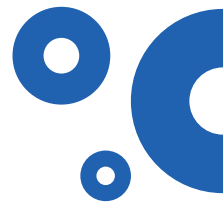




 **Accountability Report**



## Financial review

### Ofgem's Statement of Parliamentary Supply is set out on page 60.

During the year, Ofgem used its budget to support its 2020-21 Forward Work Plan with total operating expenditure of £121.1 million against total operating income of £109.1 million. Ofgem therefore ended the year with an overall resource outturn of £12.0 million: this comprises net operating expenditure of £0.7 million for Renewable Energy Guarantees of Origin plus £11.3 million for provisions; largely relating to price control appeals. This outturn is an underspend of £2.8 million on resource budget estimate of £14.8 million, mainly due to the value of financial provisions being slightly lower than estimated.

Ofgem's main source of income is licence fees payable by the sector. Any surplus (over recovery of fees, where spend is less than budget) is repaid to the sector. There is a £0.7 million surplus from the 2020-21 licence fee charged to the sector (2019-20 was a £3.955 million surplus).

The majority of Ofgem's costs are staff costs. Overall Ofgem expenditure was £20.9 million (20.8%) higher in 2020-21 (£121.1 million) compared to 2019-20 (£100.3 million restated, due to a prior year adjustment for a £2.4 million provision for VAT), primarily due to increased staff numbers reflecting increased regulatory and scheme delivery requirements.

Ofgem chose not to fully use the capital budget that had been set aside for the Glasgow office purposes, spending £2.1 million less than the estimate. This results from the decision not to move to a larger office in Glasgow given the COVID-19 pandemic and a review of our working practices and time in the office. We will instead make changes to our existing space in Glasgow to allow for more collaboration areas and better meeting rooms.

### COVID related expenditure

The effect of COVID-19 on Ofgem's activity for 2020-21 is described in the performance report. Ofgem spent £0.2 million during 2020-21 on COVID-19 related expenditure. The majority of this spend was the cost to set up staff with necessary equipment to work remotely.

### EU exit related expenditure

Ofgem spent £0.7 million on staff costs associated with EU exit related activity.



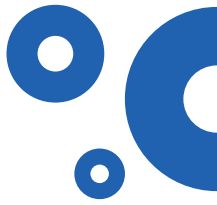
# Corporate Governance Report

## Directors Report

The Gas and Electricity Markets Authority (GEMA) is Ofgem's Board. The Authority is referred to as the Board in this document. It is currently made up of seven independent non-executive members, including a non-executive Chair, and one executive member in the Chief Executive. The members of the Ofgem Board are provided on the Ofgem [website](#).

There are no company directorships or other significant interests held by members of the management board which may conflict with their management responsibilities.

No personal data related incidents were formally reported to the Information Commissioner's Office (ICO) during the year.



# Statement of the Accounting Officer's responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed Ofgem to prepare for each financial year resource accounts detailing the resources acquired, held or disposed of during the year and the use of resources by the department during the year. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of Ofgem and of its income and expenditure, Statement of Financial Position and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

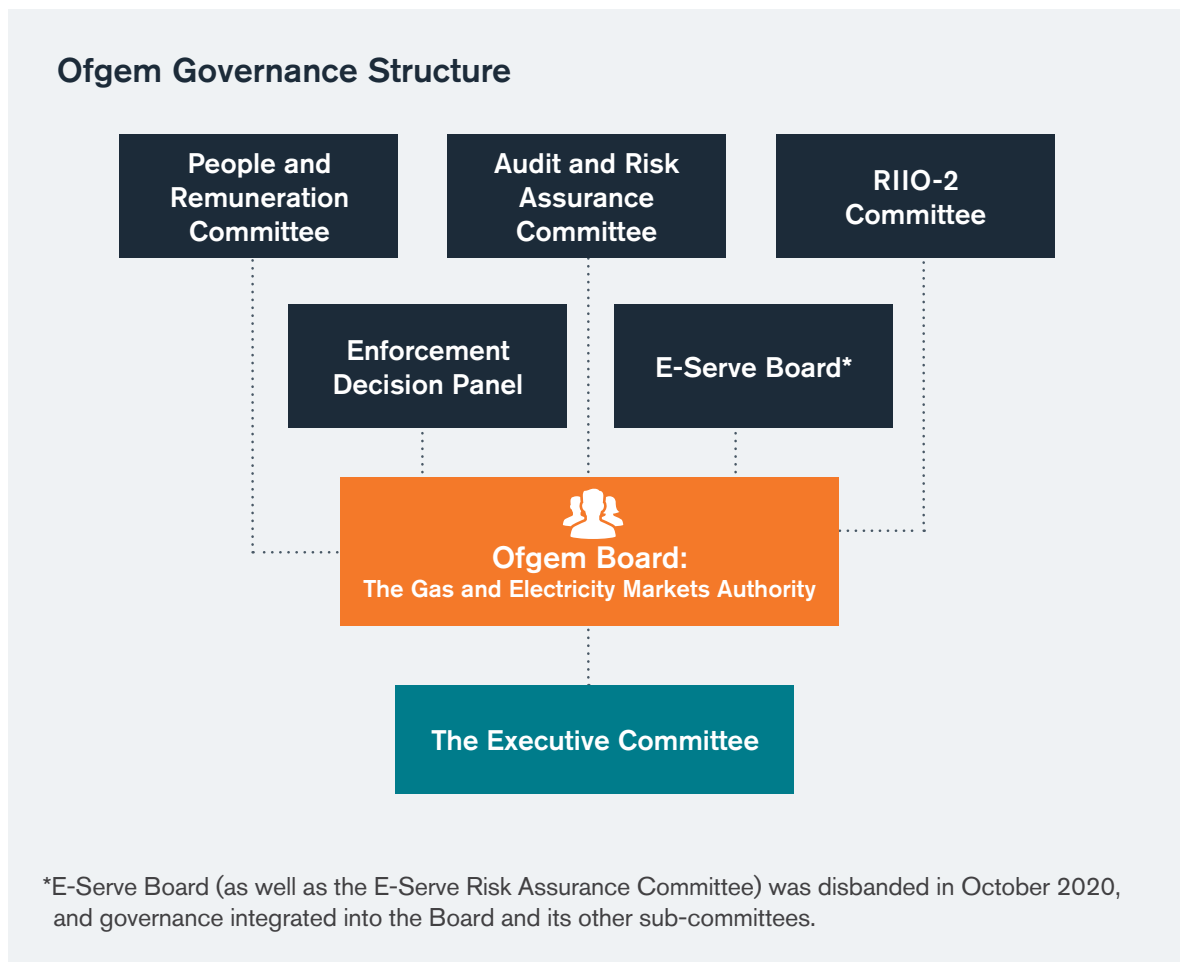
- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the accounts;
- prepare the accounts on a going concern basis; and
- confirm that the Annual Report and Accounts as a whole is fair, balanced and understandable and take personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

HM Treasury has appointed the Chief Executive as Accounting Officer of Ofgem. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding Ofgem's assets, are set out in Managing Public Money published by the HM Treasury.

As the Accounting Officer, I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that Ofgem's auditors are aware of that information. So far as I am aware, there is no relevant audit information of which the auditors are unaware.

