HC 432

2020-21

Office of Gas and Electricity Markets (Ofgem)

Annual Report and Accounts

ofgem

Making a positive difference
for energy consumers

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Annual Report and Accounts

(For the year ended 31 March 2021)

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Chair's foreword
Martin Cave

The past year has witnessed profound changes taking place across society and in the energy industry, as we have risen to the challenge of supporting each other through the pandemic.

I want to make clear my own, and the Ofgem Board's, gratitude for the work that has been carried out by energy companies to support energy consumers throughout the pandemic, especially by frontline staff working to ensure our homes and businesses continue to receive the energy we rely on as an essential service.

We are equally indebted to our own staff, who have worked very hard and effectively throughout the year, largely remotely from our offices in Cardiff, Glasgow and London, and in many cases in challenging conditions.

Ofgem, as a regulator, has two equally important challenges - to protect today's consumers to make sure they get a fair deal, and to protect consumers in the future by tackling climate change. The pandemic and the urgent need to decarbonise our energy system continue to bring these challenges into sharper focus.

The Ofgem Board is fully committed to net zero. In our draft Forward Work Programme for 2021-22, we outlined five strategic programmes that set out how we will help deliver net zero at the lowest costs, to help shape the future energy system and deliver real change in the interests of consumers.

Despite the restrictions on mobility this year, the Board and I have continued to step up engagements virtually to keep connected with consumer and stakeholder issues across Great Britain, as well as hold valuable sessions with representatives from the UK and devolved governments.

We have also embarked on an ambitious internal transformation plan, recognising that as the sector transforms around us, we must also change. I'm confident that the changes we are making will help us build a faster and better 21st century energy regulator.

In the last year, Ann Robinson stepped down from the Ofgem Board. Ann was a highly valued member of the Board who brought significant experience in energy and consumer policy.

We thank Ann for her contribution and dedication to her role as an energy consumer champion – and wish her well for the future.

As we look forward to the year ahead, there is much excitement about the UK hosting the United Nations Climate Change Conference of the Parties - COP26. This will be an important opportunity to demonstrate climate leadership, and Ofgem is working closely with government and overseas regulators on initiatives to create an enduring legacy and deliver 'real world action' up to and following the conference.

I look forward to working with you all to continue to support consumers through this challenging time – and to seize the opportunities in the crucial year ahead.

Martin Cave

Martin Cave
Chair

Chief Executive Officer's Report
Jonathan Brearley

It has now been just over a year since I took up the role of Chief Executive at Ofgem. It has been an extraordinary year – one that has taken its toll on us all in so many ways.

I am enormously proud of our work with government and industry to protect consumers during the pandemic – and, once again, I would like to pay tribute to all those working in the energy industry throughout this period. I've witnessed a real spirit of collaboration and a focus on what really matters – protecting consumers, especially the vulnerable, and ensuring essential works are carried out to maintain energy supplies.

Our principal objective remains the same: to protect the interests of consumers today and in the future. There are a number of key actions we have taken to achieve this over the last year.

Protecting consumers

Many of the strengthened protections we put in place at the beginning of the pandemic have been made permanent, such as requirements for suppliers to put customers in debt on appropriate repayment plans based on ability to pay, and rules for suppliers to offer emergency credit to customers struggling to top up their prepayment meter. We are also consulting on proposals to limit the amount of customer credit balances suppliers can hold, which could result in as much as £1.4billion being returned to consumers.

Across the energy system, we have continued to protect consumers through our ongoing compliance and enforcement actions, as well as ensure safeguards are in place for vulnerable consumers, in order to drive the high standards and services that consumers rightly expect of an essential service.

Maintaining security of supply and investing for the future

We have worked closely with the sector to ensure security of supply has been maintained throughout the pandemic and continuing to monitor and assess the performance of gas and electricity Operators of Essential Services in our joint role as Competent Authority with the Department for Business, Energy & Industrial Strategy.

In December we published our Final Determinations for the electricity transmission and gas network price controls. They provide £30 billion in upfront investment for a greener, fairer, energy system, with unprecedented additional funding available for future green energy projects, at the same time as keeping costs as low as possible for consumers and maintaining world class levels of service and reliability.

As we look forward, there is a real momentum behind plans for a green recovery, we have recently confirmed £300 million of investment in over 200 low carbon projects, to get Britain ready for more electric transport and heat. This is in addition to £40 billion of investment in our energy networks, for safe, secure and clean energy, with more to follow in 2022.

Facilitating net zero at lowest cost to consumers

It was fantastic that we have recently seen a new record for the greenest day ever for electricity generation, when power plants in Great Britain only produced 39g of carbon dioxide for every kilo-watt hour of electricity; the lowest since records began in 1935[1].

But we know that changes like the electrification of heat and transport, mass uptake of electric vehicles and deployment of alternative sources of heat will pose major challenges and require whole system changes and new energy investments. Equally, these changes will provide incredible opportunities to move to a more flexible, smarter, more decentralised energy system with lower costs, new products and better outcomes for consumers.

In our Forward Work Programme for 2021-22, we outlined five strategic programmes where we believe change is required and where we can have the greatest impact in enabling the net zero transition in the interests of energy consumers.

One of the five programmes focuses on the need to ensure that the governance of the energy system is fit for purpose. That's why this year we recommended to government setting up an Independent System Operator to lead the UK's green transition, fully separating out the running of the electricity system from National Grid.

[1] National Grid ESO (39% wind power, 21% solar power, 16% nuclear power)

We have also continued to run government schemes that support both decarbonisation and some of the most vulnerable in society.

After almost ten years the Non-Domestic Renewable Heat Incentive (NDRHI) scheme, which Ofgem administers on behalf of government, has now closed to new applicants. It has played a key role in helping to begin the challenging process of decarbonising heat generation, and we are now working with government on the development of two new green heat schemes which will build on the NDRHI scheme's progress.

Transforming Ofgem

None of this work would have been possible without the dedication, commitment and expertise of Ofgem's people, who I am proud to work alongside. Of course, we know that to keep pace with a sector that is transforming so rapidly, it is vital that we not just continue to do the things we do well, but also adapt to meet the challenges of the future.

As a key part of this transformation, we have redoubled our efforts to ensure that Ofgem – as well as the wider energy sector – have diverse and inclusive workforces that better represent the consumers we all serve. Diversity and Inclusion has therefore been a key focus of our engagement this year. We became a partner of the BBC's 50/50 Equality Project with the aims of monitoring and embedding equality in representation across our content and engagement and launched the Diversity in Speakers Directory alongside Energy UK and Citizens Advice, a directory 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.

We have been enhancing our operational processes in areas such as finance, HR and risk management to provide stronger assurance that our work is well controlled and in line with best practices for the management of public funds. While these have resulted in positive improvements, there are areas of our governance, risk management and control framework which we plan to strengthen further in the coming year.

As part of these wider changes, we have been delighted to welcome a number of new colleagues to Ofgem over the last year, including Neil Kenward, Charlotte Ramsay, Richard Smith, Simon Wilde and Priya Brahmbhatt-Patel, who have all joined Ofgem's executive leadership team.

We have also said goodbye to a number of excellent former colleagues. While I cannot pay tribute to them all here, I do want to express particular thanks to Mary Starks, Patricia Dreghorn, Anthony Pygram, Frances Warburton, Euan McVicar, David Ashbourne and Carola Geist-Divver – all of whom have made an outstanding contribution to Ofgem's work on behalf of energy consumers.

The year ahead

Looking ahead, COP26 will be a crucial forum to steer the global effort to tackle the environmental challenge. Ofgem is determined to play its part, including by helping to bring together our international counterparts and industry to drive forward the net zero agenda.

We should all feel privileged to work in an industry that is at the cutting edge of delivering these important changes for people and the planet – and I look forward to working with you in the year ahead to make further progress.

Jonathan Brearley
Chief Executive

Performance Report

2020-21 Overview

Ofgem's new strategic framework

The energy system is undergoing a major transformation as we move to a net zero economy, with a rapid growth in renewable power, the electrification of cars, and the decarbonisation of heat, alongside the growing opportunities from a more flexible, data enabled system. Ofgem has an important role to play in leading this transition, delivering a smarter, greener energy system in the interests of energy consumers and the climate.

Building on the priorities set out in our 2019-23 **Strategic Narrative**, during 2020 we developed and published a new Strategic Framework. We sought stakeholder feedback through the development process, which confirmed high levels of support for the new strategic direction and priorities that we identified.

Formally adopted in December 2020, our **Strategic Framework** re-emphasised our core regulatory responsibility to protect consumers and deliver government environmental and social schemes, and set out five new strategic change programmes, where Ofgem can deliver the greatest impact to protect the interests of consumers and the climate. Our strategic change programmes are:

Low Carbon Infrastructure
To enable investment in **low-carbon infrastructure** at a fair cost.

Full-chain Flexibility
To deliver **full-chain flexibility** in how we generate, use and store energy.

Future of Retail
To deliver a **future retail market** that works for all consumers and the planet.

Energy System Governance
To ensure **energy system governance**, including Ofgem, are fit for the future.

Data & Digitalisation
To unlock the benefits of **data and digitalisation.**

As with many public and private sector organisations, we significantly reprioritised our 2020-21 work programme in April 2020 due to the impact of the COVID-19 crisis. Our priority during this time was – and remains – to work with government, industry and consumer groups to protect consumers, especially the vulnerable. But we also continued to work to deliver wider and longer-term benefits to consumers as set out in this report.

Our commitments to protecting the interests of consumers and the climate are in line with the government's key energy and climate announcements and publications, including the Prime Minister's 10 Point Plan and the Energy White Paper with the Department for Business, Energy and industrial Strategy ('BEIS'), and we are working closely with government as they develop and implement their plans.

We have continued to deliver commitments that we made in our Decarbonisation Action Plan (the 'DAP'). We have also developed these into a more strategic approach by focusing on the changes needed to enable a decarbonised energy system through our strategic change programmes. Details of progress against actions are highlighted throughout this performance report.

Ofgem also continued to manage risks relating to cross border arrangements for the end of the transition period of the United Kingdom's (UK) withdrawal from the European Union (EU). Ofgem worked to ensure suitable contingencies were in place for electricity trading that went into effect when the UK left the Internal Energy Market at the end of 2020. We remain committed to working with European partners, government, and industry stakeholders to seek to maximise outcomes for energy consumers under the EU-UK Trade and Cooperation Agreement announced on 24 December 2020.

In late March we published our Forward Work Programme for 2021-22, which sets out the activities that we intend to deliver to support our strategic change programmes, as well as our enduring priorities.

Key achievements in 2020-21

Aggregated direct benefits – three-year average

Ofgem delivers significant value for energy consumers. Much of this cannot be easily quantified, but we aim to do so for the major decisions that we take. We expect that the major decisions we have taken in the previous three years will deliver over **£4.2 billion of direct benefits to consumers**. Ofgem's decisions have also enabled a range of investments which will support further decarbonisation of the energy sector.

Considering Ofgem's average cost of £108 million the correspondent cost-benefit ratio is 39. This means we expect to deliver on average £39 of benefit for every £1 of our costs.[2] Major decisions this year that we have quantified through a formal Impact Assessment include RIIO2 Final Determinations and Cap and Floor Variations.

3.2 million smart and advanced **smart meters** installed in the 2020 calendar year

More than **£10 million** made available through the Energy Redress Scheme for **fuel voucher support**

Consumer benefit of **£16.5 million** from prepayment meter warrant protections

Consumer benefit of **£1.5 million** from self-disconnection protections

Price cap and price protection refunds secured for over **1 million consumers**

- **Set a price control for gas and electricity transmission networks** that reduced allowed rates of return for network companies, saving consumers **£2.9bn** over the five year price control period, whilst also unlocking **£30 billion** of new investment to enable decarbonisation and ensure secure energy suppliers
- **Interconnector capacity increased to 6 gigawatts for electricity,** and will further increase to 7.4 gigawatts in 2021-22, helping to reduce carbon emissions and consumer costs
- **3.2 million smart and advanced meters installed in homes and small businesses (2020)** in total 23.6 million, enhancing consumer engagement to reduce consumers' bills and carbon consumption
- **The Innovation Link supported energy innovation** and shared insights with 18 regulators / bodies across the world
- **Support to industry during the COVID-19 crisis** - energy suppliers and shippers were able to defer around **£65m** of payments through Network Charge Deferral scheme
- **We published our review of energy system operation**, which considered whether the right governance framework is in place for the challenge of net zero - it recommended greater responsibilities for system operators, and called for independence of the system operator from transmission network owner
- **85 innovators used our 'Fast, Frank Feedback'** service to develop new products and services
- **As part of our work with BEIS and Innovate UK (Modernising Energy Data)**, we delivered three industry-facing Data Best Practice workshops with the Energy Systems Catapult
- **We issued guidance** and a call for energy companies to produce and publish their digitalisation strategies and action plans

[2] We use a three-year average to smooth out fluctuations in decision making from year to year. For further details, see the methodology section in the Consumer Impact Report 2019 p.42 https://www.ofgem.gov.uk/system/files/docs/2020/07/2020_cir_final.pdf

Detailed performance and achievements summary - 2020-21

In each section of the report, we have set out how the activities that we carried out during the year contributed to our new strategic programmes, in line with our principal objective to protect the interests of current and future energy consumers. Each section is further sub-divided by the consumer outcomes our activity has contributed to during 2020-21.

Low-carbon infrastructure

Through this strategic change programme our goal is to enable investment in **low-carbon infrastructure at a fair cost**. Below, we have detailed how our activities – both those that directly deliver towards our change programme, and our core regulatory activities – have delivered outcomes help us achieve this strategic goal.

Strategic value of RIIO-2 price controls take effect

Throughout 2020-21, we continued to work closely with stakeholders on the development of our second-generation price controls (RIIO-2). Ofgem manages a performance-based framework – RIIO – to set price controls for those who own and operate our electricity and gas network monopolies, to ensure that they can run the networks effectively, while delivering what customers need. The RIIO framework stands for Revenue = Incentives + Innovation + Outputs. For more information on the framework, please visit our website.

Price controls – introduction

£30bn upfront investment for a **greener fairer energy** system

£660m innovation funding for green energy and **consumers in vulnerable situations**

£3bn upfront funding for **green energy projects** and facilitating net zero

£2.3bn saved as cost of capital reduced, and changes made to allowances

£132m funding to support **consumers in vulnerable situations**

£10bn potential further funding for **future green energy** projects to help hit **net zero** emissions

£10 fall in network charges on bills from 2021

15,500 KM iron piping replaced with safer plastic

£60 paid to domestic consumers for every 24 hours off gas

Four RIIO-2 price controls went live in April 2021 covering:

- **gas distribution and transmission**
- **electricity transmission**
- **Energy System Operation (Refer to the Energy System Governance section for more details).**

Over the next price control period (2021-22 to 2025-26), we expect our Final Determinations for the gas distribution, gas transmission and electricity transmission sectors to deliver net benefits to consumers of up to £2.9 billion.

RIIO-2 includes 're-openers' and 'uncertainty mechanisms' which, for example, enable additional investment in projects that emerge during the price control period. Our re-openers windows ensure network companies invest efficiently and are able to adapt to changes in technology and policy, in particular, ensuring that they support the path to net zero, as it becomes clearer (DAP Action 1).

We are setting up the Strategic Innovation Fund to ensure that funding is focused on tackling the biggest challenges in the energy transition (DAP Action 2). In addition, we have allocated existing network innovation spending to enable trials of hydrogen in networks, to seek to enable hydrogen as a potential low-carbon energy system, and to inform Government decisions on heat (DAP Action 4).

We have also been developing, in consultation with the sector and other stakeholders, our guidance for the next electricity distribution price control (RIIO-2 ED) that will run from April 2023 to 2028. Distribution Network Operators ('DNOs'), which transport electricity around Britain's homes and businesses, will play a crucial role as they expand to manage new sources of demand for electric heating and transport needs, and as we see increased levels of electricity generation and storage by households and businesses.

Impact of and compliance with RIIO-1 price controls are identified

In March 2021, we published the 2019-20 performance and financial annual reports for electricity distribution, gas distribution electricity transmission and gas transmission network companies against our first generation RIIO-1 price controls.

We acknowledge that the overall costs to consumers of the RIIO-1 framework have been too high and that lessons and changes are required in terms of our approach to setting cost budgets, incentive targets, and the methodology for setting the returns that can be achieved by equity investors. We accept recommendations in the National Audit Office's (NAO) review of electricity networks in full, and significant progress has been made on their implementation through the design of the RIIO-2 controls, which were developed explicitly to address the weaknesses in the first generation of price controls.

