractual basis of specific services or administrative operations within public organisations.
Joint Venture	NHS SBS	Can describe a range of different commercial arrangements between separate entities. Generally a private company in which ownership and liability is split depending on shareholding between both government and private participants.
Mutual Joint Venture	MyCSP	A business organisation between two or more separate entities. Mutual Joint Ventures involve a proportion of ownership being allocated to employees, as well as specific entities. Ownership and liability are shared across all participants, government, commercial entities and employees.
Privatisation	Royal Mail	Sale of government owned assets, with control passing into private sector hands.

5.2 Model map



5.3 Model reviews

Executive Agencies (GoGo)

Executive Agencies were created to introduce managerial autonomy and increased flexibility into the running of public service departments. Executive Agencies are independent bodies separated from their corresponding government department, but accountable through means of their Chief Executive Officers who report directly to a Government Minister. A key benefit of these agencies is their independence, with management level staff facing less political pressure during the day to day running of the agency, but they will nonetheless be impacted by Government policy decisions.

Executive Agencies can also benefit operationally, as more resourcing and operational decisions can be taken independently. Despite some flexibility, Executive Agencies still experience barriers in utilising financial and human resources effectively. These models sometimes struggle to attract and retain top quality staff due to public sector pay constraints, and have only shown marginal benefits in reducing administration costs.³⁰

Turning to how the model could be applied in energy administration, accountability to Ministers will provide a high degree of control, while greater autonomy should provide some efficiency and performance benefits. However, this control structure means that significant barriers to optimising efficiency and effectiveness remain. Therefore it does not appear to be the best option to streamline energy service provision to its fullest extent.

³⁰ Exeter University
<https://socialsciences.exeter.ac.uk/media/universityofexeter/collegeofsocialsciencesandinternationalstudies/politics/projects/executive/Chaptersix.pdf>

NDPB (GoGo)

Non Departmental Public Bodies can potentially provide quick and independent responses and policy implementation on Government's behalf. These are arm's length departments, although accountable through their key performance measures which can be used to spur delivery performance³¹, can remain independent from government control, which is vital when allocating resources to competing parties. There are many variations on the NDPB model, but all may undertake commercial activities with some raising all incomes from levies, receiving no government support.

If an Energy Delivery NDPB was created to deal with energy delivery schemes, then it could be an effective solution, allowing the amalgamation of similar delivery administrative tasks and ensuring scheme delivery is kept independent of political pressure. It may be worth considering an Energy Delivery NDPB as an adaptable solution to dealing with an evolving energy delivery landscape. However, as with the Executive Agency, it would be directly accountable to Government and barriers to realisation of efficiency and effectiveness could also remain.

Trading Fund (GoGo)

A Trading Fund is a type of Executive Agency, an independent body separated from its corresponding government department, with a Chief Executive Officer accountable to a government minister. Trading Funds differ in that their accounting and budgetary information is kept separate from their constituent government department. They are best used when a large proportion of a department's funding is gained from commercial activities, advised by government as being at least 50%³². Due to it being unlikely that an energy delivery body would provide services of this magnitude to the private sector, a Trading Fund does not appear to represent a suitable option for delivery of energy administration.

GovCo (GoGo)

A Government Owned Company is a private company legally owned by the Secretary of State. Compared to central Government, such organisations can benefit from increased flexibility in their structure, lower audit and reporting requirements, and are also able to compete with private sector remuneration. Although good at decreasing public sector constraints and providing private profits for government investment, GovCos are unlikely to benefit from private sector efficiency to its fullest extent, due to their incentive structure and the fact that the ultimate owner and operator is the state itself. GovCos have also been unable to adapt quickly to change, and have performed poorly financially, as highlighted by previous PSRE reform³³. There are better public systems which have a more adaptable outlook while still delivering policy to a high standard, so this model has not been considered further for energy administration.

GoCo

Government Owned Contractor Operated models are either partially or wholly government owned private companies. The Secretary of State will often also hold a special share ensuring they have final decision making power over executive decisions. These organisations can benefit from many of the same benefits as a GoGo. They are also tailored in their incentive structures to encourage the private contracting companies running them to seek the best possible efficiencies and encourage financial performance.³⁴ Although providing many private efficiency benefits, as these companies are managed

³¹ NAO Good Practice in Performance Reporting
<https://www.nao.org.uk/wp-content/uploads/2000/03/9900272.pdf>

³² Categories of Public Government, Trading Funds
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/80075/Categories_of_public_bodies_Dec12.pdf

³³ Centre Forum, Forensic Science Service
<http://www.centreforum.org/assets/pubs/psre.pdf>

³⁴ Review of Defence Acquisition, Grey Report 9.4.4
<http://webarchive.nationalarchives.gov.uk/20120913104443/http://www.mod.uk/NR/rdonlyres/78821960-14A0-429E-A90A-FA2A8C292C84/0/ReviewAcquisitionGrayreport.pdf>

privately, there could be information and goal setting blockages between the Government and company management, but these can be remedied with effective governance.