# Governance statement

## The Ofgem Board



### Role of the Board

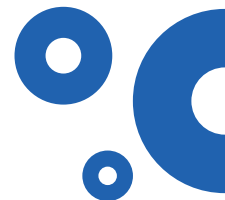
The Board's powers and duties are largely provided for in statute. The statute speaks of Ofgem as 'the Authority' and when it refers to the Authority it means the Chair and the other members of the Ofgem Board. This means that whenever legislation gives Ofgem a particular power, it is the Board of Ofgem who must exercise that power, unless there is a valid delegation in place.

The executive members of the Authority are appointed by the Secretary of State in line with the Civil Service Management Code. They hold their positions for as long as they hold their senior posts at Ofgem, subject to maximum periods of tenure.

No appointments to the Board were made in 2020-21. One non-executive Board member, Ann Robinson, stood down from the Board. Mary Starks, an executive Board member, also stood down from the Board when she left her role at Ofgem.

### How appointments are made

The Secretary of State for Business, Energy and Industrial Strategy appoints the non-executive members of the Authority after consulting the Chair.



## Division of responsibilities

The Board has reserved certain decisions for itself. These are set out in a schedule to the Board's Rules of Procedure and are known as the "Reserved Functions".

Decisions relating to any of these Reserved Functions must be decided by the Board, unless the Board specifically delegates that decision to an employee of Ofgem, or to one of the Committees of the Board. [A delegation by the Board may be subject to any conditions. Any additional Board delegation is recorded in the Board's minutes. The only exception to this is the making of a Statutory Instrument, which – by law – the Board cannot delegate.]

All functions of the Board which are not Reserved Functions, delegated to a Committee of the Board, or delegated by HM Treasury to the Accounting Officer, are referred to as "General Functions".

In October 2018, the Board passed an ordinary resolution which authorised these General Functions to be delegated to any Ofgem employee at Band D level or above. In addition, two particular enforcement functions were delegated to all employees.

Work has been undertaken this year to strengthen the Management Controls, which set out how these General Functions should be discharged – and specifically, who is authorised by the Chief Executive to make decisions or exercise functions under the General Delegation. This follows an Internal Audit review of corporate governance, which identified this as an area for improvement.

The Board's Rules of Procedure, including its Reserved Matters, are published on the Ofgem website.

## Board Committees

The Board has established four sub-committees to support its work. These are: the Audit and Risk Assurance Committee, the People and Remuneration Committee, the RIIO-2 Committee, and the Enforcement Decision Panel.

Further information about the responsibilities and work of the Audit and Risk Assurance Committee and the People and Remuneration Committee are provided in a later section of this report (Page 36).

The RIIO-2 Committee meets at least three times a year to ensure that the Board's decision-making process in respect of RIIO-2 runs efficiently and effectively. It considers the policy detail and makes recommendations on specific issues before they are put to the Board for decision. It also gives additional guidance to the RIIO-2 team and engages with stakeholders at appropriate times during the price control delivery process.

The Enforcement Decision Panel is a committee of the Board, which has been in place since June 2014 to take enforcement decisions on the Board's behalf. It was established to take decisions in enforcement cases by dedicated specialists so that there is a visible separation between the investigation and decision-making functions. The Panel's members and its secretariat are employees of Ofgem who are independent from the case team. The Enforcement Decision Panel publishes its own annual report, which is available on the Ofgem website.

In 2020, the Board decided to integrate the governance of E-Serve within the Board's oversight of Ofgem. This resulted in the E-Serve Board and the E-Serve Risk and Assurance Committee being disbanded and their work being integrated into same governance process as the rest of Ofgem. Further information about the Board's oversight of E-Serve's work and activities is provided below.

The terms of reference for the Board's Committees are published on the Ofgem website.

## Board meetings

The Board meets approximately ten times a year for formal meetings. Like many organisations responding to the pandemic, all of the Board's meetings in 2020-21 were conducted online and it was not possible to hold any of the Board's meetings in the nations or regions of Great Britain, as it normally does. The Board hopes to be able to resume doing so, as soon as it is safe, and the COVID-19-related restrictions allow.

In its meetings, the Board typically considers a range of matters. This normally includes updates from the Chair and Chief Executive, updates from the Chairs of its Committees on any recent meetings, discussions on Ofgem's strategy, strategic objectives and the wider landscape, organisational matters, and decisions on specific matters that have not been delegated.



In the last year, the matters the Board has considered included the following:

- Reviewing the organisation's purpose statement and values
- Approving Ofgem's risk management strategy and risk appetite statement
- Approving Ofgem's Forward Work Programme
- Approving Ofgem's annual budget
- Approving Ofgem's submission to the Spending Review
- Approving Ofgem continuing to administer an energy efficiency scheme
- Discussing the implications of significant developments, such as the publication of the Energy White Paper and the Climate Change Committee's Sixth Carbon Budget
- Taking a number of significant regulatory decisions, including in relation to the RIIO-2 network price controls and the default tariff cap

In addition, and normally preceding each formal meeting, the Board has a less formal briefing session. This provides the Board with an opportunity to discuss emerging issues, to have briefings on aspects of Ofgem's work, and to hear from stakeholders on topical issues.

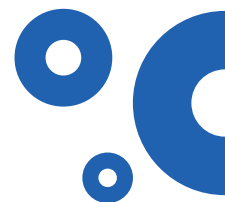
This year the Board was pleased to welcome high-level stakeholders to its meetings, including the First Minister of Wales, the Welsh Minister for Environment, Energy and Rural Affairs, and the Scottish Minister for Energy, Connectivity and the Islands.

Following the integration of E-Serve within the same governance process as the rest of Ofgem, its activities and work have begun to be reviewed more regularly by the Board itself. This now includes a monthly information report on E-Serve's activities, as well as a new quarterly deep-dive, where the Board has an opportunity to discuss strategic issues relating to E-Serve.

The Board minutes and agendas are published on the Ofgem website.

## Board attendance

The Chair and other members play a full part in Board business. Their attendance at full Board meetings and Committee meetings where they are a member has been recorded below. Board members are able to observe other Committee meetings.



Members	Gas and Electricity Markets Authority	Audit and Risk Assurance Committee	E-Serve Board	People and Remuneration Committee	RIIO 2 Committee
Barry Panayi	10/10	-	-	1/1	-
Christine Farnish	10/10	-	-	4/4	10/10
John Crackett	10/10	-	-	-	10/10
Jonathan Brearley	10/10	5/5	2/2	4/4	10/10
Lynne Embleton	10/10	5/5	-	1/1	10/10
Martin Cave	10/10	5/5	2/2	-	10/10
Myriam Madden	9/10	5/5	-	-	8/8
Paul Grout	10/10	-	-	3/3	10/10
Ann Robinson	3/4	-	-	1/2	-
Mary Starks	3/3	-	-	-	-

#### Notes:

1. Ann Robinson stood down as a Board member (and as a member of the People and Remuneration Committee) in September 2020
2. Mary Starks stood down as a Board member in July 2020
3. Lynne Embleton and Barry Panayi were appointed to the People and Remuneration Committee in November 2020
4. Paul Grout stood down from the People and Remuneration Committee in November 2020
5. Myriam Madden was appointed to the RIIO 2 Committee in May 2020
6. The E-Serve Board was disbanded in October 2020

## Board evaluation

The effectiveness of the Board is reviewed annually. In recent years, these reviews have been undertaken internally and coordinated by the Chair, with support from the Ofgem Governance and Secretariat team.

It is good practice in corporate governance to undertake an externally-facilitated Board Effectiveness Review at least once every three years. Following a competitive procurement process, Campbell Tickell was appointed to undertake a Board Effectiveness Review this year.