Electricity networks offer value for money

Interconnectors

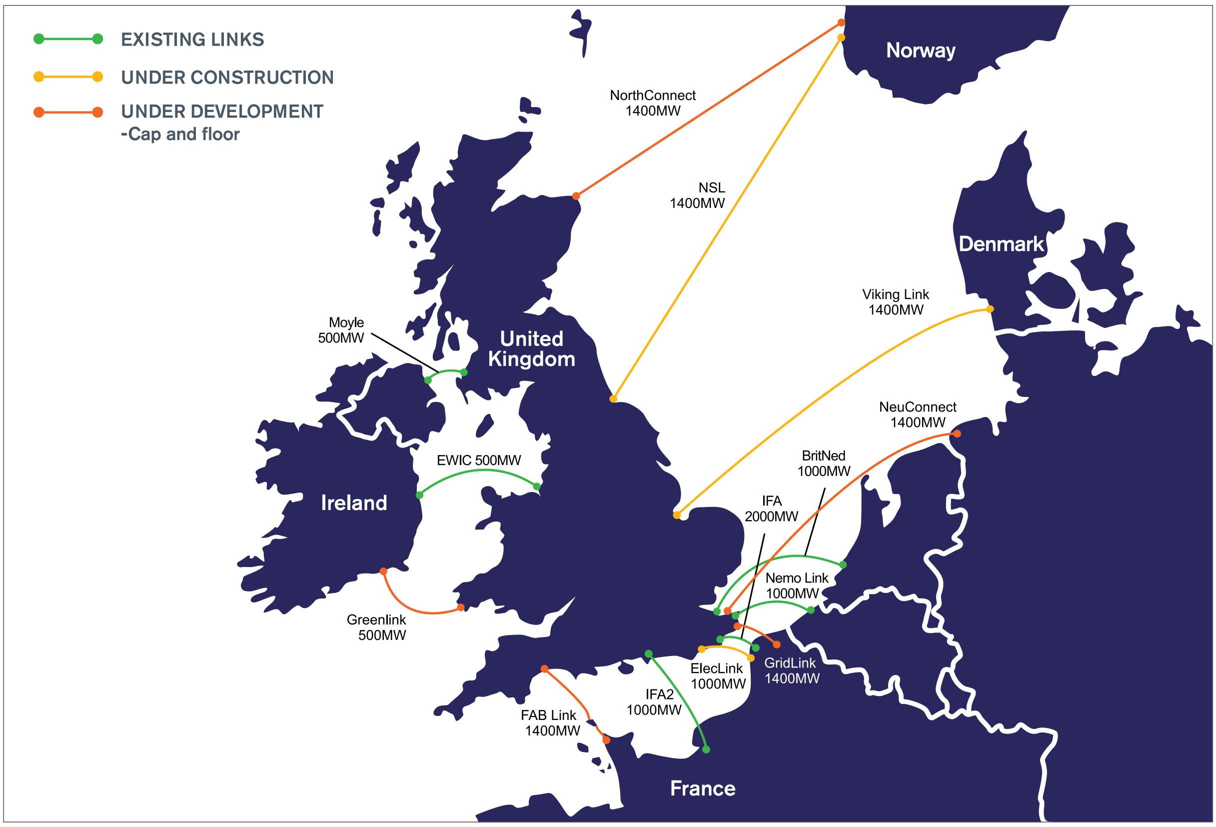
Interconnectors are a network of undersea cables, which allow us to exchange electricity with neighbouring countries. This flexibility helps keep costs low for consumers, supports security of supply, and can provide a useful source of low-carbon electricity. During the year, we considered an application to vary our 'Cap and Floor' regime from Greenlink and NeuConnect, which would allow them to attract alternative sources on financing to fund the construction and operation of their projects. We have previously estimated that the two projects seeking regime variations would generate around £891 million in Great Britain consumer benefits. Our approval of the variations is seeking to maximise delivery of these consumer benefits, while minimising additional risks for consumers. For more information on the Great Britain interconnector network, and the 'Cap and Floor' regime, please visit our website.

During the year, we also began a policy review to establish if there is a need for further interconnection capacity, beyond the links which already have approval. Initial work suggests the case for additional interconnection remains strong, and we will publish the findings of our review in the summer of 2021.

Offshore transmission

Ofgem continued to carry out tender processes for the ownership and operation of offshore transmission owner (OFTO) assets during the year. Competition created through our tender processes drives lower costs, delivering significant savings for consumers.

We are also exploring, with government and industry, opportunities for greater coordination to enable rapid expansion of an offshore grid at lowest cost (DAP Action 3). We commissioned the Electricity System Operator ('ESO') to conduct a review on the cost effectiveness of a coordinated approach, with Phase 1 published in December 2020 and we are also working with BEIS on its Offshore Network Transmission Review, to deliver a more coordinated approach to transmission by 2030.



Full-chain flexibility

Through this strategic change programme, our goal is **to increase flexibility across the energy supply chain in how we generate**, use and store energy. This will significantly develop our commitment to create a more flexible electricity system to help enable the costs effective integration of increasing renewable energy and ensure that consumers will benefit from the lowest cost transition to a reliable net zero system (DAP Action 4).

In addition, we will support roll out of electric vehicles – a key source of flexibility – reducing system costs and maximising the benefits to consumers (DAP Action 6 and 7).

Below, we have detailed how our activities – both those that directly deliver our change programme, and our core regulatory activities – have delivered outcomes that help us to achieve this strategic goal.

More consumers manage their energy flexibility through smart metering

Regulatory role

Ofgem provides regulatory oversight of the smart meter rollout by energy suppliers, so that more consumers can take advantage of the benefits and have a quality installation experience.

In response to the challenge of installing smart meters during the pandemic, in June 2020, we published an open letter to suppliers, setting out the Government's six-month rollout extension, in line with public health and Government guidance.

In June 2020, the Government published decision on a new regulatory framework that will continue to drive the smart meter rollout for domestic and smaller non-domestic premises, including annual installation targets to mid-2025. To support this, we published a decision in December 2020, for the reporting requirements that energy suppliers that will need to follow from July 2021.

We also published our annual price control in February 2021 for the Data Communications Company (the 'DCC'), which provides a monopoly licensed service for Great Britain-wide smart metering communication services. The price control is set to ensure that the DCC can continue to deliver both high-quality service while offering value for money and taking into consideration views from stakeholders.

Market-wide half-hourly settlement

Ofgem provides regulatory oversight of the smart meter rollout by energy suppliers, so that more consumers can take advantage of the benefits and have a quality installation experience.

Market-wide half-hourly settlement (MHHS) will strengthen incentives on retailers to develop and offer new tariffs and innovation that encourage and enable more flexible use of energy, for example: time of use tariffs, vehicle to grid solutions and battery storage. We published a final decision to introduce MHHS, based on the Design Working Group's Target Operating Model, in April 2021. Once in place, we expect that MHHS will bring very significant benefits to consumers by enabling an incentivising great system flexibility through demand side response. We also expect that MHHS will enhance competition between suppliers and other retailers, and support changes in consumer behaviour when considering tariffs.

Cost-effective net zero is supported through flexibility, while maintaining security of supply

Capacity markets

The Capacity Market ensures that sufficient electricity capacity is available to meet demand. It is intended to incentivise investment in more sustainable, low carbon electricity capacity at the least cost to consumers, and to ensure that our electricity supply is secure for the future.

In July 2020, we published an initial consultation on seven main changes to the Capacity Market Rules, including: improvements to the prequalification process, amendments to reporting requirements, and discussed wider market interactions. In September 2020, we published an informal consolidated version of the Capacity Market Rules, following amendments made by BEIS in July 2020. This will form the basis of a further consultation in 2021-22, ahead of a decision on rule changes.

Energy system operation

During the year, we introduced new incentives to promote and grow more active distribution system operators as part of the RIIO-2 electricity distribution price control methodology. These incentives have resulted in greater system efficiency by developing DSO flexibility markets, by enabling improved access to energy data and by better coordination between the Electricity System Operator and the distribution network operators ('DNO').

Improved coordination and standardisation between DNO flexibility markets has delivered a number of benefits to consumers. Lowered transaction costs have made these markets more accessible through improved access to data, decision making and investment decisions. Improved access to data and DNO flexibility markets has provided a catalyst to generate low-carbon solutions and for network companies to effectively manage growth in electrification of transport and heat.

Efficient and effective network changing arrangements are in place

Ofgem continued to work on two significant code reviews; the Access Charging Review and the Targeted Charging Review.

During the year, we worked with industry to identify options for charging reforms to improve network efficiency and support achieving net zero, as part of our Access Charging Review. The review aims to improve the signals sent to users about where it is most efficient for them to locate and the impact of their usage. This should result in more efficient investment decisions by renewable generation and demand, deferring the need for reinforcement and supporting achievement of net zero at least cost.

We also worked with industry to implement the Targeted Charging Review reforms, so that charging arrangements for generators and network operators remain compatible with the way the energy system – and energy system participants – are changing.

The changes will benefit consumers from April 2021 when the Embedded Benefit reforms are implemented, and then from April 2022, when the changes to Residual charges are implemented.

Future of Retail

Through this strategic change programme, our goal is **to deliver a future retail market that works for all consumers and the planet.** Below, we have detailed how our activities – both those that directly deliver towards our change programme, and our core regulatory activities – have delivered outcomes which help us to achieve this strategic goal.

Consumers pay a fair price for energy and benefit from rights and protections

COVID-19 response

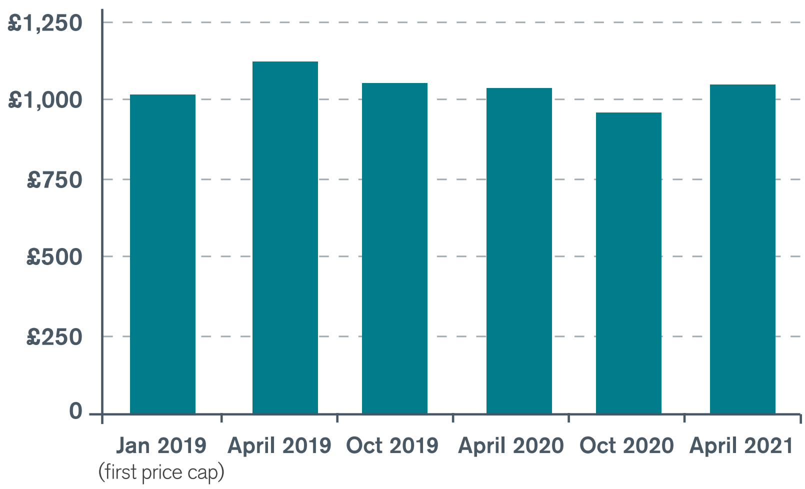
At the height of the COVID crisis, we gathered data from retail energy suppliers to understand what was happening in the market. We were interested to gather:

- financial information, to monitor the financial effects of COVID on suppliers, and
- consumer impacts, to understand how consumers were affected, for example, by debt.

In April 2020, we issued a new official request for information (an 'RFI') for weekly data from all active domestic and non-domestic suppliers, between April and July 2020[3].

This included questions on financial relief and payment holidays provided by suppliers to customers, direct debit cancellations and reductions, prepayment meter smart self-disconnections and emergency credit. All this information has helped us advise the Government's response to the pandemic, to alleviate the impacts on industry and customers. Jointly, with our quarterly Social Obligations Reporting data, the RFI has also informed our decision to strengthen protections for customers who are struggling to pay their energy bills.

Default tariff price cap



Price Cap Levels

1 April 2021 - £1,138
1 Oct 2020 - £1,042
1 April 2020 - £1,126
1 Oct 2019 – £1,143
1 April 2019 - £1,217
1 Jan 2019 - £1,104
(first price cap)

Ofgem has continued to operate the Default Tariff Price Cap (the 'price cap'), with the aim of ensuring consumers unable to or choosing not to switch, do not experience unfair pricing.

In August 2020, Ofgem decided that the price cap would continue to protect default prepayment meter customers after the Competition and Markets Authority Prepayment Meter Price Cap was due to expire at the end of 2020.

[3] A reduced and monthly version of this RFI is still running, so that we can continue to monitor the impact of the pandemic.

We also published cap levels for the fifth cap period, which decreased by 7% to £1,042. The previous cap levels published in February 2020 were set at £1,126. This reduction reflected reduced wholesale and smart meter rollout costs.

In our most recent update to the price cap in February 2021, we increased the cap levels from period five by 9%, to £1,138. This reflected increased wholesale costs, networks and policy costs, and an adjustment for COVID-19.

We set the cap at what we consider to be minimum reasonable levels, mindful of the impact that higher bills will have on consumers. Suppliers will recover some of their COVID-19 related costs in a phased approach over the coming year.

Retail compliance and enforcement

Throughout the year, Ofgem has continued to hold retail energy suppliers to account, to ensure that the energy market remains fair for consumers. We do this by promoting good practice, gathering intelligence on supplier performance, and intervening where necessary.

In 2020-21, we concluded compliance engagement with 18 suppliers in relation to their adherence with price protection rules, securing refunds to over one million consumers worth more than £10 million. We also concluded engagement with 28 suppliers in relation to price cap compliance, securing over £0.5 million in refunds and compensation for over 40,000 customers on default tariffs, who were wrongly overcharged.

Further details on investigations and enforcement activity are set out in Appendix II of this report.

Suppliers provide consumers with a stable energy supply and effective service

During 2020-21, we continued to see a number of supplier failures in the retail energy market. We used our 'Supplier of Last Resort' process to ensure that customers' energy supplies were not disrupted and that their credit balances were protected. To respond to the COVID-19 crisis, we enhanced our monitoring of suppliers' financial status, to enable us to respond effectively when suppliers were experiencing issues. As part of our response to COVID-19, we allowed some energy suppliers and shippers to defer around £65m of their network charges through Network Charge Deferral schemes. To continue to minimise the likelihood and the impact of disorderly supplier failures, we introduced new rules as a part of our supplier licensing review, to build on changes to new entry requirements made in 2019. These new arrangements were agreed in November and implemented in early 2021. The changes are designed to further strengthen our regulatory regime, drive up standards among energy suppliers and minimise industry and consumer exposure to financial risks and poor customer service.

Consumers, particularly the vulnerable, are treated fairly by suppliers

Consumer Vulnerability Strategy 2025

In line with our principal objective of protecting the interest of consumers, our Consumer Vulnerability Strategy 2025 committed to strengthening protections for prepayment meter customers and those who are struggling with their bills. Protecting the most vulnerable customers was particularly important in the context of the COVID-19 crisis (see details on our COVID-19 response below).

In December 2020, we introduced a package of reforms to improve outcomes for prepayment meter customers. These include new licence conditions for suppliers to identify and offer short-term support to prepayment meter customers who are self-disconnecting, as well as enhanced requirements to support all customers that are facing financial difficulties, through the inclusion of updated 'Ability to Pay' principles in their supply licences. We estimate the overall monetised consumer benefits as a result of the introduction of the self-disconnection policy to be around £1.5 million (excluding business costs) until 2025.

Ofgem extended the prepayment meter warrant protection until 2025 to prevent disproportionate charges to a customer's outstanding debt and create consistency across the market. We estimate monetised impact of this policy decision to be around £16.5 million.

Ofgem also continued to support vulnerable consumers through the newly-founded Crisis Fund, forming part of our Energy Redress Scheme, to help address the impact of COVID-19. The Crisis Fund allocated £10.8 million to charities that support vulnerable households that are at crisis point and unable to top up their prepayment meters. The fund was developed quickly in response to the crisis and launched in May 2020

Microbusiness retail market review

In July 2020, we published a policy consultation setting out initial proposals to reform the microbusiness retail market to empower consumers. We intend to publish final proposals in summer 2021, with a view to implementing reforms starting later this year, followed by post-implementation monitoring to assess the full range of consumer benefits delivered.

Consumers engage and take advantage of a competitive retail market and technological change to support decarbonisation

Switching programme and the Retail Energy Code

The objective of Ofgem's 'faster, more reliable' switching programme is to introduce reforms that will result in more positive experiences for domestic customers, when they change their energy supplier. Following delays caused by COVID-19, our new target for the launch of the switching programme is the summer of 2022.

To facilitate the delivery of the switching programme, we published a consultation in December 2020, which asked for stakeholders' views on a consolidation of the Retail Energy Code, and provisions that will underpin faster more reliable switching, which will come into forced at the same time as the new switching systems and process.

Innovation Link

To allow innovators to create new products and services that help consumers use energy in ways that support decarbonisation (DAP Action 8), we continued to offer our Innovation Link services, and to adapt our approach to regulation.

In July 2020, we launched a refreshed and expanded Energy Regulation Sandbox service, incorporating rules within industry's Balancing and Settlement Code and the Distribution Connection and Use of System Agreement. As well as continuing to support innovators to carry out trials, the Sandbox now offers enduring support for those businesses ready to bring new products and services to market, by providing (where appropriate) derogations.

During the year, we also continued to provide our "Fast, Frank Feedback" service, helping innovators to understand whether their ideas would be possible or not under existing rules and regulations.

Energy System Governance

Through this strategic change programme, our goal is to ensure that **energy system governance, including the role of Ofgem, is fit for purpose**. Below, we have detailed how our activities – both those that directly deliver towards our change programme, and our core regulatory activities – have delivered outcomes which help us achieve this strategic goal.

Net zero transition goals are met through system operation

Energy System Operation

The ESO (currently part of National Grid) has a central role in our energy system. It performs a number of important functions from the real time operation of the system, through to market development, managing connections and advising on network investment. We regulate the ESO to help ensure the actions it takes align with the interests of consumers.

In December 2020, Ofgem published a new bespoke price control for the ESO, which will drive innovative new approaches to electricity system operation to push down costs for consumers as system operation keeps pace with energy decarbonisation. The price control provides financial incentives for the ESO to progress changes necessary to operate the electricity system carbon-free by 2025, to maximise competition and to facilitate a whole system approach to network operating and planning. Please see our Price Control section above for direct benefits.

System Operation review – gas and electricity

We said that we would review the way our energy systems are managed to ensure they are fit for a net zero future (DAP Action 5). A key part of this concluded in January 2021, when we published our review of energy system operation, which considered the current and future challenges facing system operation in Great Britain. The review concluded that an Independent System Operator with enhanced functions will be best placed to enable and facilitate the integrated, flexible energy system that is needed to deliver net zero at least cost.

Based on these findings, our key recommendations were that:

- The energy system operators (gas and electricity) be given additional responsibilities.
- The ESO is made fully independent from the transmission network owner.
- There is also a good case for separating key gas network planning functions from the gas transmission owner and combining them with electricity requirements in the recommended new independent energy system operator.

Network companies are cyber resilient

To increase the overall cyber-security and resilience of downstream gas and electricity Operators of Essential Services, Ofgem and BEIS are the joint Competent Authority under The Security of Network & Information Systems Regulations 2018. During the year, Ofgem expanded its Competent Authority function, with a focus on Operators of Essential Services' critical systems. Our mission is to protect users' energy supply, through cyber improvement monitoring and NIS compliance, the security aspects of the Smart Energy Code, RIIO Price Control and other statuary powers.

New cross-border arrangements are in place with the EU

On 31 January 2020, the UK left the EU, and following the ratification of the Withdrawal Agreement, a transition period came into force. In October, we published a letter to wholesale market participants to confirm that REMIT[5] arrangements, including enforcement regulations, would continue to apply in Great Britain from 1 January 2021, after the transition period came to an end. We also set out changed registration requirements, and that Ofgem would continue – until further notice – to monitor the wholesale market for possible breaches, as the European body, ACER[6], would no longer have responsibility for these functions (for further details on Ofgem's developing relationship with EU bodies, please refer to the energy system security and stability section).

Codes benefit consumers and licensing is robust

Throughout the year, we continued to deliver licensing decisions in line with our key performance indicators (details are set out in Appendix I of this report). We engaged with industry codes processes to deliver code modification decisions in a timely way where possible, noting that competing priorities can impact the timings of code decisions.