For energy administration, a GoCo could provide a strong potential for efficiency savings alongside effective governance. Previous reforms of PSRE show that a GoCo can deliver high quality scientific and process administration and implementation. Also, a number of GoCos might be established to each specialise on specific types of deliverables or customers (e.g. Domestic, Commercial, Energy Intensive and Public Sector).

Outsourcing

Outsourcing can provide some of the largest efficiency savings for a prospective government organisation. Savings can range anywhere from 10% to 30% of costs in areas such as IT systems and administration³⁵, as private firms utilise highly skilled private sector providers and leading practices. But outsourcing, unless competently managed, comes with risk of less oversight of end policy delivery and a loss of direct Governmental control, as well as less oversight over financial performance. Outsourcing contracts require strong procurement and contract management skills in the relevant Government department. The use of fixed term contracts could cause issues of flexibility for energy scheme delivery, unless the contract framework allows the reallocation of resources and priorities over time.

JV

Joint Ventures are private companies jointly owned by state organisations and private participants. They benefit from the usual private sector involvement, efficiency savings through economies of scale such as licencing and improved procurement, addition of private sector leading expertise, improved financing to invest in systems and have the ability to vary staff levels to cope with peaks and troughs. Government organisations would jointly share all profits from a JV and if governed effectively, would be able to retain a degree of control over certain key issues. Joint Ventures are expected to generate respectable cost efficiency savings.³⁶ Although there is also little scope for overall government control of these organisations, through use of mechanisms such as the special share arrangement.

MJV

Mutual Joint Ventures contain all the included benefits and issues of a normal JV. Their added benefit is the further incentive for financial performance for their staff, who through a variety of means hold portions of ownership within the company. MJV can also encourage cultural change to promote longer term support from staff for their engagements and company. Joint and Mutual Joint Ventures could prove a way of creating a part government organisation which is highly incentivised to deliver scheme delivery.

Privatisation

Privatisation will contain the same benefits to that of outsourcing models, taking full advantage of private sector involvement. Additional benefits will include an increased level of flexibility for the delivery firm which is delivering policy not on a contractual basis, coming at the expense of less policy control from government, due to the contractual basis of scheme delivery. There are also added implementation and stakeholder issues involved, such as ensuring a fair price is gained during a privatisation process. As full scale privatisation would leave very little government oversight, and involve large transaction costs, it is unlikely a fully private model can still deliver schemes with the aim of policy implementation.

³⁵ KPMG Review

Annex 1

³⁶ MyCSP Review NAO

<https://www.nao.org.uk/wp-content/uploads/2013/09/10176-001-MyCSP-Book-Copy.pdf>

5.4 Model shortlist

We have combined our views on each of the respective models above, marking them on a range of different criteria applicable to the needs of a reformed energy scheme delivery landscape. We have marked the likelihood of success from each of these new models from high to low, based on:

Saving potential – The potential to realise cost savings within energy scheme delivery.

Government oversight – The degree of government oversight of scheme delivery.

Delivery flexibility – The potential to adapt and realise policy goals.

Strategic fit – How appropriate are the respective models for scheme delivery reform.

Table 6: Model matrix

Mechanism	Saving Potential	Government Oversight	Delivery flexibility	Strategic fit
Executive Agency	Low	High	High	Medium
Trading Fund	Medium	High	High	Low
NDPB Non Departmental Public Body (NDPB)	Medium	High	High	High
Government Owned Company	Medium	High	Medium	High
Government Owned Contractor Operated (GoCo)	High	Medium	High	High
Outsourcing	High	Medium	Medium	High
Joint Venture	High	Medium	Medium	Medium
Mutual Joint Venture	High	Medium	Medium	Medium
Privatisation	High	Medium	Medium	Medium

We have picked one privately focused and one publicly focused delivery model as having the highest likelihood for a successful reform for energy scheme delivery. These are the GoCo and NDPB, which we will analyse further. We envisage these models being applied to energy sector administration as follows:

- **GoCo** – DECC oversight model with private sector operator partner(s) with specific DECC influence over strategic management decisions. Operational partner(s) would bring the appropriate delivery management and specialist skills/experience.
- **NDPB** – A specialised energy scheme delivery NDPB managing a range of energy schemes, financed by DECC or through levy systems.