The Board reviewed and considered the outcomes of the review at its May 2021 Board meeting.

The review found much that works well in Ofgem's governance, and highlighted areas for further improvements, noting that progress in a number of these was already under way. The review noted the skill and commitment of Board members and the Executive, positive progress in Committee performance and risk management, and the support provided by the Secretariat.

The review also highlighted the importance of strategic clarity between the Board and the Executive, and a robust performance monitoring framework that enables the Board to monitor progress against strategic objectives and the organisation's fitness to deliver. To support this, a number of further improvements are planned.

While the Board is confident that decisions it made during the year were supported by the right information, the Board Effectiveness Review highlighted that a more consistent provision of management information, and improvements to the format and length of papers would help to continue to facilitate informed discussion and decision-making by the Board.

This year the Board has also introduced a regular reflections item at the end of each Board meeting, where Board members can provide feedback on any of the items, papers, or other areas of discussion in the meeting and make any suggestions for improvements, several of which have already been implemented.



In addition, in 2020-21, the Chair reviewed the individual performance of Board members, looking at their contributions to the Board's work. The annual performance assessment of the Chair was carried out by the Chair of the People and Remuneration Committee, taking into account his objectives for the year and input from other Board members.

## Corporate governance

In addition, Ofgem's internal auditors also undertook an audit of Ofgem's Corporate Governance in the summer of 2020. It reported to the Audit and Risk Assurance Committee in October 2020.

Its focus was primarily on executive, or management-level, governance, rather than Board-level governance. It was complemented by the Board Effectiveness Review, mentioned earlier, which focused primarily on Board-level governance.

Overall, the report provided adequate assurance. However, it did highlight several areas for improvement, including one priority area relating to strengthening Ofgem's Management Controls, which sets out who is authorised to make decisions or exercise functions under the General Delegation. This improvement is currently being implemented.

Alongside this, a number of other improvements have also been made, including strengthening some processes within the Governance and Secretariat team, and consolidating the individual Conflict of Interest declarations from Board members into a single register which is now published on the Ofgem website. All recommendations have either been implemented or are on track to do so by the agreed date.

More generally, over the year, Ofgem has taken several steps to strengthen its corporate governance, including where it can be informed by the UK Corporate Governance Code and the Corporate governance code for central government departments. Nonetheless, and as the Board Effectiveness Review highlighted, there are further improvements to be made so that Ofgem's governance supports the Board and wider organisation in operating as effectively as possible.

## Identifying and Managing Conflicts of Interests

Ofgem has a conflict of interest policy, which is published on the Ofgem website. Further guidance to staff is also available on the Ofgem staff intranet. Under the policy, all staff are required to notify us of any potential conflicts when they join the organisation and of any changes thereafter. The policy applies to all staff, whether they are permanent, casual, fixed-term, agency or contractor.

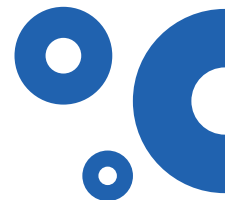
Any potential conflicts are assessed by the Finance, Procurement and Risk team, who consider whether a conflict exists - and if there is one, what to do about it, and a timescale for action. The policy also states that disciplinary action will be taken against any member of staff who is found not to have complied with these arrangements. In line with good practice, for regular policy reviews, this policy is currently in the process of being reviewed and is expected to be updated shortly.

This year we have also taken steps to increase transparency, and now publish a register of interest for our Board members on the Ofgem website.

In addition, following a request to all government departments from the Cabinet Secretary in April 2021, we reviewed our register of interests for senior civil servant ('SCS') staff and also asked all SCS staff to confirm whether they hold any remunerated positions or other interests which might conflict with their obligations under the Civil Service Code or impact – or be seen to impact – upon their ability to undertake their official duties.

This enabled us to confirm that while a small number of staff do hold outside appointments (such as voluntary roles, or non-executive roles in the wider public sector) or have other interests declared in our register, we do not believe that there are any instances of SCS staff holding any remunerated positions or other interests which might conflict with their obligations under the Civil Service Code or impact – or be seen to impact – upon their ability to undertake their official duties.

When staff leave the organisation, we have a process in place to consider whether an application under the Business Appointments Rules is required before they accept a new appointment outside the Civil Service.



This is to ensure that when a former member of staff takes up an outside appointment or employment there should be no cause for justified public concern, criticism or misinterpretation.

This year we have also strengthened the arrangements for SCS staff, such that any application they make under the Business Appointments Rules must be approved by Ofgem's non-executive People and Remuneration Committee.

## The Audit and Risk Assurance Committee

The Audit and Risk Assurance Committee (ARAC) comprises three non-executive members of the Board, namely Myriam Madden (Chair), Lynne Embleton and Martin Cave. It has four substantive meetings a year, as well as a dedicated meeting to review the draft annual report and accounts. The Chief Executive, Director of Corporate Services, General Counsel, Head of Corporate Finance and Head of Assurance are invited to attend Committee meetings, as are other staff as required.

Representatives of Ofgem's External Auditors, the National Audit Office, and representatives of Ofgem's Internal Auditors, Mazars, are also invited to attend all meetings of the ARAC. As is good practice, the non-executive members of the Committee generally have a private session with the auditors at the end of each meeting. In addition, both the Internal Auditors and External Auditors have regular discussions and direct access to the Chair of the ARAC.

## Role and responsibilities

The ARAC's terms of reference are published on the Ofgem website. They were reviewed during the year and are expected to be updated during 2021-22. Its key responsibilities are to advise the Accounting Officer and Board in relation to risk management, financial and internal control systems, the programme of reviews by the Internal Auditor and addressing any weaknesses identified in assurance reports, and the statutory accounts and other published financial statements.

This year, the ARAC has focused in particular on work to strengthen the foundations of assurance and compliance in the organisation. This has included normalising the continuity of internal audit services and engagement with the NAO and approving the Internal Audit plan and ensuring it is risk-based.

The ARAC has also closely monitored the pace and progress of completion of audit recommendations, including legacy audit recommendations – and has been pleased to note significant progress in ensuring recommendations are implemented promptly. In addition, the ARAC has overseen the development of a strengthened risk management framework (further information about this is provided in the risk management section) and embedding the principles of continuous improvement through regular retrospective analyses of lessons learned.

## Activities during the year

During the year, the ARAC's main areas of activity were:

- Monitoring the progress of Internal Audit plan for 2020-21, including considering and approving in-year changes to the programme of audits.
- Reviewing Internal Audit reports, and other assurance reports commissioned by management, and management responses on topics including: Corporate Governance, Programme and Project Management, Organisational Restructuring, and the E-Serve Assurance Framework.
- Reviewing and approving the Internal Audit plan for 2021-22.
- Reviewing updates from the NAO, particularly in relation to its audit of Ofgem's financial statements.
- Reviewing Ofgem's risk management framework.
- Undertaking thematic deep dives into areas of Ofgem's work or strategic risks, including its work in E-Serve, cyber security, and information security.
- Reviewing progress and the development of Ofgem's Annual Report and Accounts.



## Reporting

The minutes of the Committee are shared with the Board at its next meeting, and the Chair of the Committee is provided with an opportunity to update the Board on any matters she wishes to raise.