We expect the code changes we approved to deliver benefits across the system, in areas ranging from network charging to balancing, metering and open data.

As part of our work to respond to the challenges of COVID-19, we worked with industry and code bodies to ensure that urgent code decisions were prioritised to protect consumers.

Data and digitalisation

Through this strategic change programme, our goal is **to unlock the benefits of data and digitalisation** for the benefit of consumers. Below, we have detailed how our activities – both those that directly deliver towards our change programme, and our core regulatory activities – have delivered outcomes, which help us to achieve this new strategic goal.

Through 2020-21, we worked with industry on our data and digitalisation standards, with these being embedded in the RIIO-2 price control licence conditions as well as the sector methodology and business plan incentives for the electricity distribution price control. Our draft Data Best Practice, and Digitalisation Strategies and Action Plan guidance were made available for market participants, with all networks publishing digitalisation strategies in winter.[4] These guidance documents also formed the basis of our approval of code modifications, which refer to one or both guidance documents with the goal of opening up energy systems data.

In addition, we have worked closely with BEIS and Innovate UK on the Energy Data & Digitalisation Strategy, and two innovation competitions. Modernising Energy Data Access and Modernising Energy Data Applications are both a direct response to the Energy Data Taskforce recommendations, and are expected to increase access to data.

We continued to deliver quality assurance of business critical models, impact assessment and evaluation, in line with recommendations in the HM Treasury review of quality assurance of Government analytical models.[5] Through this work, we support our policy teams to develop their analytical models and review their cost-benefit analysis and impact assessments, before it is published.

[4] https://www.ofgem.gov.uk/publications-and-updates/digitalisation-strategies-modernising-energy-data
[5] https://www.ofgem.gov.uk/publications-and-updates/digitalisation-strategies-modernising-energy-data

Delivering renewable energy and social schemes

In addition to our five strategic change programmes, and our core regulatory activities Ofgem administers a range of environmental and social schemes on behalf of government, which are collectively worth £9 billion per-annum. The schemes fall into three main categories.

Renewable electricity schemes

Renewables electricity sector **supports 738,000 jobs**

26,582 Renewables Obligation **generating stations**

112.8 TWh of renewable electricity generated from the Renewables Obligation

121.9 TWh of total supply from renewable sources generated from the Renewables Obligation **(41.2% of UK supply)**

Some of the figures are provisional and may change upon finalisation. The final figures will be reflected in each scheme's annual report.

The Renewables Obligation ('RO'), was launched in 2002, as one of the main support mechanisms for large-scale renewable electricity projects in the UK. Currently, the scheme supports 30% of renewable electricity supplied in the UK; significantly above the 3% when it began. Smaller-scale renewable and low-carbon generation is mainly supported through the Fit-in-Tariff ('FIT') scheme, which makes payments to participants that install electricity generating installations, such as photovoltaic panels. While both schemes are now closed to new applicants, we will continue to operate them until all eligible payments and certificates have been issued. RO certificates will continue to be issued until March 2038, and FIT payments will be made until March 2040.

In January 2020, the Smart Export Guarantee ('SEG') scheme was launched to provide a new opportunity for those with FIT scheme technologies to receive a guaranteed price from electricity suppliers for the electricity that they export to the National Grid. During the year, we have seen a range of tariffs have been offered, some including bundling with battery storage. We have also seen other tariffs offered outside of SEG obligations, which are helping to increase competition in the export tariff market.

Renewable Heat Incentive schemes

59.77TWhth thermal heat generated to date

5,309MW of thermal heat capacity installed

Payments issued in 2020-21 worth around **£792.29m**

235.3 Gwh heat generated by installations (Northern Ireland RHI)

Payments issued in 2020-21 worth around **£144.9m** (domestic RHI)

£3.58M total payments made to scheme participants (Northern Ireland RHI)

5.52Mt CO_2 of carbon savings of over the lifetime of the scheme (domestic RHI)

Some of the figures are provisional and may change upon finalisation. The final figures will be reflected in each scheme's annual report.

Renewable Heat Incentive ('RHI') schemes were established to help consumers – both domestic and non-domestic – to overcome the costs involved with installing renewable heating systems, compared to more convention fossil fuel heating systems. The schemes have helped early adopters deliver towards the UK's net zero goals, by installing technologies such as heat pumps and biogas injection.

In early 2021, regulations were laid in Parliament to prepare for the closure of the domestic and non-domestic schemes, which also relaxed some application requirements to respond to pressures on applicants caused by the COVID-19 crisis.

While the non-domestic schemes were closed to new applicants in March 2021, it will continue to make payments to participants until March 2042, with domestic payments made until March 2029. During the year, we continued to work with BEIS to develop new heat schemes, to continue to offer incentives for renewable heat generation and the deployment of biogas.

Energy Efficiency and Social Schemes

Over 400 installers fit on average **830** Energy Company Obligation measures daily

Over 830k Energy Company Obligation measures installed in **over 500k households** to date

£6.62 Billion in lifetime bills savings deliverable to vulnerable households

Some of the figures are provisional and may change upon finalisation. The final figures will be reflected in each scheme's annual report.

The Energy Company Obligation ('ECO') continues to improve to energy efficiency in the homes of those in fuel poverty, by permanently reducing their energy use and bills. These improvements are delivered by larger energy suppliers. The Warm Home Discount also continues to provide direct assistance with energy costs to those who are in fuel poverty or are at risk of it, largely in the form of a £140 rebate.

During the year, the supplier threshold for both schemes dropped to 150,000 customers, which increased the number of energy suppliers that are obligated to support their vulnerable customers.

Despite the increased coverage, ECO installations were affected by COVID-19 crisis, which restricted access to homes. This means that suppliers remain behind schedule with their installations, and are facing a significant increase in the delivery required for them to all meet their obligations by March 2022.

Our GB stakeholders

Stakeholder engagement is essential in helping to inform our decisions so they are grounded in a sound understanding of the needs of all energy consumers. During the pandemic virtual engagement has allowed us to capture the diverse needs and priorities of our stakeholders, helping to ensure we are proactively responding.

Stakeholder engagement

In 2020-21, our focus has been on continuing to provide regular, meaningful engagement opportunities; to both maintain our broad network of stakeholders and understand the far-reaching effects of the pandemic. This engagement has been key to our decision-making and ongoing response to COVID-19.

Due to the Great Britain-wide lockdown an online approach to events enabled us to continue engaging with external event organisers with Ofgem speakers delivering keynotes at virtual conferences, joining webinars, or speaking in podcasts. We also launched our 2021-22 Forward Work Programme consultation during a live webinar, which brought in an audience of over 600 delegates.

This year we have provided varied opportunities for stakeholder voices to be heard alongside increasing transparency. In the RIIO-2 decision-making process, we held Open Meetings and a series of webinars attended by over 600 delegates to inform our price controls.

We have created new channels for engaging consumer groups and charities this year. In April 2020 we launched a monthly consumer group call to fuel discussions on vulnerability during the pandemic and led regular policy briefings and meetings with our Senior Leadership team to share ongoing consumer concerns and viewpoints.

We continue to run our internal engagement programme, Customer Connections, which provides regular opportunities for all staff to hear the experiences of energy consumers. Across 2020-21 we organised over 15 virtual engagement visits for our Senior Leadership team to meet consumer groups and charities, including Christians Against Poverty, Fuel Bank Foundation and the Bromley-By-Bow Centre.

We continue to engage with a number of key stakeholders through our ‘working groups’ such as the Large User Group for non-domestic consumers, the academic panel, and two working groups with decarbonisation stakeholders.

Sustainability Report

We remain committed to achieving the Greening Government Targets which include the following objectives (against a 2009-10 baseline):

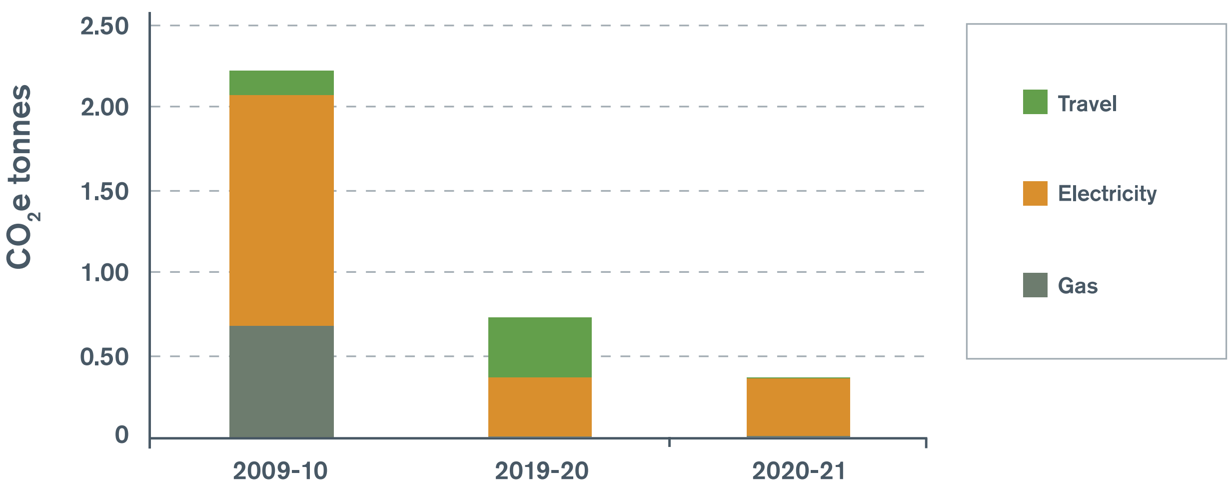
- **32% reduction in overall carbon**
- **Reduce landfill to 10% of total waste**
- **Increase the proportion of waste that is recycled**
- **Reduce paper consumption by 50%**
- **Reduce water consumption**

Highlights

- Carbon, particularly travel carbon has reduced dramatically
- Waste has been reduced significantly
- Water usage has dropped to the minimum necessary to keep the systems clean and functional

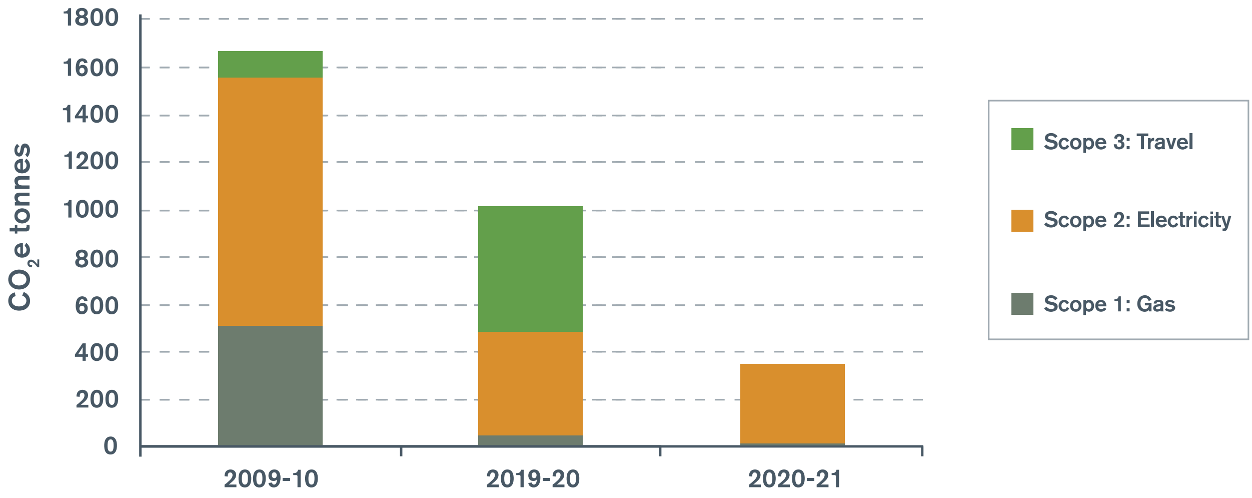
A key driver of the 2020-21 reductions has been reduced travel due to COVID and remote working by the majority of Ofgem staff. Therefore, we don't expect these significant reductions to be sustained in future but remain on track to achieve our targets overall.

Carbon usage by FTE



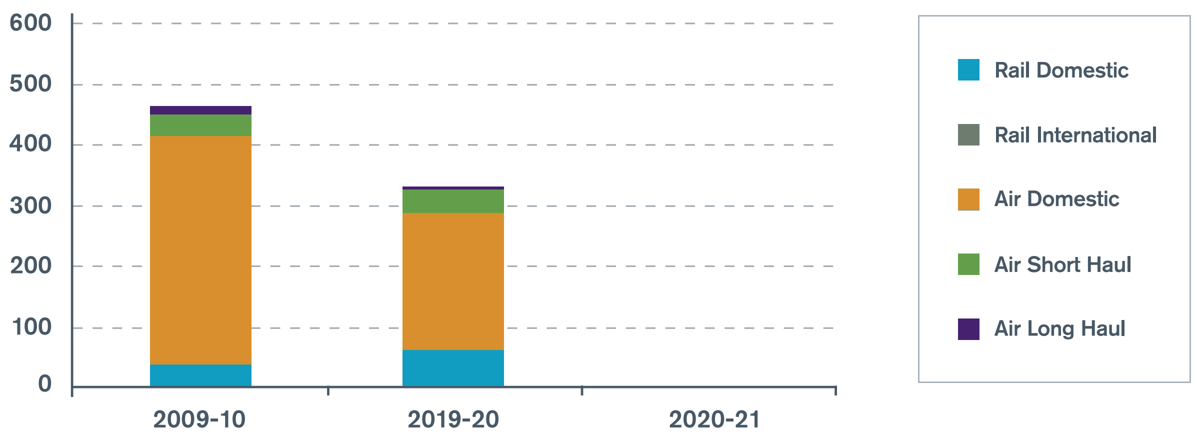
Due to COVID restrictions, there was minimal travel during the year and very low numbers of staff in the offices. As a result, our Carbon usage in 2020-21 has more than halved compared with the previous year. In a post COVID world it will not be possible to maintain this level of the low carbon usage, but we are trying to limit the bounce back to within the previous levels.

Total Carbon



Although our offices have been mostly empty for the entire year, our electricity and gas usage has not dropped because our properties still needing to be occupiable as per central government (London) and local council (Glasgow) guidelines and therefore the mechanical and electrical systems operating within, such as security, ventilation and lighting (even when the lights are off) are still running.

Travel Carbon



Last year, travel accounted for half of our carbon usage. This year, due to limited travel just 0.08 tonnes of carbon was produced. We are working to prevent the travel from retuning to its previous levels in a post COVID world through more a rigorous application of our travel policy and adopting different ways of working.

Greenhouse gas emissions		2009-10	2019-20	2020-21
Non-financial indicators (tCO_2e)	Total gross emissions	1,670	671	278
	Per FTE	2.23	0.92	0.23
	Total net emissions	1,671	860	278
	Scope 1: Direct GHG emissions	511	7	6
	Scope 2: Energy indirect GHG emissions	1,045	330	273
	Scope 3: Other indirect GHG emissions	115	334	0
Related consumption data (kWh)	Electricity: Renewable (k)	1,130	1,292	1,170
	Gas (k)	1,578	35	30

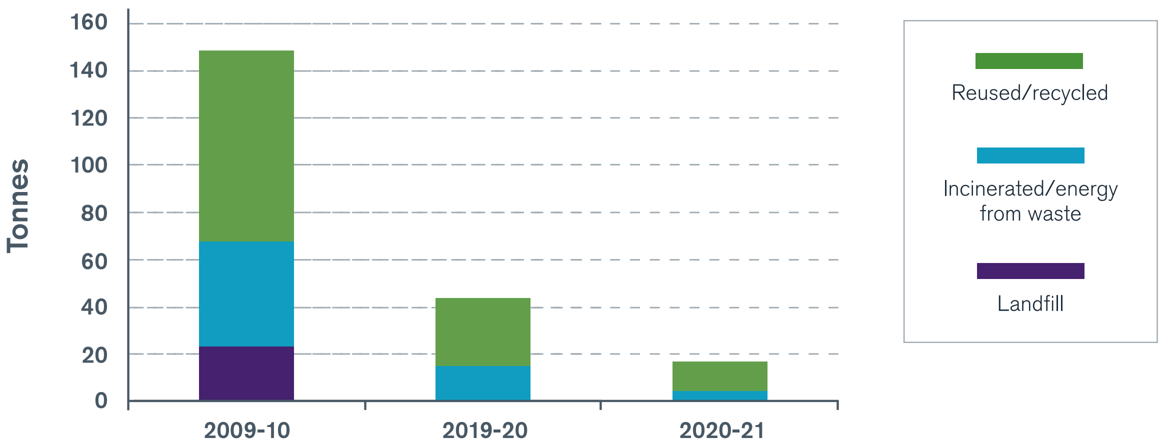
DEC

The Display Energy Certificate (DEC) rating for the 10SC office is an E-125. This is a significant improvement from last year's F-143. We expect a better evaluation in a building with a BREEAM rating of 'Very Good' and to that end we will be working with 10SC management to improve this.

Together we've installed sub-metering, to better track where energy is being used. We've had an energy efficiency review and survey. The resulting report will drive progress to ISO50001 Energy Management Certification for 10SC.

Waste

Total waste



Waste is the clearest indication of building occupancy regarding environmental impact, as water and power are not entirely influenced by occupancy.

Waste has reduced by 66%. Almost no waste was produced until October and since then a steady stream of confidential waste. Those few that are going into the office are getting rid of paperwork that we've all learned to work without over the past year.

A confidential waste audit is scheduled for after the majority of staff return to the office to identify what is going out and if it can be diverted to normal recycling, which requires less processing and expense.

