Control framework for DECC levy-funded spending
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1 Introduction

1.1 The purpose of the Control framework for DECC levy-funded spending (“the control framework”) is to make sure that DECC achieves its fuel poverty, energy and climate change goals in a way that is consistent with economic recovery and minimising the impact on consumer bills.

1.2 The 2010 Spending Review set an overall cap for DECC’s tax and spending through policies that entail levy-funded spending. This cap will be managed though the control framework. It therefore requires DECC and the Treasury (“the departments”) to ensure that they are focused on achieving these goals efficiently while safeguarding investor and stakeholder confidence.

1.3 The implementation of the control framework will be consistent with relevant legislation, regulations, the Treasury guidance - Managing Public Money - and Government policy announcements. The Government remains committed to maintaining support levels for those existing investments where it has said it would do so and not to making retrospective changes.

1.4 The Treasury has responsibility for the Government’s public spending framework, and the control framework forms part of that. Therefore any changes to the Treasury’s budgeting framework may also apply to those polices covered by the control framework.
2 Scope of the control framework and the cap

2.1 The control framework will include all DECC’s existing or new policies which entail levy-funded spending.

2.2 Where tax and spend through a policy is not entirely within DECC’s control due to its devolved nature (as with the Renewables Obligation) then allowance will be made for the element of spend outside the scope of this framework. Levy-funded spending will not be regarded as a regulatory burden to be covered by the ‘One-in One-out’ commitment, but as taxation and spending overseen by the Treasury.

2.3 Spending within the cap will be ring-fenced, i.e. cannot be used for spending elsewhere. Caps shall be annual unless agreed otherwise.

2.4 DECC will then need to set policy such that the central forecast for DECC levy-funded spending is equal to or less than the agreed cap. This will be informed by individual forecasts for tax and spend associated with each policy, with estimates produced by DECC and agreed as necessary by the Treasury and verified by the Office of Budget Responsibility. The Treasury will have full access to the methodology behind these estimates.¹ On a periodic basis (and at least annually) DECC will prepare updates of forecast income and expenditure on a policy-by-policy basis, as well as the latest outturn figures. These will be readied in the run-up to each fiscal event and signed-off by DECC’s Chief Economist. DECC and the Treasury will agree at the outset a range of acceptable headroom above the cap, which will represent the level of permissible variation before DECC has to develop urgently plans for bringing policies back into line with the cap. The Treasury may seek a financial contribution from DECC should a satisfactory reduction plan not be brought forward. The acceptable headroom will initially be 20 per cent of the total cap but will be reviewed during the Renewables Obligation Banding Review and the Feed-in Tariffs Comprehensive Review.

2.5 Should DECC begin a Spending Review period with a policy mix that has a forecast tax and spend below an agreed cap, or has previously introduced changes that resulted in a net reduction in tax and spend, then the cap would remain the same, leaving headroom for future cost increases due to policy changes.

¹ Where appropriate, as with the Warm Home Discount, the magnitude of expenditure will be set out in the relevant regulations.
3.1 Should exogenous factors or updated analysis result in forecasts or actual spend that is greater than the agreed cap, then the Treasury will need to be satisfied that there is a robust, agreed plan in place to bring spend back down to within the cap, even where forecasts remain within the acceptable headroom. However, where forecasts suggest that an overspend is temporary and within the headroom then the Treasury and DECC may jointly choose to agree that no action is necessary.

3.2 Where forecast or actual spend exceeds the agreed cap then the presumption will be that the Treasury will deny any changes to policy that do not seek to bring this forecast down, even if such changes are cost-neutral.

3.3 DECC will be able to maintain the levy-funded spending within the acceptable headroom without the Treasury’s permission, so long as the additional spend is not the result of intended policy changes. As set out in paragraph 3.1, an agreed plan for addressing the overspend will still be required but this may be less aggressive than if the headroom is exceeded.

3.4 Where spend exceeds or is projected to exceed the range of acceptable headroom, DECC will rapidly agree with the Treasury a plan for bringing spending back down to the agreed profile. This plan will set out the adjustments that DECC proposes to make to its policies to reduce their spend, and the impact by year of taking action. The departments recognise the duty to follow statutory and other requirements before making adjustments and the need to maintain levels of support where it has said it would do so.

3.5 The Treasury will need to agree this plan, and may refuse to do so where it does not have confidence in its efficacy in returning spend to within the cap. The absence of an effective plan could ultimately result in the Treasury refusing DECC permission to retain all or part of the tax income received above the agreed cap, which would leave DECC to fund all or part of the spending gap from within its Departmental Expenditure Limit.

3.6 If for non-policy reasons central forecasts fall below the cap on a sustained basis then the cap will be revised downwards in line with revised forecasts where analysis shows that changes are not the result of ‘noise’ or temporary movement, unless there is agreement on the need to maintain the cap because deployment has undershot expectations such that Government objectives may not be met.
4 Changes to the policy mix

4.1 DECC will retain the right to make changes to policies within the framework. The Treasury will need to approve changes where proposals:

- entail any changes to specific policies that has a gross annual impact that is more than DECC’s standard delegated limit;
- could create pressures leading to a breach of the levy envelope in the Spending Review period;
- could increase long-term cost pressures beyond those previously envisaged;
- impact on how costs will be borne, including where there could be significant tax policy or welfare impacts (eg change in tax base);
- could set a potentially expensive precedent;
- could cause significant repercussions for others; or
- are novel or contentious.

4.2 Where these criteria are met as a result of significant cost or tax policy or welfare impacts then changes would usually need to be made at a fiscal event or Spending Review. For changes that result in central projections that remain within the cap then the strong presumption will be that such changes will not be overruled on affordability grounds. Therefore, changes that increase expenditure by one policy will generally be accompanied by offsetting savings in another such that, overall, policy remains within the overall and any ring-fenced caps.

4.3 There would be a strong presumption that agreement would not be given outside of a Spending Review process for changes that take central projections above the agreed cap—including for additions of new policies to the framework. How new policies are accommodated within the control framework will be determined by the departments on a case by case basis.
5.1 The cap will not increase in line with changes in forecast tax and spending due to non-policy reasons (including forecast error), for example, higher than expected deployment of renewable energy installations or higher than expected uptake of state benefits used to confer eligibility for fuel poverty payments.

5.2 Aside from possible reductions in the cap due to non-policy reasons, the strong presumption will be that the cap will only be reviewed as part of a Spending Review. However, there may be exceptions to this, including if there are significant changes to the energy tax regime which have knock-on effects for DECC’s policies which entail levy-funded spending.
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