6 Options analysis

6.1 Option 1 – GoCo

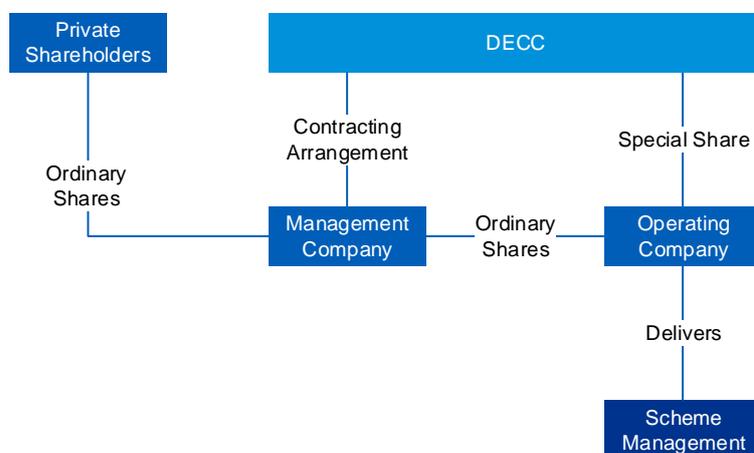
6.1.1 Structure

A GoCo model in practice could follow similar models which have been implemented in the past such as the NPL or the proposed DE&S defence Procurement Company. We believe that multiple GoCo operations for energy scheme delivery are also a possibility. For example, individual GoCos could focus on different consumer types, such as on the delivery of customer scheme administration, or on industry activities. The greatest efficiency savings could be realised if similar scheme-related activities are amalgamated into single organisations. Regardless of the number of GoCos that were established, the structure of individual GoCo organisations would be the same, as set out below.

A bespoke Operating Limited Company (Energy Delivery Co), would be created and wholly owned by a Management Contracting Partner. This company could also contain a special share under control of DECC, if DECC wanted to maintain overall strategic control. A selection of scheme administration services, such as helpdesk delivery, registration and database management for a selection of schemes and delivery organisations such as FITs, ECO and RHI, would be transferred from their current areas of operation to the Operating Company (OpCo). This transfer would include the staff currently operating these services, who would transition to the private sector under TUPE regulation.

The Energy Delivery GoCo(s) could mean that some legacy organisations will be disbanded, due to their operations transferring to the new organisation. The ownership of the assets under management by these companies and for the applicable schemes, including property and equipment, could revert to DECC or to the operating company. A possible delivery structure is drawn out below.

Delivery Structure



The Operating Company (OpCo) would be owned and operated by the Management Company, who could be either a specialised government contracting firm or delivery body. These could be individual firms who are already engaged in the provision of energy delivery services, or alternatively a consortium of industry firms. These firms would wholly own the OpCo with ordinary shares. There could also be a special share owned by DECC, which grants the right to DECC to, if appropriate, revert ownership of the OpCo to the state or to a new partner and to crucially provide key strategic input where appropriate.

On completion of the contract, it is either renewed, with the OpCo continuing under ownership of the Management Partner, transferred to a new Management Company, or reverted back to state ownership. The contracting process will be through competitive tender to decide which Management Company wins the right to run the OpCo under the terms of the proposed initial contract.

6.1.2 Incentive structure and efficiency

We believe based on our analysis of outsourcing models in Annex 1, and our review of GoCo arrangements such as the NPL, that efficiency savings of around 20% are possible across delivery using such an arrangement. A GoCo model would have ability to leverage private sector expertise within procurement, reduce overheads and implement new IT projects efficiently.

We have calculated the possible savings level from scheme administrative efficiency alone, as being around **£10 million** a year for all schemes analysed in section 4.2 in 2019/20. This is based on applying our 20% efficiency savings estimate to estimated annual total administration costs of the schemes in Table 4 within 2019/20. As with any estimate based on a wide variety of reported data, there will be uncertainty associated with the figure.

Due to our exclusion of any additional cost efficiencies from this model outside of administrative savings, such as the inclusion of savings from decreased use of contractors and pension reform, the proposed savings from a GoCo contracting arrangement are likely to exceed our estimate. This saving would be dependent on the establishment of a competitive tendering process during contract negotiation, which would lead tendering companies to factor in all possible additional costs and benefits for the contracting entity in their proposals.

6.1.3 Governance

Together the contracting arrangement and the special share would allow DECC to retain significant control over the operating organisation. DECC would be able to set and monitor key business practice principles covering areas such as impartiality, integrity and confidentiality. They would ultimately, hold the right to revert ownership of the contracting company back to the state whenever they deemed it appropriate, and in addition outline the proposed procedures for managing the contract company's transference to new ownership. They could also hold additional monitoring rights e.g. ability to nominate an observer on the Board.

DECC would also hold key control over the work the contracting company would be able to carry out within the wider market, through the ability to veto any proposed additional work carried out by the OpCo. In order to address concerns of liability in addition to the proposed contract and special share arrangement, DECC could also seek performance or security bonds from management partners, which would be used to insure the liability of the contracting entity. The GoCo operation would ultimately be able to transfer liability for incidents (such as data security breaches) to the Management Company away from DECC and also the OpCo itself.