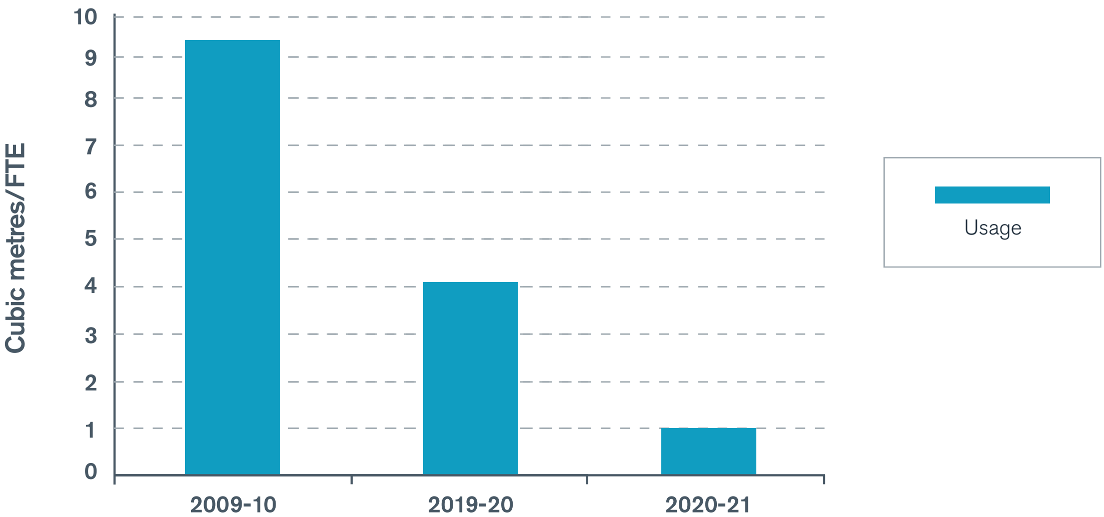
Waste			**2009-10**	**2019-20**	**2020-21**
Non-financial indicators (tonnes)	**Target**		-	-	-
	Total waste		149	43	14
	Total waste per FTE		0.2	0.05	0.02
	Hazardous waste		1	-	-
	Non-hazardous waste	Landfill	23	0	0
		Reused/Recycled	81	28	11
		Incinerated/ energy from waste	44	16	3

As so few people have been in the office, we have not purchased any paper in the year.

Water

While our water use has decreased it hasn't decreased to zero consumption. This is largely due to the need to flush all the water systems for a minimum of 10 minutes per week to reduce the risk of Legionella and bacteria build up in stagnant water.

Water per FTE



Water			2009-10	2019-20	2020-21
	Target				
Non-financial indicators	Water consumption (m^3)	Supplied	7,116	3,875	896
		Per FTE	9.5	4.2	1.0

Information presented above related to the consumption of energy and water and the production of waste relates to our London office only, which is metered and apportioned to the building's tenants. The landlord in our Glasgow office is unable to share information on consumption of energy, water and waste, and as we pay a fixed cost for our utility usage, we are unable to estimate or report on the consumption of the Glasgow Office. We continue to press our Glasgow landlord for the information needed to report or estimate the relevant consumption. We will report on these matters in future if the necessary information becomes available.

Jonathan Brearley
Chief Executive

12 July 2021

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:

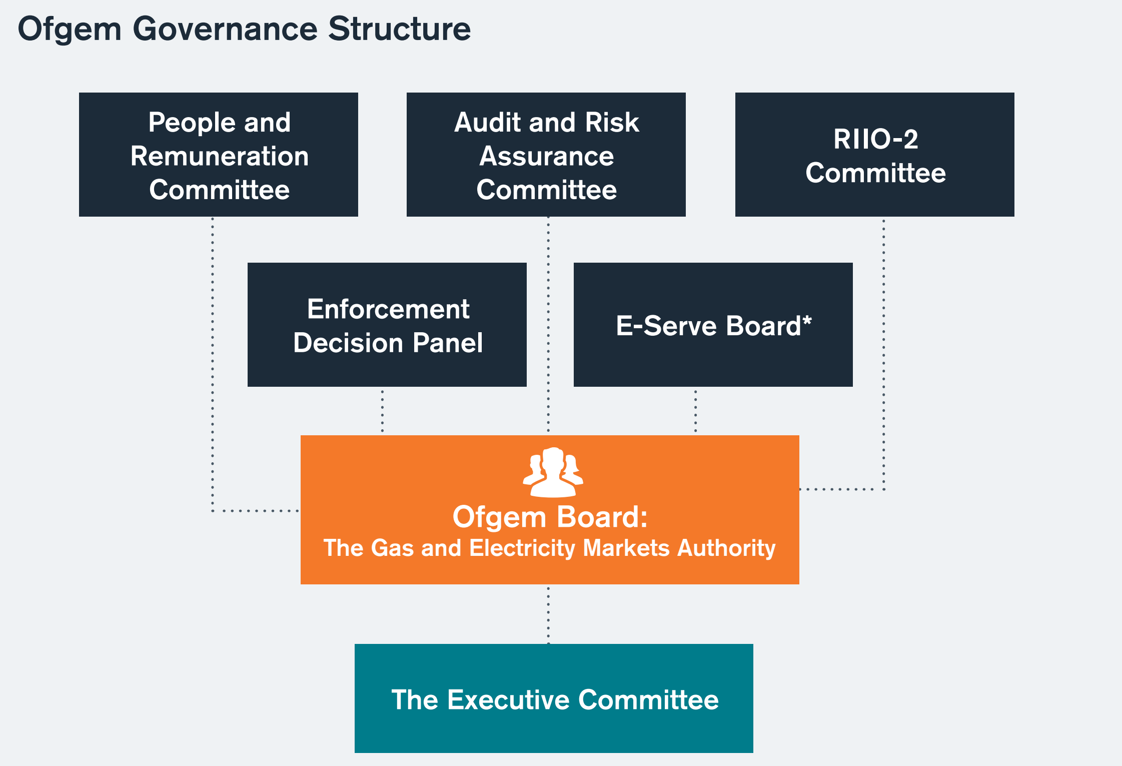
- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the 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



*E-Serve Board (as well as the E-Serve Risk Assurance Committee) was disbanded in October 2020, and governance integrated into the Board and its other sub-committees.

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.

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.

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.

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 Naïve 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**
Risk characteristics	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**
EU Exit: 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.
Cyber attack or technology resilience failure in gas or electricity operators, 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
Disruption of industry activities as a result of COVID-19, leading to failure to meet regulatory obligations or detrimental outcomes for consumers.	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.
Inability of industry to effectively operate due to COVID-19, leading to regulatory obligations not being met, or detrimental outcomes for consumers.	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.
Vulnerability: Major changes in the energy market and/or the nature of services offered have a disproportionate or unacceptable effect on vulnerable consumers.	We are following a clear strategy to ensure that we continue to protect vulnerable consumers as energy markets change, as referenced in our Consumer Vulnerability Strategy 2025.
Security of supply. 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.	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.
Aged or not fit-for-purpose IT systems and hardware leading to IT service interruption for Ofgem staff and external parties using our systems.	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.
Supplier Failure: Supplier failure results in significant disruption and harm to customers and / or the wider retail market.	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. 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.
Information/Data Stewardship and Regulatory Compliance; Unauthorised and/or inappropriate control or exposure of information or data bringing adverse impact on Ofgem, consumers, and other industry stakeholders.	We have implemented strong policies and practices for data handling and support these with clear roles, responsibilities and training. We have enhanced monitoring of data handling activities to identify and address areas of vulnerability.
Poor organisational capability and readiness to meet needs of changing energy market.	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.
Staff productivity and effectiveness affected by lower employee wellbeing and engagement due to the enforced home working during the global pandemic.	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.

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

6 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.

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

8 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.

9 Left Ofgem in January 2021

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

11 Joined Ofgem in February 2021

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

13 Served on ExCo between April 2020 and January 2021

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

15 Left Ofgem in January 2021

16 Joined Ofgem in January 2021

17 Joined Ofgem in February 2021

18 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[19]	£10,500	-	£20,000	-
Myriam Madden[20]	£20,000	£3,000	£5,000	-
Barry Panayi[21]	£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

[19] Left Ofgem in September 2020
[20] Appointed in January 2020
[21] 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**
Jonathan Brearley 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
Akshay Kaul	10 - 15	2.5 - 5	120	86	22
Amana Humayun	15 - 20	0 - 2.5	151	133	14
Anthony Pygram	40 - 45 plus a lump sum of 115 - 120	0 - 2.5 plus a lump sum of 0 - 2.5	941	911	23
Cathryn Scott	40 - 45	2.5 - 5	636	571	38
Charlotte Ramsay	0 - 5	0 - 2.5	1	0	1
Euan McVicar	5 - 10	2.5 - 5	93	56	26
Frances Warburton	15 - 20	0 - 2.5	207	174	20
Mark Wiltsher	20 - 25	0 - 2.5	373	332	23
Mary Starks	5 - 10	0 - 2.5	89	67	14
Neil Kenward	30 - 35 plus a lump sum of 55 - 60	5 - 7.5 plus a lump sum of 10 - 12.5	483	368	95
Patricia Dreghorn	10 - 15	2.5 - 5	157	122	22
Philippa Pickford	25 - 30 plus a lump sum of 45 - 50	0 - 2.5 plus a lump sum of 0 - 2.5	396	363	16
Priya Brahmbhatt-Patel	25 - 30	0 - 2.5	323	295	18
Richard Smith	0 - 5	0 - 2.5	3	0	2
Simon Wilde	5 - 10	0 - 2.5	115	96	11
Stephanie Broadribb	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 in 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**

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	**395**	392
E-Serve	329	94	**423**	288
Operations	308	61	**369**	250
Total	**1,012**	**175**	**1,187**	**930**

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 £000**	**2019-20 £000**
	Permanently employed staff	**Others**	**Total**	**Total**
Wages and salaries	45,775	11,741	**57,516**	48,233
Social security costs	5,163	467	**5,630**	4,901
Other pension costs	11,813	1,098	**12,911**	11,023
Other staff costs	235	22	**257**	610
Apprenticeship Levy (tax expense)	231	3	**234**	199
Total	**63,217**	**13,331**	**76,548**	**64,966**

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
Total cost £000	**16**	**413**	**413**	**16**	**868**	**884**

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/LkjznjGE/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

Parliamentary Accountability and Audit Report

Statement of Parliamentary Supply

Summary of resource and capital outturn 2020-21

In addition to the primary statements prepared under IFRS, the Government Financial Reporting Manual (FReM) requires the department to prepare a Statement of Parliamentary Supply (SoPS) and supporting notes.

The SoPS and related notes are subject to audit, as detailed in the Certificate and Report of the Comptroller and Auditor General to the House of Commons.

The SoPS is a key accountability statement that shows, in detail, how an entity has spent against their Supply Estimate. Supply is the monetary provision (for resource and capital purposes) and cash (drawn primarily from the Consolidated fund), that Parliament gives statutory authority for entities to utilise. The Estimate details supply and is voted on by Parliament at the start of the financial year.

Should an entity exceed the limits set by their Supply Estimate, called control limits, their accounts will receive a qualified opinion.

The format of the SoPS mirrors the Supply Estimates, published on gov.uk, to enable comparability between what Parliament approves and the final outturn.

The SoPS contain a summary table, detailing performance against the control limits that Parliament have voted on, cash spent (budgets are compiled on an accruals basis and so outturn won't exactly tie to cash spent) and administration.

The supporting notes detail the following: Outturn by Estimate line, providing a more detailed breakdown (note 1); a reconciliation of outturn to net operating expenditure in the SOCNE, to tie the SoPS to the financial statements (note 2); a reconciliation of outturn to net cash requirement (note 3); and, an analysis of income payable to the Consolidated Fund (note 4).

Summary table, 2020-21, all figures presented in £000's									
		Outturn			Estimate				
Type of Spend	SoPS note	Voted	Non-Voted	Total	Voted	Non-Voted	Total	Outturn vs Estimate, saving	Prior Year Outturn Total 2019-20
Departmental expenditure limits									
Resource	1.1	11,994	-	11,994	14,801	-	14,801	2,807	701
Capital	1.2	2,199	-	2,199	4,300	-	4,300	2,101	1,000
Annually managed expenditure									
Resource			-			-			-
Capital			-			-			-
Total budget		14,193	-	14,193	19,101	-	19,101	4,908	1,701
Non-budget									
Resource		2,388	-	2,388	5,900	-	5,900	3,512	-
Total budget and Non-budget		**16,581**	**-**	**16,581**	**25,001**	**-**	**25,001**	**8,420**	**1,701**
Total resource		11,994	-	11,994	14,801	-	14,801	2,807	701
Total capital		2,199	-	2,199	4,300	-	4,300	2,101	1,000
Total		**14,193**	**-**	**14,193**	**19,101**	**-**	**19,101**	**4,908**	**1,701**

Figures in the areas outlined in thick line cover the voted control limits voted by Parliament. Refer to the Supply Estimates guidance manual, available on gov.uk, for detail on the control limits voted by Parliament.

Net cash requirement 2020-21, all figures presented in £000's

Type of spend	SOPS note	Outturn	Estimate	Outturn compared with estimate: saving	Prior Year Outturn Total 2019-20
Net cash requirement	**3**	6,812	10,416	3,604	(8,746)

Administration costs 2020-21, all figures presented in £000's

Type of spend	SOPS note	Outturn	Estimate	Outturn compared with estimate: saving	Prior Year Outturn Total 2019-20
Administration costs	**1.1**	11,994	14,801	2,807	53

Although not a separate voted limit, any breach of the administration budget will also result in an excess vote. Explanations of variances between estimate and outturn are given in the Accountability report.

The Department has Prior Period Adjustments (PPAs) because during 2020-21, Ofgem identified that an incorrect amount of VAT had been reclaimed from HMRC in prior years. A provision should have been recognised for the amount owed to HMRC. The 2019-20 financial statements have been restated to recognise this provision. Admin RDEL budget for 2019-20 is therefore increased by £5.9m. It is proper for the department to seek parliamentary authority for the provision that should have been sought previously.

In 2020-21 this PPA has been made, which has been included within voted Supply in the Estimate.

Notes to the Statement of Outturn against Parliamentary Supply, 2020-21 (£000's)

SOPS1. Outturn detail, by Estimate Line

SOPS1.1 Analysis of resource outturn by Estimate line

Resource Outturn – Administration				Estimate				
Type of Spend (Resource)	Gross	Income	Net total	Total	Virements	Total including virements	Outturn vs Estimate, Saving	Prior Year Outturn Total 2019-20
Spending in departmental expenditure limits (DEL)								
A Gas and Electricity Markets Authority: administration	92,013	(80,717)	11,296	14,100	-	14,100	2,804	701
B Ofgem E-Serve: administration	29,100	(28,402)	698	701	-	701	3	648
Total resource	**121,113**	**(109,119)**	**11,994**	**14,801**	-	**14,801**	**2,807**	**53**

SoPS1.2 Analysis of net capital outturn by Estimate Line

Outturn				Estimate				
Type of Spend (Capital)	Gross	Income	Net total	Total	Virements	Total including virements	Outturn vs Estimate, Saving	Prior Year Outturn Total 2019-20
Spending in departmental expenditure limits (DEL)								
A Gas and Electricity Markets Authority: administration	2,199	-	2,199	4,300	-	4,300	2,101	318
B Ofgem E-Serve: administration	-	-	-	-	-	-	-	-
Total capital	**2,199**	**-**	**2,199**	**4,300**	**-**	**4,300**	**2,101**	**318**

Explanations of variances between estimate and outturn are given in the Accountability report.

The total Estimate columns include virements. Virements are the reallocation of provision in the Estimates that do not require parliamentary authority (because Parliament does not vote to that level of detail and delegates to HM Treasury). Further information on virements are provided in the Supply Estimates Manual, available on gov.uk.

The outturn vs estimate column is based on the total including virements. The estimate total before virements have been made is included so that users can tie the estimate back to the Estimates laid before Parliament.

SoPS2 Reconciliation of outturn to net operating expenditure

SoPS2 is not required as the total resource outturn in the SoPS is the same as the net operating expenditure within the SoCNE.

SoPS3 Reconciliation of net resource outturn to net cash requirement

Item	Reference	Outturn total	Estimate	Outturn vs Estimate, saving/(excess)
	Note	£000	£000	£000
Resource outturn	SoPS1.1	**11,994**	**14,801**	**2,807**
Capital outturn	SoPS1.2	**2,199**	**4,300**	**2,101**
Accruals to cash adjustments:				
▪ Depreciation and impairment	3	(1,416)	(1,500)	(84)
▪ New provisions and adjustments to provisions		(10,924)	(14,100)	(3,176)
▪ Other non-cash items		(92)	(85)	(7)
Movement in working capital:				
- Debtors		7,873	6,000	(1,873)
- Creditors		(3,512)	1,000	4,512
▪ Use of provision	11	690		(690)
Net cash requirement		**6,812**	**10,416**	**3,604**

As noted in the introduction to the SoPS above, outturn and the Estimates are compiled against the budgeting framework, not on a cash basis. Therefore, this reconciliation bridges the resource and capital outturn to the net cash requirement.

SoPS4 Analysis of income payable to the consolidated fund

We collected no consolidated fund income in 2020-21. This does not include any amounts we collected while acting as agent of the consolidated fund rather than as principal. Full details of income collected as agent for the consolidated fund are in the department's trust statement, published separately from but alongside these financial statements.

Parliamentary Accountability Disclosures (audited)

Regularity of expenditure

Expenditure of Ofgem was applied for the purposes intended by parliament.
Ofgem has nothing to report in respect of the following:

- Losses and special payments;
- Fees and charges disclosures;
- Remote contingency liabilities; and
- Long term expenditure trends.

Jonathan Brearley
Chief Executive

12 July 2021

The certificate and report of the Comptroller and Auditor General to the House of Commons

Opinion on financial statements

- I certify that I have audited the financial statements of the Office of Gas and Electricity Markets for the year ended 31 March 2021 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Department's Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards as interpreted by HM Treasury's Government Financial Reporting Manual.

I have also audited the Statement of Parliamentary Supply and the related notes, and the information in the Accountability Report and Parliamentary Accountability report that is described in that report as having been audited.

In my opinion, the financial statements:

- give a true and fair view of the state of the Department's affairs as at 31 March 2021 and of the Department's comprehensive net expenditure for the year then ended; and
- have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on regularity

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2021 and shows that those totals have not been exceeded; and
- the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK), applicable law and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate.

Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2019. I have also elected to apply the ethical standards relevant to listed entities. I am independent of the Office of Gas and Electricity Markets in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

In auditing the financial statements, I have concluded that the Office of Gas and Electricity Markets' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Office of Gas and Electricity Markets' ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the Accounting Officer with respect to going concern are described in the relevant sections of this certificate.