## The People and Remuneration Committee

The People and Remuneration Committee (PRC) comprises three non-executive members of the Board, namely Christine Farnish (Chair), Lynne Embleton and Barry Panayi. Martin Cave, the Chair of the Board, is also invited to attend. Paul Grout stood down from the Committee in November 2020, as did Ann Robinson when she stood down from the Board. It has four substantive meetings a year.

This year the PRC has also taken on particular responsibility to support the ongoing organisational Transformation Programme - and has held a number of additional meetings to do this since January 2021. This has enabled PRC to provide guidance and oversight on the development of proposals organisational purpose and values and organisational design, with a particular focus on developing professions, career models, and dynamic and multidisciplinary teams to respond to changing needs and deliver our priorities.

The Chief Executive, Director of Corporate Services and Deputy Director of People and Estates are also invited to attend PRC, as are other staff as required.

## Role and responsibilities

The PRC's terms of reference are published on the Ofgem website. They were reviewed during the year and an update was made to strengthen the role of the Committee in undertaking an annual review of the structure, size and composition of the Board and its Committees. Its other key responsibilities are to advise the Board and Chief Executive in relation to Senior Civil Service remuneration, and strategic approaches to and policies on people-related issues that affect Ofgem's performance and success.

## Activities during the year

During the year, the PRC's main areas of activity were:

- Approving the Ofgem executive team's annual objectives.
- Reviewing the performance and remuneration of the Ofgem executive team.
- Monitoring and advising the Ofgem executive team on the ongoing organisational Transformation Programme.
- Reviewing the annual People Survey results and considering areas for improvement.
- Undertaking thematic deep dives on people issues, including staff attrition and staff welfare and working arrangements during the COVID-19 pandemic.
- Reviewing the structure, size, and composition (including the skills, knowledge, experience, and diversity) of the Board and its Committee and making a recommendation to the Board.
- Reviewing and approving applications made by departing SCS staff under the Business Appointment Rules.

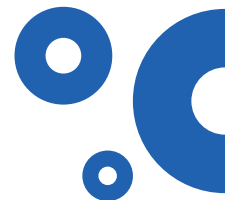
In addition, a number of PRC members have been panel members in the recruitment of roles to the Executive, particularly following the senior-level restructure.

## Reporting

The minutes of the Committee are shared with the Board at its next meeting, and the Chair of the Committee is provided with an opportunity to update the Board on any matters she wishes to raise.

## The Executive Committee

The Executive Committee (ExCo) was established in 2020-21, following the senior restructure that the Chief Executive undertook during the year. It replaced a number of previous management committees, including the Regulatory Board and the Performance Board, and provides a single management forum to discuss both regulatory issues and organisational matters.



## Role and responsibilities

The ExCo supports the Chief Executive in the running of the organisation and is not a formal Committee of the Board. It is chaired by the Chief Executive and meets monthly. It also has an informal weekly catch-up. The members of the ExCo are listed on the Ofgem [website](#). Other Ofgem staff are invited to attend ExCo as required.

## Activities during the year

During the year, the ExCo's main areas of activity were advising the Chief Executive in respect of:

- Approval of budget allocations and significant in-year budgetary adjustments, and review of the budgetary position on a monthly basis and any other significant finance related issues.
- Consideration of management responses to, and monitor progress in implementing recommendations from, Internal Audit and other assurance reports.
- Reviewing strategic risks on a monthly basis, and the wider risk management framework as appropriate.
- Consideration of significant people-related issues, and the organisation's diversity and inclusion strategy and policies.
- Reviewing significant or crosscutting policy or regulatory proposals, or significant matters relating to Ofgem's delivery of environmental and social schemes.
- Reviewing management papers to be submitted to the Board or one of the Board's sub-committees

In addition, the ExCo has played an active role in supporting the Chief Executive in respect of the ongoing organisational Transformation Programme.

## Reporting

The CEO provides a monthly report to the Board, summarising high-profile and topical issues facing the organisation, including the activities of the ExCo as appropriate.

## Ofgem's presence in Wales and Scotland

In Wales, Ofgem's presence is projected to increase, with our Wales-based colleagues joining 4,000 UK government civil servants at the new Tŷ William Morgan hub offices in Cardiff. We met a range of energy stakeholders across Wales including the fuel poverty groups National Energy Action Cymru and Cymru Gynnes / Warm Wales. Wales' First Minister and Minister for Environment, Energy, and Rural Affairs attended Ofgem's board meeting in February 2021. This gave our senior leadership team and board members the opportunity to discuss the key energy issues in Wales, and to help ensure that consumers in Wales continue to have a strong voice in Ofgem.

Ofgem's presence in Scotland is already significant but it continues to grow. Our Glasgow office employs around 497 people – many of whom work to deliver sustainable energy and environmental schemes to consumers across Great Britain as part of our E-Serve division. We have continued to engage with stakeholders across Scotland, despite the challenges of the pandemic. With a diverse board and leadership group, we have spent significant time over the past year meeting with energy experts and influential figures; including the Scottish Government, industry, innovators, and consumer groups.

## Risk Management

Our Risk Management strategy sets out how risk management should be embedded across Ofgem: how we should identify, administer, and manage risks. We recognise that exposure to risk can bring negative outcomes but also positive ones: our task is to manage not only the risks which lead to consumer detriment but also those opportunities which could expose consumers to the positive outcomes from better competition and regulation.

The Board draws on advice and support from the ARAC to meet its overall responsibility for the Risk Management Framework and to set our risk appetite. It approved a formal Risk Appetite Statement in September 2020 and a revised Risk Management Strategy in January 2021.



Our executive team considers our strategic risks and issues every month, and reviews related mitigation plans. Where risks sit outside of the Board-approved Risk Appetite Statement, clear actions are agreed to bring them back into tolerance. Independent audits of our risk management processes are carried out by our Internal Audit function on a two-to-three-year cycle.

In June 2020 our executive team agreed the need to strengthen our risk management processes and practices, having previously identified some weaknesses and inconsistencies in how it works.

Our internal assessment identified a number of specific areas that required improvement and we committed to a plan to improve our risk maturity by introducing more formal risk management framework and supporting this with strong

communications, dedicated risk staff and training to ensure that standardised best practices work effectively across all parts of the Department.

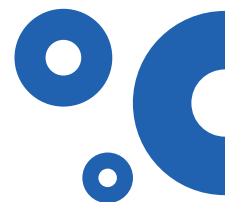
The June 2020 assessment categorised our risk maturity as being **Risk Aware**, the second point on a five-point scale from Risk Naive to Risk Enabled and agreed an organisational wide programme to improve our processes and practices. We set a two-stage improvement goal. The Stage One target was to improve our risk maturity to the **Risk Defined** position (point three on the five-point scale) by 30 Sept 2020 and to **Risk Managed** (point four) by 31 March 2021. The required control framework has been introduced to achieve these goals within the ambitious timetable for improvement set at the beginning of the year. Ofgem is now focussing on the embedding stage.

	Risk naive	Risk aware	Risk defined	Risk managed	Risk enabled
<b>Risk characteristics</b>	No formal approach developed for risk management	Scattered silo-based approach to risk management	Strategy and policies in place and communicated.  Risk appetite defined	Enterprise approach to risk management developed and communicated	Risk management and internal controls fully embedded into the operations
		June 2020	Sept 2020	March 2021	

### Our risk assessment

During the year, the most significant risks identified and being mitigated were as follows:

Risk	Response
<b>EU Exit:</b> the risk of delay in negotiations resulting in minimal time for Ofgem to perform detailed planning for Fair Trade Agreement (FTA) implementation.	We worked with other HMG Departments to monitor progress on Brexit negotiations carefully and we managed our internal resources flexibly to ensure that we were able to respond effectively to deliver our work on FTA implementation when needed.
<b>Cyber attack or technology resilience failure in gas or electricity operators,</b> resulting in a local supply outage	We strengthened our joint Competent Authority with BEIS to monitor and support the industry's response to Cyber and Resilience risks.