6.1.4 Delivery performance

Financial performance from previous GoCo models has been shown to be successful, with operators taking full advantage of the flexibility available to operate efficiently. A profitable GoCo can deliver additional benefits to government, as profit sharing arrangements can be built into the contract. Delivery performance has overall also been successful from previous attempts, but performance will be significantly dependent on the contractual arrangement set out by DECC. Performance incentive structures for the OpCo, through remuneration and ability to compensate shareholders, should be explicitly linked to a set of Key Performance Indicators (KPIs), which could relate to scheme administration and delivery performance metrics as well as purely financial measures. Possible KPIs could include:

- Influence on carbon reduction per £ spent on administration
- Efficiency savings, based on cost of administrative activities/overall scheme budgets
- Customer satisfaction surveys and complaint numbers
- Reductions in overheads and other financial incentives
- Speed of registration

6.1.5 Considerations and transition issues

The GoCo may need to provide additional services to Government besides pure delivery. These could include policy design support, policy clarification and training support for industry. Such activities and costs could be specified as part of the responsibilities of the organisation, in much the same way as National Grid provides industry-wide support in relation to energy system operation activities. A mechanism for identifying and funding such services would need to be determined as part of the establishment of the GoCo. One option could be to recover funds directly from industry.

One possible threat to a GoCo selection process is ensuring that the competitive contract tendering process attracts enough bidders to ensure an efficient outcome is found for the contracting of the OpCo services. Insufficient bidders could lead to either no final contract being signed, or a contract between DECC and a management partner which is overpriced, with few efficiency savings.

Not all GoCo models have proceeded smoothly. One problem which led to the U-Turn on the DE&S GoCo was that there were few companies able to effectively bid for the proposed OpCo contract due to the hugely complicated requirements which come with defence procurement. It should also be noted that transition costs to implement a GoCo arrangement can be substantial, with the DE&S reorganisation costing over £33 million⁽³⁷⁾ to implement the contractual procurement and transition process, prior to the reform being discontinued. These problems although real, are less likely to hinder an OpCo for energy scheme administration as there are far fewer political and security concerns which complicate the creation of the Management Contract.

There are also a variety of private entities already engaged in the provision of energy scheme administration on behalf of government, such that there would likely be significant interest in any competitive tendering. There is a possibility that having large numbers of schemes transferred simultaneously, could cause levels of disruptions across the department. One remedy to complications during transition is to hand over scheme administration incrementally to the OpCo. For instance, the OpCo could start by administering smaller scale schemes, and in time take on the administration of larger scale schemes. This could mitigate risks posed from having a large number of schemes transferring operations at the same time.

Depending on the level of government involvement in the private sector entity, there are also risks, , of EU State Aid issues arising, although this is now not certain due to recent developments regarding the UK's membership of the European Union. This could mean a formal state aid investigation by the EU Commission prior to approval being granted for the transformation. It is unlikely such a proposal would be blocked by the Commission, but Government should prepare for the appropriate consultation and review process.

³⁷ National Audit Office, Reforming Defence Acquisition
<https://www.nao.org.uk/report/reforming-defence-acquisition-2015/>

6.1.6 GoCo assessment

Overall there is a strong case to consider a GoCo model to help deliver energy schemes within GB. Below we have highlighted the main pros and cons of such a system.

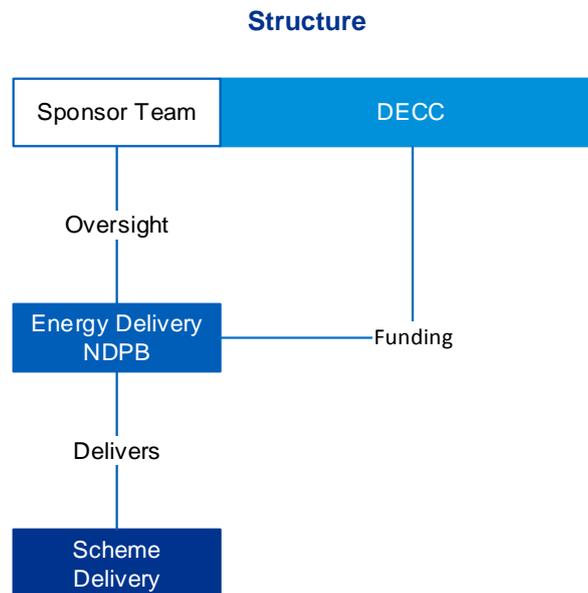
Table 7: Assessment of Government Owned Contractor Operated Delivery Model