The going concern basis of accounting for the Office of Gas and Electricity Markets is adopted in consideration of the requirements set out in HM Treasury's Government Reporting Manual, which require entities to adopt the going concern basis of accounting in the preparation of the financial statements where it anticipated that the services which they provide will continue into the future.

Other Information

The other information comprises information included in the Annual Report but does not include the parts of the information in the Accountability Report and Parliamentary Accountability report that is described in that report as having been audited, the financial statements and my auditor's certificate thereon. The Accounting Officer is responsible for the other information. My opinion on the financial statements does not cover the other information and except to the extent otherwise explicitly stated in my certificate, I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

Separate prefaces to the Chair's forward to the annual report have been prepared in respect of versions of the annual report to be laid in the Scottish and Welsh parliaments. Those separate prefaces are not included within the other information identified above and are not audited.

Opinion on other matters

In my opinion, based on the work undertaken in the course of the audit:

- includes the parts of the information in the Accountability Report and Parliamentary Accountability report to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Performance and Accountability Reports for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

In the light of the knowledge and understanding of the Office of Gas and Electricity Markets and its environment obtained in the course of the audit, I have not identified material misstatements in the Performance Report and Accountability Report. I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the information in the Accountability Report and Parliamentary Accountability report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of remuneration specified by HM Treasury's Government Financial Report Manual are not made; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for:

- the preparation of the financial statements in accordance with the applicable financial reporting framework and for being satisfied that they give a true and fair view;
- internal controls as the Accounting Officer determines is necessary to enable the preparation of financial statement to be free from material misstatement, whether due to fraud or error.
- assessing the Office of Gas and Electricity Markets' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Accounting Officer anticipates that the services provided by the Office of Gas and Electricity Markets will not continue to be provided in the future.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000.

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a certificate that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulation, including fraud.

My procedures included the following:

- Inquiring of management, the Office of Gas and Electricity Markets' Head of Internal Audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the Office of Gas and Electricity Markets' policies and procedures relating to:
    - o identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
    - o detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
    - o the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including Managing Public Money and Tax Legislation;
- discussing among the engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, I identified potential for fraud in the following area: revenue recognition, posting of unusual journals accounting for estimates and other areas of management judgement such as the recognition valuation of provisions; and
- obtaining an understanding of the Office of Gas and Electricity Markets' framework of authority as well as other legal and regulatory frameworks that the Office of Gas and Electricity Markets operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Office of Gas and Electricity Markets. The key laws and regulations I considered in this context included: Managing Public Money and Tax legislation, including the VAT Act (1994),

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;

- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance and the Board;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business;
- audit work, including undertaking procedures to rely on the work of management's expert, in relation to a provision for repayment of VAT; and
- challenging management's assessment of exposure to potential costs in relation to energy company appeals against Ofgem's 2020 price determination.

I also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals and that those totals have not been exceeded. The voted Parliamentary control totals are Departmental Expenditure Limits (Resource and Capital), Annually Managed Expenditure (Resource and Capital), Non-Budget (Resource) and Net Cash Requirement. I am also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Report

I have no observations to make on these financial statements.

Gareth Davies
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria, London SW1W 9SP

13 July 2021

Resource Accounts

Statement of comprehensive net expenditure for the year ended 31 March 2021

This account summarises the expenditure and income generated and consumed on an accruals basis. It also includes other comprehensive income and expenditure, which include changes to the values of non-current assets and other financial instruments that cannot yet be recognised as income or expenditure.

	Note	2020-21 £000	2019-20 Restated £000
Operating income	4	(109,119)	(99,145)
Total Operating Income		**(109,119)**	**(99,145)**
Staff cost	3	76,548	64,966
Other operating expenditure	3	44,565	35,297
Total operating expenditure		**121,113**	**100,263**
Net operating expenditure for the period	2	**11,994**	**1,118**
Comprehensive net expenditure for the year		**11,994**	**1,118**

The notes on pages 73 to 87 form part of these accounts.

Statement of financial position as at 31 March 2021

This statement presents the financial position of the department. It comprises three main components: assets owned or controlled; liabilities owed to other bodies; and equity, the remaining value of the entity.

	Note	2020-21 £000	2019-20 Restated £000	1 April 2019 Restated £000
Non-current assets:				
Property, plant and equipment	5	2,285	1,502	2,677
Total non-current assets		**2,285**	**1,502**	**2,677**
Current assets:				
Trade and other receivables	9	15,575	7,702	7,189
Cash and cash equivalents	8	3,604	12,269	9,036
Total current assets		**19,179**	**19,971**	**16,225**
Total assets		**21,464**	**21,473**	**18,902**
Current liabilities:				
Trade and other payables	10	(23,137)	(28,290)	(18,382)
Provisions	11	(14,308)	(1,131)	(570)
Total current liabilities		**(37,445)**	**(29,421)**	**(18,952)**
Total assets less current liabilities		**(15,981)**	**(7,948)**	**(50)**
Non-current liabilities:				
Provisions	11	(2,298)	(5,241)	(3,254)
Total non-current liabilities		**(2,298)**	**(5,241)**	**(3,254)**
Total assets less total liabilities		**(18,279)**	**(13,189)**	**(3,304)**
Taxpayers' equity:				
General fund		(18,279)	(13,189)	(3,304)
Total equity		**(18,279)**	**(13,189)**	**(3,304)**

Jonathan Brearley
Chief Executive

12 July 2021

The notes on pages 73 to 87 form part of these accounts.

Statement of cash flows for the year ended 31 March 2021

The Statement of Cash Flows shows the changes in cash and cash equivalents of the department during the reporting period. The statement shows how the department generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of service costs and the extent to which these operations are funded by way of income from the recipients of services provided by the department. Investing activities represent the extent to which cash inflows and outflows have been made for resources which are intended to contribute to the departments' future public service delivery.

	Note	2020-21 £000	2019-20 Restated £000
Cash flows from operating activities			
Net operating expenditure	SoPS1.1	(11,994)	(1,118)
Adjustments for non-cash transactions	SoPS3	12,432	4,564
(Increase)/Decrease in trade and other receivables	9	(7,873)	(513)
Increase/(Decrease) in trade payables	10	(5,153)	9,908
less movements in payables relating to items not passing through the SoCNE	10	8,665	(3,233)
Use of provisions	11	(690)	(544)
Net cash flow from operating activities		**(4,613)**	**9,064**
Cash flows from investing activities		-	-
Purchase of property, plant and equipment	5	(2,199)	(318)
Net cash outflow from investing activities		**(2,199)**	**(318)**
Cash flows from financing activities			
From the Consolidated Fund (supply)	SOCiTE	6,893	1,389
Advances from the Contingencies Fund		27,000	20,000
Payments to the Contingencies Fund		(27,000)	(20,000)
Net financing		**6,893**	**1,389**
Net increase in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		**81**	**10,135**
Payments of amounts to the Consolidated Fund		(8,746)	(6,902)
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		**(8,665)**	**3,233**
Cash and cash equivalents at the beginning of the period	8	12,269	9,036
Cash and cash equivalents at the end of the period	8	**3,604**	**12,269**

The notes on pages 73 to 87 form part of these accounts.

Statement of changes in taxpayers' equity for the year ended 31 March 2021

This statement shows the movement in the year on the different reserves held by the department, analysed into 'general fund reserves' (i.e. those reserves that reflect a contribution from the Consolidated Fund). The General Fund represents the total assets less liabilities of a department, to the extent that the total is not represented by other reserves and financing items.

		General fund
	Note	**£000**
Balance at 31 March 2019		**(3,304)**
Auditors remuneration	3	100
Comprehensive net expenditure for the year	SoCNE	(1,118)
Gains/ losses relating to pension liabilities	11	-
Net Parliamentary Funding - deemed		2,134
Net Parliamentary Funding - drawn down		1,389
Supply payable adjustment		(12,269)
Cash receipts from 2018-19 not due to the consolidated fund		(121)
Balance at 31 March 2020		**(13,189)**
Auditors remuneration	3	100
Comprehensive net expenditure for the year	SoCNE	(11,994)
Net Parliamentary Funding - deemed		3,523
Net Parliamentary Funding - drawn down		6,893
Supply payable adjustment		(3,604)
Cash receipts from 2019-20 not due to the consolidated fund		(8)
Balance at 31 March 2021		**(18,279)**

The notes on pages 73 to 87 form part of these accounts.

Notes to the departmental resource accounts

1. Statement of accounting policies

These financial statements have been prepared in accordance with the Financial reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector. Where the FReM permits a choice of accounting policy, Ofgem have selected the accounting policy which is judged to be most appropriate to the particular circumstances for the purpose of giving a true and fair view. The particular policies adopted are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

As well as the primary statements prepared under IFRS, the FReM requires the department to prepare one additional primary statement. The Statement of Parliamentary Supply (SoPS) and supporting notes show outturn against estimate in terms of the net resource requirement and the net cash requirement, and are included in the Parliamentary Accountability and Audit Report section starting on page 60.

1.1 Accounting convention

These accounts have been prepared on a going concern basis under the historical cost convention. The accounts are presented to the nearest £'000.

Going concern

In common with other government departments, the future financing of our liabilities is to be met by future grants of supply and the application of future income, both to be approved annually by Parliament. Approval for amounts required for 2021-22 has already been given and there is no reason to believe that future approvals will not be granted. We expect to continue to deliver services into the future. We have therefore considered it appropriate to adopt a going-concern basis for the preparation of these financial statements.

1.2 Operating income

Operating income is income that relates directly to Ofgem's operating activities. It principally comprises licence fees, and fees and charges for services provided on a full-cost basis

- **Licence fees** - In each financial year, Ofgem is required to balance its expenditure with its income. Ofgem is required to raise income from the sector it regulates such that it covers the costs to be incurred by Ofgem in regulating that sector. Therefore, Legislation provides the enforceability on both parties to enable Ofgem to recover its costs from third parties. The performance obligations relate to the underlying work to be undertaken by Ofgem as regulator of the Gas & Electricity Market, and as set out in the published Forward Work Programme. Revenue is recognised in the year the performance obligation (cost) is incurred.

- **Scheme funded recharges** - Under service level agreements/ contracts with the Department of Business, Energy and Industrial Strategy and other government bodies, Ofgem administers energy and environmental schemes on their behalf. These services are provided on a full-cost basis. Income is recognised on an accruals basis as the performance obligations outlined within the service level agreements/ contracts are satisfied over time.

- **Other income** - Other income is accounted for on an accruals basis.

1.3 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) and the Civil Servants and Others Pension Scheme (CSOPS). These are described in the Staff Report. Both schemes are non-contributory and unfunded. Departments, agencies and other bodies covered by both schemes meet the cost of pension cover provided for the staff they employ by payment of charges calculated on an accruing basis. Liability for payment of future benefits is a charge on the schemes. There is a separate scheme statement for the PCSPS and the CSOPS as a whole.

1.4 Early departure costs

Ofgem are required to meet the additional cost of benefits beyond the normal PCSPS benefits for employees who retire early. The full cost is provided for when the early retirement programme has been announced and is binding.

1.5 Property, plant, equipment and depreciation

Property, plant and equipment are held at depreciated historical cost as a proxy for current value, as this realistically reflects consumption of the asset. Revaluations would not cause a material difference.

Depreciation is provided at rates calculated to write off property, plant and equipment by equal instalments over their estimated useful lives, after allowance for residual value. Asset lives are within the following ranges:

Leasehold improvements	Life of the lease
Office equipment, furniture and fittings	Five years
IT equipment	Three years.

The minimum level for the capitalisation of property, plant and equipment is £2,000. IT equipment and furniture, where individual assets may cost less than £2,000, are capitalised on a grouped basis.

1.6 Operating leases

Rentals due under operating leases are charged to the statement of comprehensive net expenditure over the lease term on a straight-line basis, or on the basis of actual rentals payable which fairly reflects the usage. This will change in 2022-23, please see note 1.14.

1.7 Cash and Cash equivalents

Cash and cash equivalents in the statement of financial position comprises of cash at bank and in hand. For the purpose of the cash flow statement, cash and cash equivalents consist of cash only.

1.8 Provisions

Where Ofgem has a legal or constructive obligation to meet certain costs, Ofgem will make a provision based on a management estimate of the value, probability and timing of future payments.

Where the time-value of money is material, the provision is discounted to its present value using the government's standard discount rate (currently a nominal rate of (0.02%) for up to the first five years and 0.18% for greater than five years). Each year the financing charges in the statement of comprehensive net expenditure include the adjustments to amortise one year's discount and restate liabilities to current price levels.

1.9 Value added tax

Amounts are shown net of value-added tax (VAT), except:

- irrecoverable VAT is charged to the statement of comprehensive net expenditure and included under the heading relevant to the type of expenditure
- irrecoverable VAT on the purchase of an asset is included in the capitalised purchase cost of the asset.

The amount due from HM Revenue and Customs for VAT is included in receivables within the Statement of Financial Position.

1.10 Foreign exchange

Transactions which are denominated in a foreign currency are translated into sterling at the rate of exchange ruling on the date of each transaction.

1.11 Financial risks

Ofgem has no significant exposure to liquidity, interest rate or currency risks. Because of the nature of its activities and the way in which Ofgem is financed, it is not exposed to the degree of financial risk faced by business entities..

1.12 Contingent liabilities

In addition to contingent liabilities disclosed in accordance with IAS 37 (Provisions, Contingent Liabilities and Contingent Assets), certain statutory and non-statutory contingent liabilities are reported for parliamentary reporting and accountability purposes. This occurs where management deem the likelihood of a transfer of economic benefit as remote, but where the liabilities have been reported to parliament in accordance with the requirements of Managing Public Money.

1.13 Assets belonging to third parties

Assets belonging to third parties as disclosed in Note 14 (such as money held in relation to the Renewables Obligation and Feed-In Tariff schemes) are not recognised in the Statement of Financial Position since Ofgem have no beneficial interest in them.

1.14 Adoption of new and revised accounting standards

- **IFRS 16**

IFRS 16 Leases is applicable from 1 April 2022 (delayed from 1 April 2021) for FReM bodies and replaces IAS 17 Leases. IFRS 16 Leases provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less, or the underlying asset meets the IFRS 16 criteria to be classified as of "low value".

IFRS 16 requires that assets and liabilities will be recognised initially at the discounted value of the minimum lease payments, and that the assets, to be described as "right of use" assets, will be presented under Property, Plant and Equipment. Therefore, implementation of IFRS 16 will increase the value of property, plant and equipment assets and the value of lease liabilities.

After initial recognition, right-of-use assets will be amortised on a straight-line basis and interest will be recognised on the liabilities. As a result, the timing of the recognition of the total costs of leasing will change, as interest costs will be higher at the start of a lease.

IFRS 16 will be implemented using the cumulative catch-up method, which means that comparatives for 2021-22 will not be re-stated, and the adjustment to net assets will be made with effect from 1 April 2022. This approach is mandated by HM Treasury. Ofgem's material leases relate to property rentals for office space. The effect of implementation is estimated to be an increase in assets and liabilities of approximately £22 million based on 2020-21 assumptions, interest rates and discount rates.

- **IFRS 17**

IFRS 17 Insurance contracts is not likely to be adopted by the public sector until 2023 or later. The impact is not expected to be material for the department.

1.15 Accounting Policy on Critical Accounting Judgements and Estimation Uncertainty

- **Provisions**

Provisions rely on the application of professional judgement, historical experience and other factors expected to influence future events. Where the likelihood of a liability crystallising is deemed probable and can be measured with reasonable certainty, a provision is recognised. Further information is disclosed in note 11.

- **Useful lives of non-current assets**

There is uncertainty in relation to estimated useful lives of non-current assets; these are reviewed as at the reporting date and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence or legal or other limits on their use.

1.16 Prior Period Adjustment

During 2020-21, Ofgem identified that an incorrect amount of VAT had been reclaimed from HMRC in prior years. A provision should have been recognised for the amount owed to HMRC. The 2019-20 financial statements have been restated to recognise this provision (more detail provided in note 11).

2. Statement of operating costs by operating segment

2020-21				
	Regulatory Activities £000	Ofgem E-Serve £000	Corporate Services £000	Total £000
Gross expenditure	44,340	29,100	47,673	121,113
Income	(44,340)	(28,402)	(36,377)	(109,119)
Net expenditure	**-**	**698**	**11,296**	**11,994**

2019-20 Restated				
	Regulatory Activities £000	Ofgem E-Serve £000	Corporate Services £000	Total £000
Gross expenditure	36,117	24,443	39,703	100,263
Income	(36,117)	(23,795)	(39,233)	(99,145)
Net expenditure	**-**	**648**	**470**	**1,118**

Segmental reporting is undertaken on an activity basis, in line with monthly reporting to decision makers within the organisation.

3. Expenditure

	Note	2020-21 £000	2019-20 Restated £000
Staff costs:*			
Wages and Salaries		57,516	48,233
Social Security Costs		5,630	4,901
Other Pension Costs		12,911	11,023
Other Staff Costs		257	610
Apprenticeship levy		234	199
		76,548	**64,966**
Rental under operating leases:			
Operating leases (land and buildings)	6	2,792	3,479
		2,792	**3,479**
Non-cash items:			
Auditors' remuneration and expenses**		100	100
Depreciation	5	1,416	973
Impairment	5		515
Holiday pay adjustment		1,310	
		2,826	**1,588**
Other expenditure:			
Consultancy		18,689	15,829
Accommodation costs		2,594	1,945
Recruitment and training		1,132	1,350
Travel and subsistence		31	984
Office supplies and equipment		4,831	4,648
Professional Services		929	1,352
Staff related costs		254	366
Other expenditure		484	670
		28,944	**27,144**
Provisions:			
Movement in provision	11	10,003	3,086
Total		**121,113**	**100,263**

* Further analysis of staff costs is located in the Staff Report on page 54

** There was no auditor remuneration for non-audit work.

4. Operating income analysis

	2020-21 £000			2019-20 Restated £000		
	Income	Full costs	Deficit	Income	Full costs	Deficit
Licence fees	77,301	77,301	-	72,194	72,194	-
Other	31,818	43,812	(11,994)	26,951	28,069	(1,118)
Total	**109,119**	**121,113**	**(11,994)**	**99,145**	**100,263**	**(1,118)**

Other income includes:	**Note**	**2020-21 £000**	**2019-20 Restated £000**
Offshore Transmission Tender Recharge		2,638	2,629
Department for Business, Energy and Industrial Strategy (relating to environmental programmes and staff transfers)	13	24,269	16,806
Scheme-funded recharges		4,045	6,105
Other departments			180
Miscellaneous*		866	1,231
		31,818	**26,951**

* Miscellaneous income includes licence application fees, and other minor items.