Risk	Response
<p><b>Disruption of industry activities as a result of COVID-19</b>, leading to failure to meet regulatory obligations or detrimental outcomes for consumers.</p>	<p>We prioritised our work to focus resources in the most important issues and risks facing consumers, particularly in the early stages of the pandemic. We also liaised closely with the industry, and monitored its response to the pandemic to ensure risks to consumers were effectively managed.</p>
<p><b>Inability of industry to effectively operate due to COVID-19</b>, leading to regulatory obligations not being met, or detrimental outcomes for consumers.</p>	<p>We worked closely with industry to prioritise scrutiny over implementation of responses to contagion risks. This meant easing the monitoring of non-critical activities in some cases.</p>
<p><b>Vulnerability:</b> Major changes in the energy market and/or the nature of services offered have a disproportionate or unacceptable effect on vulnerable consumers.</p>	<p>We are following a clear strategy to ensure that we continue to protect vulnerable consumers as energy markets change, as referenced in our <a href="#">Consumer Vulnerability Strategy 2025</a>.</p>
<p><b>Security of supply.</b> An external (e.g. weather related) shock, unexpected technical failure or act of terrorism, which our arrangements fail to address leads to security of supply issues.</p>	<p>We maintain effective processes to monitor core industry risks and to ensure that industry participants have effective resilience plans in place to address these risks.</p>
<p><b>Aged or not fit-for-purpose IT systems and hardware</b> leading to IT service interruption for Ofgem staff and external parties using our systems.</p>	<p>We are reviewing, testing and strengthening our technology resilience plans and upgrading our IT infrastructure to migrate server based applications to cloud based services, and replacing older user devices with new hardware.</p>
<p><b>Supplier Failure:</b> Supplier failure results in significant disruption and harm to customers and / or the wider retail market.</p>	<p>We have heightened our monitoring of suppliers' financial and operational capabilities during the pandemic, to ensure we can spot and take steps to address issues early.</p>
<p><b>Information/Data Stewardship and Regulatory Compliance;</b> Unauthorised and/or inappropriate control or exposure of information or data bringing adverse impact on Ofgem, consumers, and other industry stakeholders.</p>	<p>We have introduced enhanced checks at entry and on an ongoing basis, which will in time reduce the likelihood and impact of disorderly supplier market exits. In addition, we have well established processes in place to ensure that a Supplier of Last Resort is appointed to prevent disruption when supplier failures occur.</p>
<p><b>Poor organisational capability and readiness</b> to meet needs of changing energy market.</p>	<p>We have embarked on an ambitious internal transformation programme, to ensure that Ofgem develops to provide a strong response to the evolving priorities of consumers, industry and the environment.</p>
<p><b>Staff productivity and effectiveness</b> affected by lower employee wellbeing and engagement due to the enforced home working during the global pandemic.</p>	<p>We introduced a range of measures to strengthen staff engagement during the pandemic and to ensure employees have access to enhanced support for their wellbeing.</p>



## Internal Audit Assurance Opinion

Our Internal Auditor, Mazars LLP, completed an agreed schedule of reviews throughout the year. These were identified through risk based Internal Audit planning and interviews with Ofgem management and the Audit and Risk Assurance Committee.

The Internal Audit programme comprised 10 audits, and delivered 8 reports providing 'Adequate Assurance', 1 with 'Limited Assurance' and 1 with 'Substantial Assurance'.

The reviews recommended a total of 6 high priority recommendations and 71 other recommendations. We monitored implementation of the resulting actions and 96% of the actions open during the year had either been satisfactorily addressed by 31st March 2021 or remained within due-dates agreed in the audit reports.

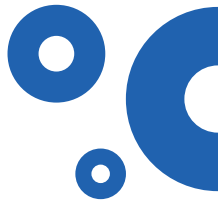
Mazars' Annual Audit Opinion provided moderate assurance over the framework of governance, risk management, and control operating in Ofgem. Specifically, the opinion confirmed that some improvements are required to enhance the adequacy and effectiveness of Ofgem's framework of governance, risk management and control. It noted a positive trajectory of progress in internal control activities over the course of the year, and highlighted weaknesses and exceptions through its audit work, although none were considered fundamental. A number of the 'Adequate' assurance opinions provided within the individual internal audit reports were contingent on the positive trajectory of work that has been referred to and it will be important for Ofgem to ensure it continues to implement its recommendations in a timely manner to avoid an increase in unfavourable assurance opinions in future years.

## Additional sources of assurance

In addition to the Annual Assurance Opinion from Internal Audit, we perform an internal assessment of Ofgem's control environment. Each Director is responsible for completing an annual Statement of Assurance, providing assurance that Ofgem's management systems are being applied consistently and effectively across their respective departments.

The Statement of Assurance assessment covers 33 key internal controls. This year, the main conclusions of the review included:

- Substantial improvement in Ofgem's approach to the management of risk.
- Corporate Services transformation has made some progress in strengthening the support offered to the rest of Ofgem and in building stronger financial, people management and digital capabilities across the Department, although further strengthening is needed.
- Some deficiencies in finance and HR systems and processes remain and should be addressed through a combination of internal improvements and alignment with government plans for standardisation and improvement of finance and HR systems.
- Significant improvements have been made in evidencing poor practices in data handling, and tackling non-compliance with associated Ofgem policies, resulting in a more accurate view of compliance than previously available. Onward focus is to apply key recommendations from the DPO and Internal Audit, and with support from the recently recruited Chief Data Officer to ensure effective control over data.



## Whistleblowing

Ofgem internal whistleblowing policy is a process for staff to raise any whistleblowing concerns and supports a culture where employees feel confident to speak up about issues of concern. It aligns with the recommendations and good practice published by the Civil Service and Public Concern at Work.

One issue was raised under this policy during the year.

## Complaints to the Parliamentary Ombudsman

No cases were referred to the Parliamentary Ombudsman during the year.

## Conclusion

A huge amount of work was done over the year to strengthen Ofgem's governance, risk management and control framework, which I am pleased has resulted in an improvement in our overall Internal Audit Assurance Opinion.

Nonetheless, it is recognised that most of the focus has been on getting the right processes and tools in place. There is more work to do to embed the new arrangements and a culture of compliance across the organisation, as well as further areas – such as project management – where we have identified the need for additional improvements in the coming year. I am confident that these improvements will ensure we continue to strengthen our capability to deliver value for money for, and protect the interests of, consumers.

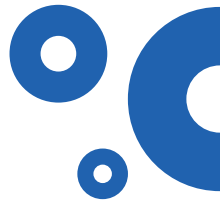
**Jonathan Brearley**  
Chief Executive

**12 July 2021**





# Remuneration and Staff Report



# Remuneration and staff report

## Service contracts

The Constitutional Reform and Governance Act 2010 requires Civil Service appointments to be made on merit through fair and open competition. The Recruitment Principles published by the Civil Service Commission specify the circumstances when appointments may be made otherwise.