Area	Pros	Cons
Efficiency	<ul style="list-style-type: none"> — High probability of large efficiency gains. — Savings estimated at around £10m a year from amalgamation of scheme administration in 2019/20. — Significant gains from private sector management expertise and procurement efficiency. — Ability to leverage economies of scale from delivery partners and consolidation. 	<ul style="list-style-type: none"> — Risk that savings would not materialise for government if tendering process was uncompetitive. — Transition costs likely larger than other public sector options.
Governance Control	<ul style="list-style-type: none"> — Degree of government control retained through contracting arrangement. — Performance bonds and special share arrangement available to address liabilities and strategic control. — Liability can be partitioned to private sector establishments while financial mechanisms can enable compensation. 	<ul style="list-style-type: none"> — If there is no special share and/or poorly managed contracting arrangements, there are risks of direct barriers between government and GoCo oversight. — Additional independence and ethics requirements to ensure private delivery bodies provide fair judgement on administration.
Commercial Opportunities	<ul style="list-style-type: none"> — International partners able to leverage opportunities to sell services abroad, as well in domestic market and deliver value from IP. — Ability to staff share between private sector management partners and the contracting organisation. Can bring in international expertise to assist. 	<ul style="list-style-type: none"> — Possibility of State Aid issues arising due to government support for company, although now unlikely.
Technology	<ul style="list-style-type: none"> — Ability to provide private sector financing to improve operating systems. — Access to leading private sector expertise and processes. — Ability to encourage innovation, can tailor incentive structure to encourage efficiency gains from patented improvements. 	<ul style="list-style-type: none"> — Possibility that there would be low incentives to invest in innovation, due to technology improvements being shared openly with the state. Could be mitigated through KPIs or reward mechanisms in contract.
Flexibility	<ul style="list-style-type: none"> — High degree of flexibility can be built into contracts. Ability to vary payment terms based on performance. Ability to use overarching incentives to encourage flexible delivery or new schemes. 	<ul style="list-style-type: none"> — Poorly optimised contracts can lead to immobility. Detailed contract design needed.
Delivery Performance Potential	<ul style="list-style-type: none"> — High performance from GoCo examples. KPIs give the ability to incentivise high delivery performance alongside efficiency. — Ability for increase knowledge from staff sharing across public and private entities. 	<ul style="list-style-type: none"> — Certain areas of delivery quality could be neglected if not incentivised within contracts.

6.2 Option 2 – NDPB

6.2.1 Structure

There are currently seven NDPBs within DECC, with the largest being the Nuclear Decommissioning Authority which receives over **£3 billion** annually from Government. One possible solution to the complexity of energy scheme administration is the creation of an additional Executive Delivery NDPB within the DECC Framework. Certain areas of energy scheme delivery could be moved into a specialised Executive Non Departmental Government Body, wholly focused on the delivery of energy schemes on behalf of DECC. This Body would be established in statute, being a separate legal entity to DECC, and would employ its own staff and have its own budget and spending decision capability. The Chief Executive or Accounting Officer of the NDPB would report to their respective government minister.



The Executive NDPB would be overseen by its own personal sponsor team within DECC, similar to the current NDPBs. This team would provide high level input to help decide the Body's remit, and would also conduct continued monitoring of the organisation, reviewing and inputting into their longer term business plans. Scheme delivery services would be transferred to the Delivery NDPB, this could include the amalgamation of current separate delivery bodies, such as the LCCC and ESC, or alternatively transference of control of these companies to the NDPB. The NDPB could be focussed on policy direction, scheme administration and final scheme delivery for the schemes transferred under its remit. It would have the ability to alter fundamental policy delivery frameworks as well as the administrative operations under its control.

6.2.2 Incentive structure and efficiency

The Delivery NDPB would be governed through a range of performance measures, set out with input from the Sponsor Team within DECC. These measures would be linked primarily to scheme delivery criteria, such as satisfaction from end users and registration numbers, but they could also involve efficiency criteria to encourage savings potential within the Body. Overarching performance commitments could be used to encourage administration efficiency savings. Some examples could be commitments based on reducing costs of overheads, large scale transformation of IT structures, reduction in costs of total administration as a proportion of total scheme subsidy, as well as criteria such as operating profit.

The amalgamation of service delivery under the NDPB will provide some cost efficiency potential, due to the ability to streamline all similar scheme services under one roof. An Executive NDPB will benefit from combining HR, Finance, database and customer facing areas such as helpdesks under one area. However, these savings are likely to be less than those available from a GoCo model, due to the limited ability of an NDPB to leverage the use of private sector expertise. NDPBs are still bound by all public sector pay constraints, and will be unable to leverage top quality private sector staff to leverage the full benefits of reform. There will be little benefit in areas such as contract negotiation for procurement of resources, and the NDPB may have to continue to use high cost contractors to cover short term staff shortfalls. In addition, the public sector status of the NDPB means opportunities to exploit leading private sector processes in IT and Business Infrastructure are more limited. Furthermore, the scope for additional resource savings is also constrained by the fact that NDPB staff would remain Civil Servants.