5. Property, plant and equipment

	Furniture	Office equipment	IT	Leasehold	Total
	£000	**£000**	**£000**	**£000**	**£000**
Cost or valuation					
At 1 April 2020	229	121	1,382	6,038	7,770
Additions	-	322	1,811	66	2,199
Disposals	-	-	-	-	-
Impairments	-	-	-	-	-
At 31 March 2021	**229**	**443**	**3,193**	**6,104**	**9,969**
Depreciation					
At 1 April 2020	114	8	827	5,319	6,268
Charged in year	66	42	877	431	1,416
Disposals	-	-	-	-	-
Impairments	-	-	-	-	-
At 31 March 2021	**180**	**50**	**1,704**	**5,750**	**7,684**
Carrying amount at 31 March 2021	**49**	**393**	**1,489**	**354**	**2,285**
Carrying amount at 31 March 2020	116	113	555	718	1,502

	Furniture	Office equipment	IT	Leasehold	Total
	£000	**£000**	**£000**	**£000**	**£000**
Cost or valuation					
At 1 April 2019	332	1,999	7,162	7,533	17,026
Additions	47	121	109	41	318
Impairments	(150)	(1,999)	(5,889)	(1,536)	(9,574)
At 31 March 2020	**229**	**121**	**1,382**	**6,038**	**7,770**
Depreciation					
At 1 April 2019	211	1,997	6,022	6,119	14,349
Charged in year	52	73	632	216	973
Disposals	(150)	(2,062)	(5,827)	(1,530)	(9,569)
Impairments	-	-	-	515	515
At 31 March 2020	**113**	**8**	**827**	**5,320**	**6,268**
Carrying amount at 31 March 2020	**116**	**113**	**555**	**718**	**1,502**
Carrying amount at 31 March 2019	121	2	1,140	1,414	2,677

6. Operating leases

£2.8m (2019-20: £3.5m) was included as an expense on operating leases in the Statement of Comprehensive Net Expenditure. Total future minimum lease payments under operating leases are given in the table below for each of the following periods.

	2020-21	2019-20
	£000	£000
Obligation under operating leases comprise:		
Buildings:		
Not later than one year	2,218	2,194
Later than one year and not later than five years	8,222	8,095
Later than five years	14,014	16,292
	24,454	**26,581**

London office space is contracted up to June 2032.
Glasgow office space is leased until 2026-27 with annual breaks from 2021-22.
Cardiff is contracted until March 2026 with an option to extend to 2045.

7. Financial instruments

As the cash requirements of the department are met through the Estimates process, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body of a similar size. The majority of financial instruments relate to contracts for non- financial items in line with the Department's expected purchase and usage requirements and the Department is therefore usually exposed to little credit, liquidity or market risk.

8. Cash and cash equivalents

	2020-21	2019-20
	£000	£000
Balance at 1 April	12,269	9,036
Net change in cash balances:	(8,665)	3,233
Balance at 31 March	**3,604**	**12,269**
The following balances at 31 March were held at:		
Government Banking Service	3,604	1,996
Commercial banks and cash in hand	-	10,273
Balance at 31 March	**3,604**	**12,269**

In addition to the cash and cash equivalents disclosed above, Ofgem holds third party assets of cash and letters of credit relating to offshore tender developer securities, the Renewables Obligation, the Feed-in Tariffs funds and Renewable Heat Incentive schemes. These are described in note 14.

9. Trade receivables and other current assets

	2020-21	2019-20
Amounts falling due within one year:	**£000**	**£000**
Accrued income	12,987	5,787
Trade receivables	793	564
Prepayments	1,309	639
VAT	468	660
Other receivables	18	52
Balance at 31 March	**15,575**	**7,702**

Other receivables represent staff loans outstanding, such as season ticket loans and through the cycle to work scheme.

10. Trade payables and other current liabilities

	2020-21	2019-20
Amounts falling due within one year:	**£000**	**£000**
Amounts issued from the Consolidated Fund for supply but not spent at year end	3,604	3,523
Excess cash payable to the consolidated fund		8,746
Deferred licence fees	745	3,955
Accruals	5,502	6,290
Other deferred income	5,477	555
Other payables	3,108	1,799
Taxation and social security	2,952	2,497
Trade payables	1,749	925
Balance at 31 March	**23,137**	**28,290**

Ofgem encourages staff to use their full holiday entitlement for each year. However, staff can carry over up to ten days of untaken leave into the next year. Amounts untaken as at 31March are accrued within "other payables".

11. Provisions for liabilities and charges

Prior period adjustment: Restatement of Statement of Financial Position and Statement of Comprehensive Net Expenditure

In preparing the 2020-21 annual report and accounts, a historic overclaim of VAT was identified. Ofgem has restated the 2019-20 financial statements to retrospectively include a provision of £2.388m for overclaimed VAT.

The effect of the restatement on the 2019-20 Statement of Comprehensive Net Expenditure is to increase "Other Operating Expenditure" by £0.47 million and increases "Provisions" within "Non-current Liabilities" by the same amount. The Non-current Liabilities at 1 April 2019 increase by £1.918 million.

Extracts from the statement of comprehensive net expenditure and statement of financial position.

	2019-20 (as previously reported)	Adjustment	2019-20 (restated)
	£000	£000	£000
Operating Income	**(99,145)**	**-**	**(99,145)**
Staff costs	64,966	-	64,966
Other operating expenditure	34,827	470	35,297
Total operating expenditure	**99,793**	**470**	**100,263**
Net operating expenditure for the period	**648**	**470**	**1,118**

	2019-20 (as previously reported)	Adjustment	2019-20 (restated)	As at 1 April 2019 (as previously reported)	Adjustment	As at 1 April 2019 (restated)
	£000	£000	£000	£000	£000	£000
Extract from the statement of financial position						
Current liabilities:						
Trade and other payables	(28,290)	-	(28,290)	(18,382)	-	(18,382)
Provisions	(1,131)	-	(1,131)	(570)	-	(570)
Total current liabilities	**(29,421)**	**-**	**(29,421)**	**(18,952)**	**-**	**(18,952)**
		-			-	
Total assets less current liabilities	**(7,948)**	**-**	**(7,948)**	**(50)**	**-**	**(50)**
Non-current liabilities:						
Provisions	(2,853)	(2,388)	(5,241)	(1,336)	(1,918)	(3,254)
Total non-current liabilities	**(2,853)**	**(2,388)**	**(5,241)**	**(1,336)**	**(1,918)**	**(3,254)**
Total assets less total liabilities	**(10,801)**	**(2,388)**	**(13,189)**	**(1,386)**	**(1,918)**	**(3,304)**
General fund	**(10,801)**	**(2,388)**	**(13,189)**	**(1,386)**	**(1,918)**	**(3,304)**

	Early retirement	Voluntary exit	Pension liabilities	Dilapidations	Legal	VAT	Other	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2020 (restated)	131	-	838	1,899	-	2,388	1,116	6,372
Provided in the year	-	400	-	285	10,064	133	1,298	12,180
Provisions not required written back	-	-	(838)	-	-	-	(435)	(1,273)
Provisions utilised in the year	(18)	-	-	-	-	-	(672)	(690)
Changes in discount rate	17	-	-	-	-	-	-	17
Balance at 31 March 2021	**130**	**400**	**-**	**2,184**	**10,064**	**2,521**	**1,307**	**16,606**

	Early retirement	Voluntary exit	Pension liabilities	Dilapidations	Legal	VAT	Other	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2019	147	522	838	368	-	1,918	32	3,825
Provided in the year	-	6	-	1,531	-	470	1,116	3,123
Provisions not required written back	-	-	-	-	-	-	(32)	(32)
Provisions utilised in the year	(16)	(528)	-	-	-	-	-	(544)
Balance at 31 March 2020 (restated)	**131**	**-**	**838**	**1,899**	**-**	**2,388**	**1,116**	**6,372**

Analysis of expected timings of discounted flows								
Not later than one year	16	400			10,064	2,521	1,307	14,308
Later than one year and not later than five years	62			2,184				2,246
Later than five years	52							52
Balance at 31 March 2021	**130**	**400**	**-**	**2,184**	**10,064**	**2,521**	**1,307**	**16,606**

Early retirement

The department meets the additional costs of benefits beyond the normal PCSPS benefits for employees, who worked in Leicester office of Ofgem, by paying the required amounts monthly to the PCSPS.

Voluntary exit

Severance provisions relate to voluntary exits which have been discussed with the impacted member of staff prior to 31 March 2021 but are not expected to happen until 2021-22.

Pension liabilities

The pension provision related to unfunded pension liabilities for a previous chief executive and director general. During 2020-21, it was confirmed that this potential liability is no longer required and the provision could be released in full.

Dilapidations

Dilapidations provisions are an anticipation of the future cost to return the department's leased properties to their condition as at the commencement of the lease.

Legal

A number of our RIIO-2 price control decisions for the gas distribution and transmission sectors are currently subject to appeal before the CMA. The CMA granted the appellants permission to appeal on 31 March 2021, and they are due to conclude in October 2021. The CMA will make an order for the recovery of its costs and may make an order in respect of party costs as part of this process – an unsuccessful party may be ordered to pay the efficient or reasonably incurred costs of the winning party, and be ordered to pay some or all of the CMA's costs.

It is too early in the process to predict with any certainty what the outcome of the appeals might be and whether Ofgem might be liable for any appellant or CMA costs. The provision value of £10.064 million has been estimated using historic data from similar, but not directly comparable, price control cases and represents a point in a broad range so there is material uncertainty around this estimate.

VAT

VAT provisions are an anticipation of the future cost to repay to HMRC possible over recovery of VAT on Consultancy costs.

Other provisions

Other provisions relate to the probable future cost to Ofgem of a claim from a supplier, potential historic property costs relating to the lease for the 10SC office which have not yet been agreed with Government Property Agency, and some minor costs relating to the 2019-20 senior management restructure. There is also a provision for probable costs related to a historic shortfall in pension contributions for some members of staff and former staff.

12. Contingent liabilities disclosed under IAS 37

From time to time we will be subject to legal challenge and judicial review of decisions made in the normal course of our business as regulator of the gas and electricity markets. Legal judgments could give rise to liabilities for legal costs but these cannot be quantified as the outcome of proceedings would be unknown. There is therefore considerable uncertainty about the nature and extent of any subsequent liability.

13. Related party transactions

During the year, we transferred £10.498 million to the Department for Business, Energy and Industrial Strategy (BEIS). £9.489 million of this was for advocacy services. The remaining £1.009 million was transferred for metrology services.

We administer environmental programmes on behalf of the BEIS, and second staff to BEIS. Total income from BEIS recognised in year amounted to £24.269 million, of which £7.921 million was outstanding at 31 March 2021 (£16.806 million income in 2019-20 with £4.492 million outstanding at 31 March 2020).

We administer the Northern Ireland Renewable Heat Incentive on behalf of the Department for the Economy (DfE), and administer the Northern Ireland Renewables Obligation on behalf of the Northern Ireland Authority for Utility Regulation (NIAUR). Costs of £1.460 million and income of £0.447 million was recognised from the NIAUR, and £1.811 million of income from DfE.

In addition, we have had a small number of transactions with other government departments and central government bodies.

None of the Authority members, key managerial staff or other related parties has undertaken any material transactions with Ofgem during the year except for remuneration which is included on page 47.

14. Third-party assets

Offshore Tender Developer Securities

Along with the government, we have established the competitive offshore transmission regulatory regime to appoint an Offshore Transmission owner through competitive tendering.

We are responsible for managing the competitive tender process through which offshore transmission licences are granted.

Granting licences to operate new offshore transmission assets via a competitive tender process means that generators are partnered with the most efficient and competitive players in the market. This should result in lower costs and higher standards of service for generators and, ultimately, consumers.

Part of Ofgem's risk management strategy for the competitive tender process is to hold securities for the purposes of recovering costs in the event of an incomplete tender process. These securities are in the form of a letter of credit or cash. At 31 March 2021 Ofgem held £8.85m in letters of credit (31 March 2020: £9.05m)

Renewables Obligation

The Renewables Obligation is one of the main support mechanisms for large-scale renewable electricity projects in the UK, and the scheme is administered by Ofgem. The scheme closed to applicants in 2017. More about the Renewables Obligation can be found at https://www.ofgem.gov.uk/environmental-programmes/ro

Several bank accounts are used to administer the scheme:

- Buyout funds – Suppliers can meet their renewables obligation by paying into the buyout fund. The proceeds of the buy-out fund are paid back pro-rata to those suppliers who discharged their obligation in full.
- Late payments – Any payments received after 31 August will be late payments. These are subject to an annualised daily interest penalty (5% + Bank of England base rate).
- Mutualisation – Where there is an overall shortfall in the obligation amount, suppliers are required to make payment towards mutualisation. The mutualisation funds are redistributed to suppliers who discharged their obligation in full.

Total cash held in these bank accounts as at 31 March 2021 was £25.43m (31 March 2020: £54.18m)

Feed-in Tariff levelisation funds

The Feed-in Tariff (FIT) scheme is a government programme introduced on 1 April 2010 designed to promote the uptake of small-scale renewable and low-carbon electricity generation technologies.

Ofgem administers the scheme on behalf of the Department for Business, Energy and Industrial Strategy (BEIS), who is responsible for the FIT scheme policy and legislation, while Licensed Electricity Suppliers (FIT Licensees) operate the front-facing aspect of the scheme. If a householder, community or business has an eligible installation, they are paid a tariff for the electricity they generate and a tariff for the electricity they export back to the grid by their FIT Licensee.

The levelisation process operated by Ofgem redistributes the cost of the scheme amongst all Licensed Electricity Suppliers, based on their share of the GB Electricity Market and any FIT Payments they have made to accredited installations. This is a quarterly process, with an annual reconciliation process that is completed by September each year. The balance in the levelisation fund is typically a small value at the end of each financial year.

The amount held in the levelisation funds as at 31 March 2021 was £0.85m (31 March 2020: £2.33m).

Domestic and non-domestic renewable heat incentive (RHI)

The Domestic RHI is a government financial incentive to encourage a switch to renewable heating systems. It's a way to help the UK reduce carbon emissions and is for households both off and on the gas grid.

The Non-Domestic RHI is a government environmental programme that provides financial incentives to increase the uptake of renewable heat by businesses, the public sector and non-profit organisations.

Ofgem administers both schemes on behalf of BEIS in Great Britain, and administers Non-Domestic RHI in Northern Ireland on behalf of DfE. Bank balances held in relation to the schemes at 31 March 2021were: Domestic RHI: £4.919m; Non-domestic RHI Great Britain: £3.077m; Non-domestic RHI Northern Ireland: £0.168m (31 March 2020: £4.118m; £19.448m; £0.014m).

15. Events after the reporting period

The Accounting Officer duly authorised the issue of these financial statements on the date of the Comptroller and Auditor General's audit certificate. The financial statements do not reflect events after this date.

Trust Statement

Accounting officer's foreword to the trust statement

Scope

Ofgem is governed by the Gas and Electricity Markets Authority. The Authority's responsibilities are set out in the Gas Act 1986, the Electricity Act 1989, the Utilities Act 2000, the Competition Act 1998, the Enterprise Act 2002, the Energy Acts of 2004, 2008, 2010, 2011 and 2013 and related legislation.

The Authority is responsible for taking enforcement action (including imposing financial penalties) in respect of the energy companies that it regulates, and collecting the England and Wales, and Scotland fossil fuel levies.

The trust statement reports the revenues and expenditures and assets and liabilities related to fines, penalties and the fossil fuel levies for the financial year 2020-21. These amounts are collected by us for payment into the consolidated fund.

This statement is also prepared to disclose any material expenditure or income that has not been applied for the purposes intended by parliament, or material transactions that have not conformed to the authorities which govern them. There was no such expenditure or income during 2020-21.

Future disclosures

The 2020-21 trust statement will be the final trust statement prepared by Ofgem, unless there is a significant change in future and it is agreed with HM Treasury that it would aid transparency to reintroduce a trust statement.

The fossil fuel levies were closed in 2019 and no longer have any significant transactions. The residual levy cash balances will be transferred to the consolidated fund (England and Wales levy balance) and Scottish consolidated fund (Scotland levy balance). This is expected to happen during 2021-22.

In future, fines imposed and penalties collected will be reported in a note to the Ofgem resource accounts so that there will be no loss of transparency.

Background

Penalties

Under the Gas Act 1986 and the Electricity Act 1989 the Authority may impose a statutory penalty where it is satisfied that a regulated party (eg licence-holders) has contravened or is contravening any relevant condition or requirement, or has failed or is failing to achieve any prescribed standard of performance.

No penalty imposed by the Authority under the Gas Act 1986 and the Electricity Act 1989 may exceed 10% of the turnover of the regulated party.

We also have powers under The Electricity and Gas (Market Integrity and Transparency) (Enforcement etc) Regulations 2013 to monitor, investigate and impose penalties in respect of breaches of EU Regulation 1227 / 2011 on Wholesale Energy Market Integrity and Transparency ('REMIT') and REMIT as it has been retained in domestic UK law. We also have powers under the Network and Information Systems Regulations 2018 to impose penalties in respect of breaches of those Regulations.

We also have concurrent powers with the Competition and Markets Authority (CMA) to enforce the prohibitions on anti-competitive agreements and abusing positions of dominance in the Competition Act 1998. Where an infringement is found, we may decide to impose a financial penalty up to 10% of the company's applicable turnover if we are satisfied that the infringement was committed intentionally or negligently.

Any sums imposed by the Authority by way of a formal legislative penalty are paid into the consolidated fund. In 2020-21 the penalties imposed which were payable to the consolidated fund amounted to approximately £26.6 million. We give notice to the regulated party that we propose to impose a penalty on and consult on this.

Financial review

This year we imposed penalties on companies. This financial review covers penalties that resulted in the imposition of penalties payable to the consolidated fund.