Unless otherwise stated below, the officials covered by this report hold appointments which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Further information about the work of the Civil Service Commission can be found at <https://civilservicecommission.independent.gov.uk>

## Remuneration Policy

The remuneration of all employees is set out in their contracts and is subject to annual review in line with awards agreed by Cabinet Office and, for senior civil servants, as recommended by the Senior Salaries Review Body. Apart from the Chair, our senior employees are permanent members of staff. None of them have a notice period longer than six months.

Each Senior Leadership Team employee is eligible to participate in a bonus scheme that is in line with Cabinet Office guidelines. The bonus is based on the individual's performance. Bonus payments are non-consolidated and non-pensionable.

## Remuneration (including salary) and pension entitlements

The following sections provide details of the remuneration and pension interests of the most senior management (i.e. Board members) of the department.

## Remuneration (salary, benefits in kind and pensions - audited)

During the year, Ofgem undertook a senior restructure, with the aim of a flatter, de-layered leadership. The new Director roles have increased corporate leadership responsibilities working together through the Executive Committee (ExCo).

## Single total figure of remuneration

	Salary (£000)		Bonus payments (£000)		Benefits in kind (to nearest £100)		Pension benefits (to nearest £1,000)		Total (£000)	
	2020-21	2019-20	2020-21	2019-20	2020-21	2019-20	2020-21	2019-20	2020-21	2019-20
<b>Members of the Executive of Ofgem<sup>6 7</sup></b>										
<b>Jonathan Brearley<sup>8</sup></b> Chief Executive	185-190	155-160	15-20	5-10	-	-	108,000	92,000	305-310	255-260
<b>Akshay Kaul</b>	115-120	-	10-15	-	-	-	46,000	-	170-175	-
<b>Amana Humayun<sup>9</sup></b>	85-90	-	-	-	-	-	36,000	-	120-125	-
<b>Anthony Pygram<sup>10</sup></b>	70-75	-	-	-	-	-	36,000	-	105-110	-
<b>Cathryn Scott</b>	120-125	-	15-20	-	-	-	64,000	-	195-200	-
<b>Charlotte Ramsay<sup>11</sup></b>	0 - 5	-	-	-	-	-	2,000	-	5-10	-
<b>Euan McVicar</b>	130-135	-	-	-	-	-	52,000	-	180-185	-
<b>Frances Warburton<sup>12</sup></b>	85 - 90	-	-	-	-	-	34,000	-	120-125	-
<b>Mark Wiltsher<sup>13</sup></b>	95-100	-	5-10	-	-	-	38,000	-	140-145	-
<b>Mary Starks<sup>14</sup></b>	70-75	165-170	-	0-5	-	-	29,000	64,000	100-105	235-240
<b>Neil Kenward</b>	100-105	-	-	-	-	-	133,000	-	230-235	-
<b>Patricia Dreghorn<sup>15</sup></b>	105-110	-	15-20	-	-	-	42,000	-	160-165	-
<b>Philippa Pickford</b>	85-90	-	-	-	-	-	34,000	-	115-120	-
<b>Priya Brahmhatt-Patel<sup>16</sup></b>	15-20	-	-	-	-	-	29,000	-	45-50	-
<b>Richard Smith<sup>17</sup></b>	10-15	-	-	-	-	-	5,000	-	15-20	-
<b>Simon Wilde<sup>18</sup></b>	150-155	-	5-10	-	-	-	20,000	-	175-180	-
<b>Stephanie Broadribb</b>	95-100	-	10-15	-	-	-	39,000	-	145-150	-
<b>Non-executive members of the Authority</b>										
<b>Martin Cave</b> Chair	160-165	160-165	-	-	-	-	-	-	160-165	160-165

<sup>6</sup> Where directors were in post in 2019-20 but were not considered part of the management structure at that time, comparative figures are not required to be disclosed.

<sup>7</sup> In addition, Anna Rossington took up the role of Interim Director of Retail in February 2021

<sup>8</sup> Annual equivalent basic salary in 2019-20 for Executive Director role (excluding performance pay) is £150,000 - 155,000 and for Chief Executive role (excluding performance pay) is £180,000 - £185,000.

<sup>9</sup> Left Ofgem in January 2021

<sup>10</sup> Left Ofgem in November 2020, and received a total compensation payment of £230,000 - £235,000

<sup>11</sup> Joined Ofgem in February 2021

<sup>12</sup> Left Ofgem in December 2020, and received a total compensation payment of £55,000 - £60,000

<sup>13</sup> Served on ExCo between April 2020 and January 2021

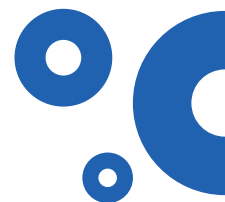
<sup>14</sup> Left Ofgem in September 2020, and received a total compensation payment of £45,000 - £50,000

<sup>15</sup> Left Ofgem in January 2021

<sup>16</sup> Joined Ofgem in January 2021

<sup>17</sup> Joined Ofgem in February 2021

<sup>18</sup> Joined ExCo in December 2020



Remuneration of other non-executive members of the Authority	2020-21		2019-20	
	Honorarium	Allowance	Honorarium	Allowance
Paul Grout	£20,000	£3,000	£20,000	£3,000
Christine Farnish	£20,000	£3,000	£20,000	£3,000
Lynne Embleton	£20,000	-	£20,000	-
John Crackett	£20,000	-	£20,000	£1,500
Ann Robinson <sup>19</sup>	£10,500	-	£20,000	-
Myriam Madden <sup>20</sup>	£20,000	£3,000	£5,000	-
Barry Panayi <sup>21</sup>	£20,000	-	£860	-

Remuneration of members of the Enforcement Decision Panel		
	2020-21 (£'000)	2019-20 (£'000)
Megan Forbes	40-45	35-40
Amelia Fletcher	5-10	0-5
Elizabeth France	0-5	5-10
Andrew Long	0-5	5-10
Dr Ulrike Hotopp	10-15	5-10
Ali Nikpay	0-5	5-10
Dr Philip Marsden	5-10	0-5
Peter Hinchliffe	5-10	10-15

<sup>19</sup> Left Ofgem in September 2020

<sup>20</sup> Appointed in January 2020

<sup>21</sup> Appointed in March 2020



## Salary

“Salary” includes gross salary and any other allowance to the extent that it is subject to UK taxation.

## Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the Department and treated by HM Revenue and Customs as a taxable emolument.

## Bonuses

Bonuses are based on performance levels attained and are made as part of the appraisal process. Bonuses relate to the performance in the year in which they become payable to the individual. The bonuses reported in 2020-21 relate to performance in 2019-20 and the comparative bonuses reported for 2019-20 relate to the performance in 2018-19.

In 2020-21 there were 777 staff (2019-20 there were 697) who received a bonus. The average bonus payment was £1,336.26 (in 2019-20 it was £1,277.84) and the total amount paid in bonuses equalled £1,038,276.88 (2019-20 £890,651.12). Three individuals received the largest bonus of £15,000 (2019-20: three individuals received the largest bonus payment which was £12,500)

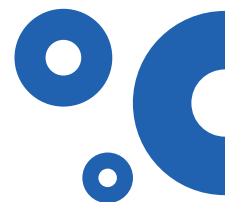
## Pay multiples

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the organisation’s workforce.

The banded remuneration of our highest-paid director in the financial year 2020-21 was £200-205,000 (2019-20: £185,000-190,000). This was 5.3 times (2019-20: 4.7) the median remuneration of the workforce, which was £38,454.50 (2019-20, £40,009).