There is a lack of data relating to the financial efficiency performance of NDPBs, therefore our estimates of potential scheme administration savings for an NDPB should be taken as indicative. Throughout our analysis we have seen that private sector expertise in areas such as contract negotiation and systems reform are key to delivering savings during reorganisation. Energy Delivery NDPBs would only be able to leverage the amalgamation and simplification of scheme provision, in order to gain cost savings.

Therefore we do not believe the efficiency savings will approach the same level as that of a GoCo model. To provide an indicative estimate of potential savings from the NDPB model, we have estimated that savings rates would fall towards the lower end of our analysed savings examples, with an estimated rate of around **12%**. This amounts to savings of around **£6 million** a year from scheme administration costs until 2019/20.³⁸ One of the challenges of NDPBs is to maintain the level of savings year on year, thus this level may be hard to maintain over time and is therefore less certain.

6.2.3 Governance

NDPBs have shown themselves to be flexible ways of delivering government policy at arm's length. They are close enough to democratically elected representatives to retain accountability, while remaining clear of day to day political influence. In the context of energy scheme delivery, this autonomy will enable a flexible response to scheme development which cannot be provided while having scheme delivery under the direct remit of a variety of government departments. In addition, it can engage in independent commercial activities as a means of funding where appropriate.

A strong governance framework and a set of overarching performance commitments, based on both social and environmental factors, can be used as means of direction. General performance commitments which are not scheme specific, such as overall carbon reduction targets, are one way of incentivising the efficient use of resources within the organisation. This will allow the NDPB to adapt quickly to schemes as they develop.

Since the executive NDPB organisation would remain a public body, it would be required to comply with existing statutory and financial commitments set out by government, such as those within "Managing Public Money" by HM Treasury³⁹ and Managing Public Information as set out by the Freedom of Information Act 2000⁴⁰. These will place additional constraints on the Energy Delivery Body, e.g. in terms of offering competitive remuneration, and could limit the ability of an NDPB to provide commercial services.

³⁸ Table 1.B Administration Budgets

<https://www.gov.uk/government/publications/spending-review-and-autumn-statement-2015-documents/spending-review-and-autumn-statement-2015>

³⁹ Managing Public Money

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/454191/Managing_Public_Money_AA_v2_-jan15.pdf

⁴⁰ Freedom of Information Act

<http://www.legislation.gov.uk/ukpga/2000/36/contents>

6.2.4 Delivery performance

NDPBs by and large deliver their requirements to their sponsoring departments, but performance is significantly dependent on there being clear links between NDPB performance measures and departmental priorities.⁴¹ NDPBs tend to underperform when they have no clear performance measures used to highlight specific areas of importance.

We believe that clear performance measures, linked to areas such as scheme efficiency, scheme customer satisfaction, and overarching carbon reductions targets will allow an Energy NDPB to deliver in line with expectations. Splitting up performance commitments to focus on both customers and industry consumers is one way to focus the performance of the NDPB, and encourage policy input from within the organisation.

Our review of the Government-run PSREs did highlight the inability of GoGo organisations, which includes NDPBs, to leverage technology transfer to commercial opportunities. Although a possible means of revenue generation, NDPBs may face constraints that compromise their ability to deliver market-leading commercial services, in particular relating to the remuneration package they are able to offer employees.

6.2.5 Considerations and transition issues

It is worth considering whether the NDPB should be concerned with policy design and oversight alongside management of policy and scheme delivery. A NDPB focused solely on scheme delivery could benefit from clear incentives based around efficiency, and would likely find significant cost savings. But such an organisation, unless appropriately funded and mandated, would be able to offer less input into policy delivery mechanics, and could lead to underperformance in actual policy goals. It is also worth noting that due to their independent nature, NDPBs may not perform well when they are required to function alongside other entities with overlapping responsibilities.

It is unlikely that all the energy delivery schemes we have analysed are suitable for transference under a single organisation, due to the large differences in their underlying roles. There are currently seven NDPBs within the DECC Framework, but provided that the majority of scheme delivery services were reallocated to an Energy Delivery Body, there would only be a single additional body created.

⁴¹ NDPB Performance Reporting
https://www.nao.org.uk/wp-content/uploads/2010/05/NDBP_Performance_Reporting.pdf