Ovo

We imposed a financial penalty on Ovo Electricity Limited and Ovo Gas Limited (jointly Ovo Energy Limited) for its failure to comply with SLCs 22C, 25C/0, 27, 28A and 31A of its Electricity and Gas Supply Licences.

SLC 22C requires suppliers to provide information on (among other things) a customer's estimated annual costs and estimated annual savings. SLC 25C, which was in force until October 2017, required suppliers to take all reasonable steps to achieve certain standards of conduct and to ensure that the standards were interpreted and applied consistently with the customer objective, which was to treat customers fairly. SLC 25C has since been modified; our enhanced Standards of Conduct came into force on 10 October 2017 and are now known as SLC 0. SLC 27 requires suppliers to take all reasonable steps to issue final bills within 6 weeks of a customer leaving supply and also issue corrected final bills (if required) in a timely manner. SLC 28A requires suppliers to ensure that charges for energy do not exceed the maximum permitted charges under the prepayment price cap. SLC31A sets out specific obligations concerning the provision of information on bills, statements of account and annual statements. We made no finding of breach in respect of SLC 26 (Priority Services Register), which was within the scope of this investigation.

We imposed a financial penalty of £1 on Ovo Electricity Limited and £1 on Ovo Gas Limited. This is in addition to £8,876,500 (less £2) that Ovo agreed to pay in voluntary redress. The redress was paid into Ofgem's Voluntary Redress Fund (administered by the Energy Saving Trust) and the money will be used to the benefit of energy consumers.

Intergen

We made a finding that InterGen breached Article 5 of REMIT by engaging in market manipulation to exploit Great Britain's Balancing Mechanism, a Wholesale Energy Market. Article 5 REMIT provides that "any engagement in, or attempt to engage in, market manipulation on wholesale energy markets shall be prohibited".

We also made a finding that Coryton, Rocksavage and Spalding breached Standard Licence Condition (SLC) 5.1 of their Electricity Generation Licence which requires them to comply with the Grid Code. Namely, Balancing Code (BC) 1.4.2 which requires Dynamic Parameters to reasonably reflect the expected true operating characteristics of the Balancing Mechanism Unit and be prepared in accordance with Good Industry Practice and BC 1.4.3, which requires Balancing Mechanism Participants to use reasonable endeavours to ensure data held by the Electricity System Operator is accurate at all times. In the course of the investigation we found that staff at InterGen sent misleading signals to National Grid Electricity System Operator for commercial gain. InterGen profited through this manipulation of the market.

InterGen agreed to pay approximately £12.8m back to recompense those parties affected by its REMIT breach, in addition to paying a penalty of £24.5m. The total financial liability due from InterGen in respect of the contraventions of Article 5 was approximately £37.3m.

SSE Generation Ltd

Ofgem's investigation found that SSE breached Article 4 REMIT by failing to publicly disclose Inside Information in a timely and effective manner.

On 3 February 2016, SSE announced that three generating units at its Fiddler's Ferry power station were likely to close by 1 April 2016. On 22 March 2016 it signed a non-binding Heads of Terms agreement with National Grid Electricity Transmission to provide ancillary services at any one of the three generating units at Fiddler's Ferry from 1 April 2016. SSE did not publish this information in a timely manner.

SSE admitted the breach of Article 4 of REMIT and agreed to settle during the early settlement window.

A financial penalty of £2,060,000 was imposed on SSE in respect of its contraventions of Article 4(1).

Statement of the accounting officer's responsibilities in respect of the trust statement

Under section 7 of the Government Resources and Accounts Act 2000, the HM Treasury has directed the Office of Gas and Electricity Markets (Ofgem) to prepare for each financial year a trust statement in the form and on the basis set out in the Accounts Direction. 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 the 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 financial statements;
- prepare the financial statements on a going concern basis; and
- confirm that the trust statement as a whole is fair, balanced and understandable and take personal responsibility for the trust statement 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

Ofgem's governance statement, covering both the resource accounts and the trust statement, is on pages 36 to 47.

The certificate and report of the Comptroller and Auditor General to the House of Commons

Opinion on financial statements

I certify that I have audited the financial statements of the Office of Gas and Electricity Markets Trust Statement for the year ended 31 March 2021 under the Government Resources and Accounts Act 2000. The financial statements comprise the Statements of revenue, other income and expenditure, financial position, the cash flows and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards as interpreted by HM Treasury's Government Financial Reporting Manual.

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Office of Gas and Electricity Markets Trust Statement as at 31 March 2021 and of the net revenue for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on regularity

In my opinion, in all material respects the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis for opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK), applicable law and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate.

Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2019. I have also elected to apply the ethical standards relevant to listed entities. I am independent of the Office of Gas and Electricity Markets in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of Matter

Without qualifying my opinions above, I draw attention to Note 1.1 of the Trust Statement's Accounting Policies; Basis of Accounting and the Accounting Officer's statement in the foreword to the Trust Statement: Future disclosures, in which the Accounting Officer highlights that the fossil fuel levy schemes were closed on 31 March 2019 and no longer have any significant transactions. The Accounting Officer has therefore identified that the 2020-21 Trust Statement will be the final trust statement prepared by the Office of Gas and Electricity Markets, unless there is a significant change in future and it is agreed with HM Treasury that it would aid transparency to reintroduce a Trust Statement. As explained in Note 1.1, the Trust Statement has been prepared on a going concern basis.

Conclusions relating to going concern

In auditing the financial statements, I have concluded that the Office of Gas and Electricity Markets' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. The going concern basis of accounting for the Office of Gas and Electricity Markets' Trust Statement is adopted in consideration of the requirements set out in HM Treasury's Government Reporting Manual, which require entities to adopt the going concern basis of accounting in the preparation of the financial statements where it anticipated that the services which they provide will continue into the future. It is anticipated that the services provided by the Office of Gas and Electricity Markets will continue into the future. The fines imposed and penalties collected which have previously been reported within the Trust Statement will be reported in a note to the Office of Gas and Electricity Markets' annual report and accounts.

My responsibilities and the responsibilities of the Accounting Officer with respect to going concern are described in the relevant sections of this certificate.

Other Information

The other information comprises information included in the Accounting Officer's foreword and Statement of accounting officer's responsibilities to the trust statement, but does not include the financial statements and my auditor's certificate thereon. The Accounting Officer is responsible for the other information. My opinion on the financial statements does not cover the other information and except to the extent otherwise explicitly stated in my certificate. I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

Opinion on other matters

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the Accounting Officer's foreword to the Trust Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

In the light of the knowledge and understanding of the Office of Gas and Electricity Markets and its environment obtained in the course of the audit, I have not identified material misstatements in the Accounting Officer's foreword to the Trust Statement. I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for:

- the preparation of the financial statements in accordance with the applicable financial reporting framework and for being satisfied that they give a true and fair view;
- internal controls as the Accounting Officer determines is necessary to enable the preparation of financial statement to be free from material misstatement, whether due to fraud or error.
- assessing the Office of Gas and Electricity Markets' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Accounting Officer anticipates that the services provided by Office of Gas and Electricity Markets will not continue to be provided in the future.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000.

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a certificate that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulation, including fraud.

My procedures included the following:

- Inquiring of management, the audited entity's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the Office of Gas and Electricity Markets' policies and procedures relating to:
    - o identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
    - o detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
    - o the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the Office of Gas and Electricity Markets' controls relating to Managing Public Money;
- discussing among the engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, I identified potential for fraud in the following areas: revenue recognition and posting of unusual journals;
- obtaining an understanding of Office of Gas and Electricity Markets' framework of authority as well as other legal and regulatory frameworks that the Office of Gas and Electricity Markets' operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Office of Gas and Electricity Markets' Trust Statement. The key laws and regulations I considered in this context included the Gas Act 1986, the Electricity Act 1989, those regulations under which the Office of Gas and Electricity Markets imposes fines and penalties, the Supply and Appropriation (Main Estimates) Act 2000 and Managing Public Money.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance and the Board;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

I also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities.

This description forms part of my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Report

I have no observations to make on these financial statements.

Gareth Davies
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria, London
SW1W 9SP

13 July 2021

Statement of revenue, other income and expenditure for the year ended 31 March 2021

	2020-21	2019-20
	£000	£000
Revenue		
Fines and penalties		
Penalties imposed	26,560	3,006
Finance Income		
Interest on bank deposits (England and Wales)	47	205
Interest on bank deposits (Scotland)	65	280
Total revenue and other income	**26,672**	**3,491**
Expenditure		
Administration and wind up costs associated with Fossil Fuel Levy	-	(186)
Credit losses	-	(200)
Total expenditure	**-**	**(386)**
Net Revenue for the Consolidated Fund	**26,672**	**3,105**

There were no recognised gains or losses accounted for outside the above statement of revenue, other income and expenditure.

The notes at pages 100 to 101 form part of this statement.

Statement of financial position as at 31 March 2021

	2020-21	2019-20
	£000	£000
Current assets		
Receivables and accrued fees	-	24
Cash at bank – UK consolidated fund	31,994	31,947
Cash at bank – Scottish consolidated fund	43,721	43,657
Net current assets	75,715	75,628
Total net assets	**75,715**	**75,628**
Represented by:		
Balance on UK consolidated fund account	31,994	31,971
Balance on Scottish consolidated fund account	43,721	43,657
	75,715	**75,628**

Jonathan Brearley
Chief Executive

12 July 2021

The notes at pages 100 to 101 form part of this statement.

Statement of cash flows for the year ended 31 March 2021

	2020-21	2019-20
	£000	£000
Net cash flow from operating activities	112	580
Increase/ (decrease) in cash in the period	**112**	**580**

Notes to the cash flow statement

Note A: Reconciliation of net cash flow to movement in net funds

	2020-21	2019-20
	£000	£000
Net revenue for the consolidated fund	26,672	3,105
(Increase)/ decrease in non-cash assets	-	283
Increase/ (decrease) in liabilities	-	(2)
Outflow to consolidated fund	(26,560)	(2,806)
Net cash flow	112	580

Note B: Analysis of changes in net funds

	2020-21	2019-20
	£000	£000
Increase/ (decrease) in cash in this period	112	580
Net funds at 1 April*	75,603	75,024
Net funds at 31 March	75,715	75,604

*1 April 2020 balance adjusted for rounding

Notes to the trust statement

Closure of the Fossil Fuel levy scheme

On 31 March 2019, the fossil fuel levy schemes closed and both of the companies set up to administer the schemes, NFPA and NFPA Scotland, are in the process of being liquidated. During 2021-22, the remaining cash balances will be transferred to the Consolidated Fund (England and Wales scheme) and the Scottish Consolidated Fund (Scotland scheme).

1. Statement of accounting policies

1.1 Basis of accounting

The trust statement is prepared in accordance with the accounts direction issued by the Treasury under section 7 of the Government Resources and Accounts Act 2000 and in accordance with the accounting policies detailed below. These have been agreed between Ofgem and HM Treasury and have been developed with reference to International Financial Reporting Standards and other relevant guidance. The accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

The income and associated expenditure contained in these statements are those flows of funds which Ofgem handles on behalf of the consolidated fund and where it is acting as agent rather than as principal. The financial information contained in the statements and in the notes is rounded to the nearest £'000.

Going concern

Although there will not be a trust statement in future years, Ofgem will continue to undertake enforcement activity which may lead to penalties. As there is continuation of service, the trust statement has been prepared on a going concern basis.

1.2 Accounting convention

The trust statement has been prepared in accordance with the historical cost convention.

1.3 Revenue recognition

Fines, penalties and levies are measured in accordance with IFRS 15. They are measured at the fair value of amounts received or receivable. Income is recognised when:

- a fine or penalty is validly imposed and an obligation to pay arises
- a levy payment becomes due.

2. Revenue

2.1 Fines and penalties

Penalties received by Ofgem are disclosed in Appendix II.

3. Receivables and accrued revenue receivable

	Total as at 31 March 2021	Total as at 31 March 2020
	£000	£000
Fines and penalties	200	200
Bank interest income	-	24
Total before estimated impairments	200	224
Less estimated impairments (see note 3.1)	(200)	(200)
Total	**-**	**24**

Receivables represent the amounts due from those on whom financial penalties have been imposed or a levy assessed at the balance sheet date, but where receipt is made subsequently.

Nominal penalties receivable do not show due to roundings.

There is no fossil fuel levy revenue receivable as at 31 March 2021.

3.1 Expected credit losses

In 2019-20 there was a financial penalty of £200,000 was imposed on Economy Energy. Economy Energy is now in administration. The likelihood of recovering the penalty is uncertain and therefore expected credit losses continue to be recognised for the full amount.

4. Balance on the consolidated fund accounts

	2020-21	2019-20
	£000	£000
Balance on the consolidated fund accounts as at 1 April	75,628	75,329
Net revenue for the consolidated fund accounts	26,672	3·105
Less amount paid to the consolidated funds	(26,560)	(2,806)
Change in receivables balance*	(25)	-
Balance on consolidated fund accounts as at 31 March	**75,715**	**75,628**

*Balance adjusted for rounding.

Appendices

Appendix I
Key Performance Indicators

Effective Competition			
Metric (KPI's)	**Details of what is being measured**	**Annual targets for 2019-20**	**Actual**
Offshore transmission processing	Licence grants within 70 days of commencement of Section 8A[5] consultations	70 days	43 days
Offshore transmission processing	Preferred Bidder selection within 120 days of the "Invitation to Tender" submission (excluding "Best" and "Final" offer)	120 days	165 days[22]
Licence applications	Make decisions on Licence Applications within 45 days	100%	100%[23]
Code modifications	Made code modification decisions within 25 days (or three months, if "minded to" consultation / impact assessment is needed)	90%	41%[24]
Customer contacts	Time taken for first response to customer contacts	80% - 10 working days	55%[25]
Whistle-blowers	Time taken for first response to whistle-blower contacts	100% - 1 working day to receive initial engagement	98.4%

Key performance indicators for our environmental and social schemes are set with the Department for Business, Energy and Industrial Strategy and the Northern Ireland Department for the Economy, for whom they are delivered. Every year, Ofgem commits to upholding specific service levels for the GB Domestic and Non-Domestic RHI, Feed-In-Tariffs, Renewables Obligation, Energy Company Obligation and Warm Home Discount schemes. Results against these for 2020-21 are set out below.

[22] Delays were incurred due to COVID-19 related issues.
[23] The specified time periods vary for different application types and are published in the guidance for gas and electricity licence applications - time periods may be extended by Ofgem once when justified by the complexity of the issue.
[24] This figure is a result of a number of factors including competing priorities within Ofgem, for example, work to respond to COVID-19, on Significant Code Reviews, and a number of complex decisions that required additional time. From April 2021 we are trialling a new approach to issuing code modification decisions, where we will aim to provide an expected decision date for each modification submitted to us for decision. The expected decision date will be based on the importance, urgency and impact of the modification, whilst we will also take into account our strategic priorities.
[25] This result is due to a number of factors: the impact of the COVID-19 crisis; an increase in contact from consumers experiencing vulnerable circumstances; and an increase in the number of consumers affected by Ofgem's Supplier of Last Resort process.

Environmental and Social Scheme KPIs			
Metric (KPI's)	**Details of what is being measured**	**Annual targets for 2020-21**	**Actual**
Domestic Renewable Heat Incentive (DRHI)	Responding to enquiries within 10 working days	80%	99%
Non domestic RHI	Responding to enquiries within 10 working days	80%	96%
Renewable Obligation	Responding to enquiries within 10 working days	80%	98%
Feed in Tariffs (FIT)	Responding to enquiries within 10 working days	80%	99%
Energy Company Obligation (ECO)	Responding to enquiries within 10 working days	80%	63%
Warm Home Discount	Responding to enquiries within 10 working days	80%	86%
Warm Home Discount	Responding to obligated party submitted Warm Homes Discount	100%	100%
DRHI	Maintaining system availability during business hours	99%	99%
Non domestic RHI	Maintaining system availability during business hours	99%	98%
RO	Maintaining system availability during business hours	99%	98%
FIT	Maintaining system availability during business hours	99%	99%
ECO	Maintaining system availability during business hours	99%	98%
DRHI	Making payments within 30 working days	95%	98%
Non domestic RHI	Making payments within 40 working days	90%	95%
Northern Ireland non domestic RHI	Making payments within 40 working days	95%	91%
RO	Issuing the main batch of Renewables Obligations Certificates following the generators' output data reporting deadline, within 17 working days (Apr-Jun) and 12 working days (Jul-Mar)	95%	98%
FIT	Completing the “levelisation" process within 22 working days	100%	100%
ECO	Processing the measures submitted in one calendar month by the end of the following month	100%	95%

The value of payments made in error during 2020-21 under the GB Renewable Heat Incentive Schemes is estimated at £16.6million which is also disclosed in the 2020-21 BEIS annual report and accounts.

Appendix II - Investigations and Enforcement Action 2020-21

Details of our cases are available on our website[26] in accordance with our policy as set out in our Enforcement Guidelines[27]. We will usually publish brief details of the facts and nature of the investigations on our website[28], although policy is different for cases relating to REMIT[29]. In the table below, you can find details of the formal investigations that we have completed this year. In investigations where we secured redress, the companies made payments either directly to consumers and/or to programmes and funds that would benefit them.[30]

Company	Issue	Decision	Date of decision
Utilita	Investigation into Utilita and its compliance with its obligations under Standard Licence Condition SLC 28A (pre-payment charge restriction).	Alternative action taken. No formal finding of breach. Utilita offered a package of redress of approximately £500,000, comprising of: £10 goodwill payments to all existing overcharged customers (increased to £15 if the customer is on the Priority Services Register); A £140 payment to the approximately 900 existing impacted customers who had applied for the Warm Home Discount (WHD) but were unsuccessful and an additional payment of £45,000 to be paid into the Voluntary Redress Fund.	October 2020
SSE Generation Ltd	Investigation into SSE Generation Limited breaching Article 4 of REMIT.	Case closed, formal finding of breach. SSE admitted the breach of Article 4 of REMIT and agreed to settle during the early settlement window. Financial penalty of £2,060,000 imposed on SSE in respect of its contraventions of Article 4(1).	September 2020
National Grid Electric Systems Operator (ESO)	Investigation into 9 August 2019 power outage.	Case closed, no formal finding of breach. We reviewed this investigation and given that security standards are to be amended, we concluded that there is no merit in continuing the investigation at this point in time.	June 2020
Intergen	Investigation into whether Intergen breached Article 5 of REMIT and SLC 5.1, which requires compliance with the Grid Code.	Case closed, formal finding of breach. We imposed a financial penalty of £24 million in respect of the contraventions of Article 5. In addition, the Authority agreed with InterGen that it will return approximately £12.8 million to those parties affected by the REMIT breach. We decided not to impose a separate financial penalty for the SLC 5.1. This comes to total of approximately £37.8 million.	April 2020

[26] https://www.ofgem.gov.uk/investigations

[27] https://www.ofgem.gov.uk/system/files/docs/2017/10/enforcement_guidelines_october_2017.pdf

[28] The fact that we have opened an investigation does not imply that the companies involved have breached licence conditions or other obligations.