In 2020-21, none (2019-20: none) of Ofgem’s employees received remuneration in excess of the highest-paid director. Remuneration ranged from £18,182 to £205,000 (2019-20: £18,182 to £190,000).

Total remuneration includes salary, non-consolidated performance-related pay, and benefits-in-kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.



## Pension Benefits (audited)

	Accrued pension at pension age as at 31/3/21 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31/3/21	CETV at 31/3/20	Real increase in CETV
Officials	£000	£000	£000	£000	£000
<b>Jonathan Brearley</b> Chief Executive	40 - 45 plus a lump sum of 70 - 75	5 - 7.5 plus a lump sum of 2.5 - 5	633	540	62
<b>Akshay Kaul</b>	10 - 15	2.5 - 5	120	86	22
<b>Amana Humayun</b>	15 - 20	0 - 2.5	151	133	14
<b>Anthony Pygram</b>	40 - 45 plus a lump sum of 115 - 120	0 - 2.5 plus a lump sum of 0 - 2.5	941	911	23
<b>Cathryn Scott</b>	40 - 45	2.5 - 5	636	571	38
<b>Charlotte Ramsay</b>	0 - 5	0 - 2.5	1	0	1
<b>Euan McVicar</b>	5 - 10	2.5 - 5	93	56	26
<b>Frances Warburton</b>	15 - 20	0 - 2.5	207	174	20
<b>Mark Wiltsher</b>	20 - 25	0 - 2.5	373	332	23
<b>Mary Starks</b>	5 - 10	0 - 2.5	89	67	14
<b>Neil Kenward</b>	30 - 35 plus a lump sum of 55 - 60	5 - 7.5 plus a lump sum of 10 - 12.5	483	368	95
<b>Patricia Dreghorn</b>	10 - 15	2.5 - 5	157	122	22
<b>Philippa Pickford</b>	25 - 30 plus a lump sum of 45 - 50	0 - 2.5 plus a lump sum of 0 - 2.5	396	363	16
<b>Priya Brahmhatt-Patel</b>	25 - 30	0 - 2.5	323	295	18
<b>Richard Smith</b>	0 - 5	0 - 2.5	3	0	2
<b>Simon Wilde</b>	5 - 10	0 - 2.5	115	96	11
<b>Stephanie Broadribb</b>	0 - 5	0 - 2.5	42	15	19



## Civil service pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or **alpha**, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service joined **alpha**. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections: 3 providing benefits on a final salary basis (**classic, premium or classic plus**) with a normal pension age of 60; and one providing benefits on a whole career basis (**nuvos**) with a normal pension age of 65.

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under **classic, premium, classic plus, nuvos** and **alpha** are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 will switch into **alpha** sometime between 1 June 2015 and 1 February 2022. All members who switch to **alpha** have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave **alpha**. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and **alpha** the figure quoted is the combined value of their benefits in the two schemes.) Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (**partnership** pension account).

Employee contributions are salary-related and range between 4.6% and 8.05% for members of **classic, premium, classic plus, nuvos** and **alpha**. Benefits in **classic** accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement.

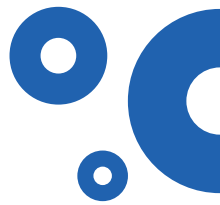
For **premium**, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike **classic**, there is no automatic lump sum.

**Classic plus** is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 worked out as in **premium**. In **nuvos** a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. Benefits in **alpha** build up in a similar way to **nuvos**, except that the accrual rate is 2.32%. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The **partnership** pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 8% and 14.75% (depending on the age of the member) into a stakeholder pension product chosen by the employee from the appointed provider - Legal & General. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.5% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of **classic, premium and classic plus**, 65 for members of **nuvos**, and the higher of 65 or State Pension Age for members of **alpha**. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages.)

Further details about the Civil Service pension arrangements can be found at the website [www.civilservicepensionscheme.org.uk](http://www.civilservicepensionscheme.org.uk)



## Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

## Real increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

## Compensation for loss of office (audited)

Three members of ExCo left under Voluntary Exit terms last year. The cumulative compensation payment (including pay in lieu of notice, taxable and non-taxable exit costs) was £345,000.

None left under Voluntary Redundancy terms.



## Staff report

### Average number of people employed (audited)

The average number of whole-time equivalent people employed during the year was:

			2020-21	2019-20
	Permanently employed staff	Others	Total	Total
Regulatory	375	20	<b>395</b>	392
E-Serve	329	94	<b>423</b>	288
Operations	308	61	<b>369</b>	250
<b>Total</b>	<b>1,012</b>	<b>175</b>	<b>1,187</b>	<b>930</b>

There was an average of 43.5 whole-time equivalent people in the SCS grade during the year. Of these 28.1 were in payband 1, 14 in payband 2, and 1.4 in payband 3.

### Staff costs (audited)

Staff costs comprise			2020-21	2019-20
	Permanently employed staff	Others	Total	Total
Wages and salaries	45,775	11,741	<b>57,516</b>	48,233
Social security costs	5,163	467	<b>5,630</b>	4,901
Other pension costs	11,813	1,098	<b>12,911</b>	11,023
Other staff costs	235	22	<b>257</b>	610
Apprenticeship Levy (tax expense)	231	3	<b>234</b>	199
<b>Total</b>	<b>63,217</b>	<b>13,331</b>	<b>76,548</b>	<b>64,966</b>

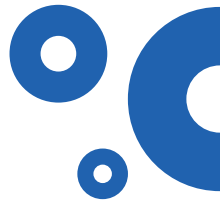
The Principal Civil Service Pension Scheme (PCSPS) and the Civil Servant and Other Pension Scheme (CSOPS) – known as “alpha” – are unfunded multi-employer defined benefit schemes but Ofgem is unable to identify its share of the underlying assets and liabilities.

The scheme actuary valued the PCSPS as of 31 March 2016. You can find details in the [resource accounts of the Cabinet Office: Civil Superannuation](#).

For 2020-21, employers' contributions of £12,729,324 were payable to the PCSPS (2019-20 £10,806,569) at one of four rates in the range 26.6% to 30.3% of pensionable earnings, based on salary bands.

The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2020-21 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a **partnership** pension account, a stakeholder pension with an employer contribution. Employers' contributions of £175,202.30 were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and ranged from 8% to 14.75%.



Employers also match employee contributions up to 3% of pensionable earnings. In addition, employer contributions of £6,798, 0.5% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of these employees.

Contributions due to the partnership pension providers at the balance sheet date were zero. Contributions prepaid at that date were zero.

Zero persons (2019-20: zero persons) retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to nil (2019-20: nil).

## Consultancy expenditure

Our expenditure on other consultancy services in 2020-21 was £18.7 million, per note 3 of the accounts (2019-20: £15.8 million; 2018-19: £18.0 million). We attempt to minimise our reliance on external support by running targeted recruitment campaigns for the skills required to deliver our strategy. We continue to use professional service support to obtain access to specialists who provide professional or legal advice in relation to the delivery of our portfolio of work, as well as those that provide specialist delivery support where it is not economical to maintain this expertise in-house.

## Off-payroll appointees

There were 10 off-payroll worker engagements as at 31 March 2021 earning £245 per day or greater, five engagements existed for less than a year and five existed for between 1 and 2 years.