6.2.6 NDPB assessment

Table 8: Assessment of Non Departmental Public Body for Energy Scheme Delivery

Area	Pros	Cons
Efficiency	<ul style="list-style-type: none"> — Savings can be closely linked to performance commitments to incentivise efficiency in specific areas of the organisations. — Expected efficiency savings from scheme amalgamation of around £6m p.a until 2019/20. — Medium transition costs. 	<ul style="list-style-type: none"> — Staff remain Civil Servants, unable to leverage some resourcing benefits. — Reduced private sector financing options to enable large scale business transformation projects such as IT systems. — Additional governance requirements, such as Information and Financial acts, increasing costs. — Dependence on government contracts, unlikely to leverage larger cross industry economies of scale.
Governance Control	<ul style="list-style-type: none"> — Independent from private sector pressure to favour specific business contracts during scheme provision. — Independent from day to day governmental pressure delivered independently of ministers with integrity and credibility. — Independent from government pressure on funding decisions through schemes. — Clear accountability and flexibility with the NDPB focused on delivery performance. 	<ul style="list-style-type: none"> — Liability of scheme delivery remains with the state. — Funding is delivered based on estimates from parent organisation, can mean inefficient allocation leading to incentives to overspent to protect funding levels.
Expansion Opportunities	<ul style="list-style-type: none"> — Ability to leverage the position as main GB Energy Scheme Deliverer to market operations and consultancy. 	<ul style="list-style-type: none"> — Unlikely to leverage significant commercial opportunities due to poor access to leading industry techniques.
Technology	<ul style="list-style-type: none"> — Can benefit from current government initiatives to implement large scale digital transformations. 	<ul style="list-style-type: none"> — Poor access to leading private sector technology.
Flexibility	<ul style="list-style-type: none"> — High level of flexibility due to absence of longer term delivery contracts, ability to implement and redistribute resources across scheme delivery. — Devoid of political influence when implementing scheme delivery. — Less commercial involvement, little scope for breaking of EU State Aid legislation. 	<ul style="list-style-type: none"> — Trade-off between a wholly focused scheme delivery NDPB with no policy oversight, and that of an NDPB providing policy input. — Fewer drivers to be flexible as no competitive tender process in place.
Delivery Performance Potential	<ul style="list-style-type: none"> — High delivery performance potential with well-structured performance commitments. 	<ul style="list-style-type: none"> — Limited scope for private sector influence to aid policy design. — Limited ability to develop and leverage the use of innovative techniques.

7 Conclusions

7.1 Final outline of both possibilities

Both the GoCo model and the NDPB offer significant benefits for energy administration. We believe both models offer flexible delivery systems and allow Government to retain key control over scheme delivery. However, within cost saving potential and wider delivery benefits, the GoCo model outperforms its public alternative and we believe it offers a reliable choice for future energy sector delivery reform.

We have calculated that the minimum expected cost savings from the GoCo model to total at around £10 million p.a until 2019/20, this compares to a smaller estimated saving of £6million per annum for the NDPB. These savings differ because of the GoCo model's ability to leverage increased private sector expertise, in areas such as digital innovation, procurement and the ability to leverage commercial opportunities and economies of scale. The ability of the GoCo model to implement savings through alternative resourcing models was also a key consideration when comparing efficiency potential.

Nevertheless, there are strong areas of performance associated with the NDPB, which include the potentially lower transition costs needed to transfer to a NDPB model compared to a GoCo, the ability to provide easy input into policy design as well as the flexibility such an organisation within the Government family can provide.

But, our analysis has shown that private delivery models, when combined with well-structured governance and contract mechanics, can retain flexible delivery tools for government use and provide delivery benefits in excess of the NDPB model.

We have identified that a small number of specialist GoCos may be the best way of delivering improvements. In our analysis we have suggested the possibility of structuring any new delivery models around two delivery groups, Customers and Businesses. This could provide an advantage of having two delivery organisations that could focus on their respective delivery customers and capabilities but also maintain some future competitive tension for the addition of further delivery services as and when needed.

7.2 Future proofing

Overall reform of energy scheme administration makes practical sense. We have seen multiple accounts of successful private sector implementation of government service provision over the years, and have identified the success made particularly around administrative activities. Energy administration reform can serve to address issues relating to government funding and deliver an efficient and structured delivery framework for the benefit of UK Industry, customers and taxpayers. However, it will be important that industry administration reform ensures that it not only addresses current challenges, but also prepares for the future especially with Brexit implications looming.

7.3 Next steps

The Government has already highlighted the need to reform the current operations of the Ofgem E-Serve scheme delivery service, with its spinoff from Ofgem expected. We suggest that Government should begin a consultation on the key options which are available for energy administration delivery, aiming for a decision by early 2017. This would require impact assessments to quantify the full savings and costs from a range of different delivery options, such as those proposed within our analysis, as well as a review of the possible implementation arrangements and the implications of such models.

If a GoCo decision is considered for the future administrative model for energy scheme delivery, then early notification of Government's intention to the market will allow potential bidders for OpCo operating contract services enough time to prepare for a competitive tender process. This should maximise the number of prospective bidders available and ensure a competitive process is undertaken, and value for money is maximised.

For delivery reform to be realised, then changes to legislation will be needed to change existing delivery responsibilities, alongside the establishment of processes to competitively select or allocate new responsibilities. If a decision on the chosen option is taken in the Autumn Statement of 2016, and the appropriate legislative vehicle is available, then a two year transition period is likely to be required before new delivery structures and organisations might be in place.