During 2020-21, 10 engagements were subject to off-payroll legislation and determined as in-scope of IR35. One was subject to off-payroll legislation and determined as out-of-scope of IR35. One engagement was reassessed for compliance or assurance purposes during the year and there was no change to IR35 status following review.

There were no off-payroll engagements of board members and/or senior officials with significant financial responsibility during the financial year.

## Trade union facility time

14 employees were relevant union officials during 2020-21 (14 full time equivalent). All 14 employees spent 1-50% of their working hours on facility time. The total cost of facility time during the year was £6,479 for a total pay bill of £76.058 million (0.008% of the total pay bill spent on facility time). Time spent on paid trade union activities as a percentage of total paid facility time hours was 42%.

Information on current off-payroll appointees is at Appendix III. Information on trade union facility time can be found in Appendix IV.



## Reporting of civil service and other compensation schemes – exit packages (audited)

Exit package cost band	2020-21			2019-20		
	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
<£10,000	-	1	1	-	1	1
£10,000 - £25,000	1	1	1	1	10	11
£25,000 - £50,000	-	1	1	-	11	11
£50,000 - £100,000	-	2	2	-	5	5
£100,000 - £150,000	-	-	-	-	-	-
£150,000 - £200,000	-	-	-	-	-	-
£200,000 - £250,000	-	1	1	-	-	-
Total number of exit packages	1	5	6	1	27	28
<b>Total cost £000</b>	<b>16</b>	<b>413</b>	<b>413</b>	<b>16</b>	<b>868</b>	<b>884</b>

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme (CSCS), a statutory scheme made under the Superannuation Act 1972. The table above shows the total cost of exit packages agreed and accounted for in 2020-21 (2019-20 comparative figures are also given). £413,000 exit costs were paid in 2020-21, the year of departure (2019-20 comparatives).

Where the department has agreed early retirements, the additional costs are met by the department and not by the Civil Service pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

Staff composition	Women		Men	
All employees	544	46%	642	54%
SCS Payband 1	14	45%	17	55%
SCS Payband 2	7	47%	8	53%
SCS Payband 3	0	0%	1	100%



## Employee involvement

This year our staff engagement survey received a response rate of 82%, and an engagement index of 65%, an increase of one percentage point on the previous year. Our staff continue to find their roles interesting (90%), believing their work gives them a sense of personal accomplishment (77%), and would recommend Ofgem as a great place to work (70% - up three percentage points from the previous year).

## Equal opportunities policy

We recruit staff on merit through fair and open competition, in line with the Civil Service recruitment principles governed by the Civil Service Commission.

This ensures fair and open competition, regardless of:

- race;
- sex;
- sexual orientation;
- age;
- marital status;
- disability;
- religion and belief;
- gender reassignment;
- pregnancy and maternity; or
- working pattern.

All recruitment activity is subject to audit by the Civil Service Commission to ensure that we comply with the guidance set out in the recruitment principles.

## Diversity and Inclusion

In our dual role as an employer and a regulator, we are committed to meeting our legal obligations and promoting equality and diversity among our workforce, in the way we work and in the industry we regulate.

We promote equality and diversity at work: in recruitment, employment, training and career development. Nobody should suffer discrimination because of age, disability, gender reassignment,

pregnancy or maternity, race, religion or belief, sex or sexual orientation. We do not tolerate discrimination, bullying or harassment. Our score for inclusion and fair treatment in the 2020 staff engagement survey was 83%. In 2020-21 we further enhanced our support for diversity including renewing our disability confident status, launching a women in leadership programme and reducing potential for bias in recruitment and selection through the introduction of blind shortlisting. We have engaged a third party to conduct an independent review of our diversity strategy and programmes.

In addition, Ofgem has continued to support our diversity networks covering women, LGBT+, ethnicity and disability.

In 2020-21 we continued to provide diversity and inclusion training to staff. This is part of our commitment to ensuring that in everything they do our staff understand and fulfil their obligations under the Equality Act. As at the 31 March 2021:

- 4.3% (2019-20: 3.1%) of staff were known to have a disability.
- 46% (2019-20: 47%) of staff were women.
- 43% (2019-20: 43%) of staff in managerial grades (Band D to SCS3) were women.
- 45% (2019-20: 46%) of Senior Civil Service members in Ofgem were women.
- 19% (2019-20: 19%) of staff were known to be of ethnic minority origin.
- 35% (2019-20: 35%) of staff known to be of ethnic minority origin were in managerial grades (Band D to SCS3).

Our policy statement on equal opportunity is available to all employees.

Ofgem's gender pay gap data can be found at <https://gender-pay-gap.service.gov.uk/Employer/LkznjGE/2020>

Diversity and Inclusion formed a key aspect of our engagement this year. We became a partner of the BBC's 50/50 Equality Project, beginning to monitor and embed equality in representation across our content and engagement. We also launched the Diversity in Speakers Directory alongside Energy UK

and Citizens Advice, promoting external speakers in energy from ethnic minority communities. In April 2021, we proudly partnered with Energy UK to host our first annual Diversity, Equality and Inclusion conference with the aim of driving positive changes across the energy sector.

## Investing in learning and development

We really value our people. Giving them opportunities to learn new skills and develop their careers helps us retain them and attract new people. Our budget allocation process provides an amount per employee for learning and development activity. These activities range from e-learning through to support towards professional and academic qualifications. Transformation of Learning and Organisational Development function is under way with a strategy being written, ensuring fit for purpose offerings and products are in place to support the successful delivery of the target operating model and transformation programme, with a focus on 5 key pillars/development areas; a combination of technical and behavioural development with an additional 5 pillars that are aligned to Learning and organisational development requirements – for example Diversity and Inclusion. Designing and embedding a learning and development culture at Ofgem with learning being fluid, flexible, easily accessible and measurable of ROI both on individuals, teams and the whole organisation.

## Community engagement

We actively support employees who commit their own time or money to help charities, or other community or voluntary activities. For example, we might grant special leave to someone acting as a school governor, magistrate, employment-tribunal panel member, or someone with regular volunteering activity. We continue to work with Career Ready and have staff giving 16–19-year-olds one-to-one support and guidance through a mentoring scheme. In 2018 we also trialled working with the Princes Trust in our Glasgow office. The success of this trial has seen E-Serve commit to a continued relationship by providing mentoring and work experience to those seeking opportunities through the work of the Princes Trust.

In London, we have continued to develop our community engagement work with the Bromley-by-Bow Centre (BBC). The BBC is a local charity providing community support, learning and wellbeing to residents within Tower Hamlets. In Glasgow, we have engaged with the Simon Community. The Simon Community focusses on combatting the causes and effects of homelessness.

## Promoting health and safety at work

We take our legal responsibility for the health, safety and welfare of our employees seriously. This includes those working with or for us, and anyone else using our premises. We aim to prevent any accident involving personal injury, illness or damage.

We comply with the Health and Safety at Work Act 1974 and other relevant legislation. Our health and safety policy statement describes our responsibilities and aims in more detail. This is available to all employees.

Within our offices in Commonwealth House and Canary Wharf, we have been able to provide working environments to support the wellbeing of staff. This includes the provision of different working environments, sit/stand desks and other specialist equipment.

## Days lost because of absence

In 2020-21, we lost an average of 2.7 days a year per employee (2019-20: 4.6 days). This compares favourably with the public sector average of 8.4 days a year per employee.

**Jonathan Brearley**  
Chief Executive

**12 July 2021**