The energy delivery landscape is likely to face many challenges in future years as Government policy continues to have to adapt to meet the challenges of security of supply, affordability and decarbonisation in the most efficient and effective way. Policy support costs are already significant and are growing - the choice of the future administrative delivery model is an important one.

8 Annex 1 Cost Saving Potential

Table 9: Assessment of Non Departmental Public Body for Energy Scheme Delivery

Source	Author	Detail
Open access – delivering quality and value in our public services	Oxford Economics	11% productivity improvements across a range of services, with range of 10-20% . 10% savings in outsourced hospital services. 10-15% savings in outsourced school improvement services. 15% savings in school facilities management. 5% per meal savings from outsourced school catering. Prisoner escort and custody services – MoJ expected to make savings of 20% over seven year contract period when re-tendering England and Wales contracts.
Study (2006)	TPI	Savings net of professional fees, severance pay and governance costs average 15% and range between 10% at the bottom end and 39% at the top.
Outsourcing – time to realise the benefits	Health Service Journal	In local Government, strategic partnerships between local authorities and outsourcing firms generate savings of 5-30% of budget. NHS Shared Business Services provide shared financial, payroll and procurement processes to 120 NHS clients and generate savings of 20-30% .
Operational Efficiency Programme – Final report	HM Treasury	Compared to spending of £16.1 billion on IT in 2007/08, a saving of £3.2 billion/year by 2013/14, i.e. 20% over six years – not just outsourcing, but efficiency in general.
Capita IT solution for Driver and Vehicle Agency (Northern Ireland)	Capita	IT resources reduced by 30% . Service penalties reduced by 100% Reduced monthly report workload (four to five days a month down to two days a month). Call handlers reduced by 25% .
Arvato/Sefton Council	Arvato	Arvato agreed 10 year contract to provide range of services to Sefton Council. Delivered immediate cost saving of 10% (£20 million over 10 year contract). In 2011/12 delivered additional savings of £1.6 million (£600,000 one off savings, £500,000 sustainable annual savings, £500,000 additional income).
Quick Savings and Minimal Operations Risk? Try facilities management outsourcing	ISG	First generation facilities management outsourcing projects are reliably returning a net 10 to 15% saving on facilities operations and maintenance, while at the same time bringing new transparency to this area of spend. Annual savings of 12-20% (total spend) can be achieved within three years, with savings of 4-8% in the first year of the contract.
A new political dawn, a new era for UK public sector outsourcing?	ISG	Net operating savings generated through outsourcing average around 16.7% . Savings from Business Process Outsourcing (BPO) contracts tend to be higher still. The UK public sector is heavily BPO-focussed, accounting for more than 60% of the market since 2010.
Average value of highlighted realised savings (in bold in rows above).		20%

9 Annex 2 NPV Analysis

Table 10: Overview of scheme net present value cost analysis

Initiative	Explanation of Admin Costs	Source
FiTs	Costs based on 0.16% applied across lifetime value of subsidy.	Based on industry input and KPMG analysis.
RO	Costs based on 0.16% applied across lifetime value of subsidy.	Consultation on Ofgem's Cost for Administering the Renewable Obligation, August 2013.
RHI	Based on 1% of scheme values applied to lifetime of subsidy.	Based on KPMG analysis.
ECO	£2.5 million annual cost inflated at 1% a year from 2012.	Final stage impact assessment ECO, 11/06/2012 page 88.
WHD	£1.75 million cost in 2015 inflated at 1% a year.	Warm Home Discount Extension 2016 Administration Costs Annex 4.
OLR	NPV of administration costs of £17 million in 2012 discounted for four years, rebased to 2016.	Offtaker of Last Resort 2014, Table 1 NPV Admin Costs.
NFPA	2015 Administration values inflated at 1% a year.	Companies House NFPA Holdings and NFPA Limited.
LCCC	£3.7 million in 2015 prices. Inflated at 1% a year.	LCCC ESC Operational Cost 2016 Consultation Document.
ESC	£1.3 million in 2015 prices. Inflated at 1% a year.	LCCC ESC Operational Cost 2016 Consultation Document Page 24.
CRC	£3.6 million in 2011 prices. Inflated at 1% a year.	CRC Energy Efficiency Scheme National Audit Office 2012 Page 34.
CCA	Estimated to cost £9 million for 2012 – 2020. 40% of this value in 2016 prices.	Proposals on the future of Climate Change Agreements 2012.
ESOS	Estimated to cost an NPV of £15 million in 2015, one years reduced.	ESOS Impact Assessment Final.
CCL	0.4% of Levy used by collecting payments multiplied by predicted future earnings of CCL.	Reducing Carbon Emission: The role of the Climate Change Levy and Agreements.
EU – ETS	Costing staff 572,000 a year in 2011, Inflated at 1% a year.	Gregory Barker The Minister of State, Department of Energy and Climate Change.

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