[29] Our Remit Procedural Guidelines can be found at: https://www.ofgem.gov.uk/publications-and-updates/consultation-decision-remit-penalties-statement-andprocedural-Guidelines

Company	Issue	Decision	Date of decision
Ovo Energy	Investigation into Ovo's compliance with Standard Licence Conditions 31A (provision of information on annual statements) and 25C (SLC 0 from October 2017, Standards of Conduct), SLC 22C, SLC 26 (Priority Services Register), SLC 27 (provision of final bills) and SLC 28A (pre-payment charge restriction).	Case closed, formal finding of breach. We imposed a financial penalty of £1 on Ovo Electricity Limited and £1 on Ovo Gas Limited. This is in addition to £8,876,500 (less £2) that Ovo has agreed to pay in voluntary redress.	April 2020

In the table below, you can find details of redress that Ofgem has secured through alternative action or compliance work. This gives a company a chance to swiftly put things right for consumers without us exercising our statutory enforcement powers.

Company	Issue	Decision	Date of decision
British Gas	Compliance with the price protection rules which protect customers' tariff prices when they switch suppliers or tariffs after a price increase. British Gas' non compliance resulted in customers being overcharged.	Alternative action, no formal finding of breach. Total redress package of £1,269,095.47. This is comprised of £391,176.79 refunded directly the customer and £840,517.38 paid as goodwill payments to customers and £37,401.30 paid to the voluntary redress fund.	March 2021
EON	Compliance with the price protection rules which protect customers' tariff prices when they switch suppliers or tariffs after a price increase. EON's non compliance resulted in customers being overcharged.	Alternative action, no formal finding of breach. Total redress package of £238,884.29. This is comprised of £181,668.29 refunded directly the customer and £ 57,216 paid as goodwill payments to customers.	March 2021
EDF Energy	Compliance with the price protection rules which protect customers' tariff prices when they switch suppliers or tariffs after a price increase. EDF Energy's non compliance resulted in customers being overcharged.	Alternative action, no formal finding of breach. Total redress package of £516,191.55. This is comprised of £465,441.36 refunded directly the customer and £50,750.19 paid as goodwill payments to customers.	March 2021
Green Star Energy	Compliance with the price protection rules which protect customers' tariff prices when they switch suppliers or tariffs after a price increase. Green Star Energy non compliance resulted in customers being overcharged.	Alternative action, no formal finding of breach. Total redress package of £808,351.00. This is comprised of £664,661 refunded directly the customer and £143,690 paid as goodwill payments to customers.	March 2021
Octopus Energy	Compliance with the price protection rules which protect customers' tariff prices when they switch suppliers or tariffs after a price increase. Octopus Energy's non compliance resulted in customers being overcharged.	Alternative action, no formal finding of breach. Total redress package of £121,444.52. This is comprised of £59,902.15 refunded directly the customer and £61,542.37 paid as goodwill payments to customers.	March 2021
OVO Energy	Compliance with the price protection rules which protect customers' tariff prices when they switch suppliers or tariffs after a price increase. Ovo's non compliance resulted in customers being overcharged.	Alternative action, no formal finding of breach. Total redress package of £2,801,231.51. This is comprised of £2,001,196.45 refunded directly the customer and £579,145.28 paid as goodwill payments to customers and £220,889.78 paid to the Voluntary Redress Fund.	March 2021

Company	Issue	Decision	Date of decision
Scottish Power	Compliance with the price protection rules which protect customers' tariff prices when they switch suppliers or tariffs after a price increase. Scottish Power's non compliance resulted in customers being overcharged.	Alternative action, no formal finding of breach. Total redress package of £1,967,465.28. This is comprised of £1,449,835.28 refunded directly the customer and £49,415 paid as goodwill payments to customers and £468,215 paid to the Voluntary Redress Fund.	March 2021
Shell Energy	Compliance with the price protection rules which protect customers' tariff prices when they switch suppliers or tariffs after a price increase. Shell Energy's non compliance resulted in customers being overcharged.	Alternative action, no formal finding of breach. Total redress package of £1,217,203.40. This is comprised of £1,001,203.40 refunded directly the customer, £112,461 paid as goodwill payments to customers and £103,539 paid to the Voluntary Redress Fund.	March 2021
SSE Energy	Compliance with the price protection rules which protect customers' tariff prices when they switch suppliers or tariffs after a price increase. SSE Energy's non compliance resulted in customers being overcharged.	Alternative action, no formal finding of breach. Total redress package of £983,334.45. This is comprised of £713,973.86 refunded directly the customer, £ 249,777.22 paid as goodwill payments to customers and £19,583.37 paid to the Voluntary Redress Fund.	March 2021
Shell Energy	Issues identified as formerly Green Star Energy which they self-reported. The issues were in relation to failure to send renewal letters, Warm Home Discount customers not on Safeguard tariff, delay notifying Pre Payment Meter customers of price change and customers placed on wrong tariff at renewal.	Alternative action taken. Green Star self reported errors. Total redress package of £384,572.87. This is comprised of £226,544.87 of refunds to customer and £158,025 of goodwill payments.	January 2021
EDF Energy	EDF Energy Thermal Generation (EDF ETG) submitted technical data that did not correctly reflect the true capabilities of its generation plant nor the amount of energy it could supply. EDF ETG inadvertently breached its licence obligations to comply with the Grid Code and REMIT regulations prohibiting market manipulation.	Alternative action taken. EDF ETG admitted that an inadvertent breach of the Grid Code and Article 5 of REMIT occurred and has taken swift action to prevent any reoccurrence. We concluded that there was no merit in opening a formal investigation. This is owing to the company's admissions, the steps it has taken to prevent any future reoccurrence and its agreement to pay £6 million into Ofgem's voluntary redress fund.	December 2020
Shell Energy	Issue identified as formerly Green Star Energy which they self-reported. Green Star Energy had not reviewed direct debit payments for some customers, affecting both Live and Lost supply customers. These customers had a 13 month or more gap in their DD reassessment schedule.	Alternative action, no formal finding of breach. Shell Energy refunded £351,941.40 to customers, paid £44,144.31 in goodwill payments and £24,072.69 paid to the voluntary redress fund. Total redress package of £420,158.40.	December 2020

Company	Issue	Decision	Date of decision
Shell Energy	Failure to provide annual statements and associated credits to prepayment meter customers.	Alternative action, no formal finding of breach. Shell Energy refunded £39,184.71 to customers, paid £46,920 in Guaranteed Standard of Performance payments and £14,700 paid to the voluntary redress fund. Total redress package of £100,804.71	December 2020
I-Supply	Under standard licence condition (SLC) 14 of the supply licence, suppliers can only prevent customers from switching for money owed if the amount has been billed at least 28 days before the switching request. Between 2012 and early 2020, a system error objected to any customer transfer if the customer had an outstanding debt balance of £40 or over owed to iSupply. As a result, 22,863 customers were blocked and impacted with an invalid objection.	Alternative action, no formal finding of breach, I-supply paid direct customer refunds totalling £406,224.81 (£21.65 average per customer); customer goodwill payments totalling £114,315. This is a total redress package of £520,539.81 and any residual monies where customers cannot be contacted or do not cash cheques will go into the voluntary redress fund.	October 2020
Robin Hood Energy (RHE)	Direct Debit (DD) adequacy reviews not processed in accordance with SLC 27.15. Final bills were also not issued within 6 weeks of a customers change of supplier (in accordance with SLC 27.17).	Alternative action taken, no formal finding of breach. Payment of £190,286.43 was paid to the voluntary redress fund	September 2020
Bulb Energy	Restricted Meter Infrastructure (RMI) consumers were unable to switch to Bulb due to an error in process. In addition to this some, RMI customers were charged multiple standing charges, one for each MPAN at the property. In addition to this, vulnerable consumers were removed from the Priority Services Register for certain Distribution Network Operators' (DNOs') records due to an error in Bulb's data-flow process	Alternative action taken, no formal finding of breach. Bulb agreed a redress package of compensation to affected customers. Customer goodwill payments totalling £901,035; direct customer refunds totalling £699,452 and a payment into the voluntary redress fund of £157,350. Total redress package of £1,757,837.	August 2020
SSE	SSE failed to meet its smart meter installation target for 2019, before it was acquired by Ovo in Jan 2020.	Alternative Action, no formal finding of breach. Ovo paid £1.2 million in voluntary redress to the Voluntary Redress Fund for SSE's historic issue.	August 2020
British Gas	British Gas changed their Pre Payment Meter (PPM) Top-up vendor from Paypoint to Payzone / Post Office which went live on 1 January 2020. British Gas failed to directly inform approximately 270K customers (many of them vulnerable) of the change to top up provider. British Gas informed customers of the change in top-up provider and of the change in minimum vend from £1 to £5 too late to allow customers sufficient time to switch supplier if they found this problematic. British Gas also did not have staff available for queries on 1 January 2020 on the go-live date.	Alternative Action, no formal finding of breach. British Gas made payments of approximately £1.48 million to impacted customers. In addition, British Gas agreed to make a payment of £250,000 to the voluntary redress fund, in recognition of its failings.	August 2020

Company	Issue	Decision	Date of decision
I-Supply	iSupply had a number of failings impacting over 115,000 customers between 2013 and 2019. These were: incorrect charges applied during contract renewals; incorrect application of VAT; incorrect cheapest tariff messages appearing on customer communications; incorrect recording of customer status re the PSR and vulnerable customers; misallocation of payments to customers.	Alternative Action, no formal finding of breach. I-supply paid a total redress package of £1,500,000, comprising of direct customer refunds totalling £809,220.41; customer goodwill payments totalling £595,290; a payment into the Voluntary Redress Fund totalling £95,489.59.	June 2020
Scottish Power	Scottish Power overcharged non-domestic customers due to an error resulting in meters over estimating consumption.	Alternative Action, no formal finding of breach. Scottish Power paid a total redress package of £388,741. This is comprised of £359,043 in refunds to customers, £17,923 in goodwill payments to customers, £11,775 in uncashed redress paid to the Voluntary Redress Fund.	June 2020
Shell Energy	Issue identified with Green Star Energy's compliance with Standard Licence Condition 0 on Standards of Conduct, and Standard Licence Condition 7.7, on information for customers about deemed contracts.	Alternative Action, no formal finding of breach. Green Star Energy paid a total redress package of £750,000. This is comprised of a £297,106 in direct refunds and compensation to customers and a payment of £452,894 to the Voluntary Redress Fund.	May 2020

In addition to this, other compliance engagement resulted in the following.

Type of impact	Value
Refunds paid to customers	£570,000
Compensation payments to consumers	£182,000
Redress payments to the Voluntary Redress Fund	£40,000
Total	**£792,000**

Open cases

In the table below, you can find open investigations as at the end of March 2021. Please note, the opening of an investigation does not imply that we have made any finding(s) about non-compliance. Ofgem does not publish information on all open investigations, in particular when Ofgem is conducting investigations into potential failures to comply with REMIT requirements. As a rule, we do not comment further on these investigations, including who we are investigating, unless we consider it necessary to do so in the interests of consumers or market confidence.

Company	Date Opened	Issue
Symbio Energy	January 2021	Investigation into Symbio Energy's compliance with Standard Licence Condition ("SLC") SLC 33 of the Electricity Supply Licence, the Feed-In Tariff (FIT) Order 2012, Articles 68 and 74 of the Renewable Obligation Order 2015 (as amended) (ROO) and Article 49 of the Renewable Obligation (Scotland) Order 2009 (ROS).
Scottish Power	November 2020	Investigation into Scottish Power's compliance with Standard Licence Conditions ("SLC") 38 of the Gas Supply Licence and SLC 44 of the Electricity Supply Licence. SLCs 38 and 44 require a licensee to set and achieve Annual Milestones for the installation of Smart Meters.

Company	Date Opened	Issue
Hudson Energy Supply UK Ltd	July 2020	Investigation into whether Hudson Energy Supply UK Ltd breached rules around billing, meter reading and communications in relation to the actions taken on its behalf by United Gas and Power Ltd.
United Gas and Power Ltd	July 2020	Investigation into Western Power Distribution and its compliance with obligations relating to the Priority Services Register.
Western Power Distribution	February 2020	Investigation into United Gas and Power Ltd's billing and communications activities.
National Grid Electricity Transmission plc and SP Transmission plc	January 2020	Investigation into whether National Grid Electricity Transmission plc and SP Transmission plc breached licence conditions and statutory obligations relating to the delivery and operation of the Western High Voltage Direct Current ("WHVDC") subsea link between Scotland and Wales.
National Grid Electricity Transmission plc	May 2018	Investigation into National Grid Electricity Transmission plc and its compliance with its obligations under the Standard Licence Condition 16 of the Transmission Licence.
Utility Warehouse	June 2018	Investigation into Utility Warehouse's compliance with Standard Licence Conditions (SLCs) 25C/0, 27.5, 27.8 and 28B of the Electricity Supply Licence and the Gas Supply Licence. We expanded the scope of the case to include SLC 32A in October 2019.
Paypoint	July 2017	Investigation into whether there has been an infringement of Chapter II of the Competition Act 1998 and/or Article 102 of the Treaty on the Functioning of the European Union, concerning potential abuse of a dominant position by a company providing services to the energy industry.

Final Orders

Below you can find details of the final orders imposed during the year from April 2020 to March 2021, we issued 4 final orders for the suppliers detailed below.

Final Order issued	Company	Concern
October 2020	Symbio	Failure to meet its Renewables Obligations (RO). We required Symbio to pay within the late payment window ending on 31 October 2020. Symbio made the payment fully on 10 November 2020 for the outstanding sum of £506,308.40 for its RO for 2019-2020, plus accrued interest.
October 2020	Nabuh Energy Limited	Failure to meet its Renewables Obligations (RO). Nabuh Energy Limited failed to provide sufficient assurances that the payment would be made.
October 2020	Robin Hood Energy	Failure to meet its Renewables Obligations (RO) and Feed In Tariff (FIT) levelisation payment.

In addition to this, details of the notices of consultation for a FO where we did not proceed to issue a FO are listed below.

Date consultation raised	Company	Concern	Outcome
November 2020	Utilita Energy Supply Limited	Utilita's requirement to take all reasonable steps to ensure that any replacement electricity or gas meter, and any new electricity or gas meter, which is installed, or is arranged to be installed, by the licensee forms part of a second generation (SMETS2) smart metering system. This requirement is set out in standard licence condition ("SLC") 39.7 and SLC 33.7 of the electricity and gas supply licences respectively ("the NRO Condition").	We decided that we will take no further action against Utilita in respect of its compliance with the NRO Condition for the time being. However, Utilita's compliance with the NRO Condition will be kept under review and a further Notice of Proposal to make a Final Order and/or a Notice to impose a Penalty may be issued in due course if we are satisfied that Utilita has or is contravening the NRO Condition and it is appropriate to do so.
October 2020	Tonik Energy	Failure to meet its RO and make their Feed In Tariff (FIT) levelisation payment.	Tonik ceased trading on 26 October 2020, we took the decision not to proceed with issuing a FO.
October 2020	MA Energy	Failure to meet its RO.	MA Energy Limited made full payment of £1,385,749.72, including interest, ensuring compliance with its RO for 2019-2020.
October 2020	Co-operative Energy Limited	Failure to meet its RO.	Co-operative Energy Limited made full payment of the remaining £5,359,946.40, including interest, ensuring compliance with its RO for 2019-2020.
October 2020	Flow Energy Limited	Failure to meet its RO.	Flow Energy Limited made full payment due of £2,646,022.32 including interest, and the mutualiatisation payment of £40,276.44 ensuring compliance with its RO for 2019-2020.

We have also detailed the outcomes of the FOs that have concluded during this year. Symbio Energy Ltd's RO final order was issued during this financial year and conclude within the same year. The Final Orders for Enstroga Ltd, Entice Energy Supply Limited, Daligas Ltd, Euston Energy and Symbio Energy Ltd in regards to their DCC User compliance were issued during the previous year but concluded within this year.

Final Order (FO) ended	Company	Outcome from FO
December 2020	Symbio Energy Limited	Symbio made a payment to the Authority in full settlement of its RO, for the obligation period of 1 April 2019 to 31 March 2020, in the sum of £506,308.40, plus accrued interest. They met the requirements set out in the Final Order. We issued a Revocation Order on 14 December 2020.
July 2020	Enstroga Limited	Enstroga Ltd completed all the required steps to become a DCC user. They met the requirements set out in the Final Order. We issued a Revocation Order on 14 July 2020.
July 2020	Entice Energy Supply Limited	Entice Energy Ltd completed all the required steps to become a DCC user. They met the requirements set out in the Final Order. We issued a Revocation Order on 3 July 2020.
May 2020	Daligas Limited	Daligas Ltd completed all the required steps to become a DCC user. They met the requirements set out in the Final Order. We issued a Revocation Order on 28 May 2020.
May 2020	Euston Energy Ltd (trading as Northumbria Energy)	Euston Energy Ltd completed all the required steps to become a DCC user. They met the requirements set out in the Final Order. We issued a Revocation Order on 11 May 2020.
May 2020	Symbio Energy Limited	Symbio Energy Limited completed all the required steps to become a DCC user. They met the requirements set out in the Final Order. We issued a Revocation Order on 11 May 2020.

Appendix III
Off-payroll appointees

Table 1

Highly paid off-payroll worker engagements as at 31 March 2021, earning £245[30] per day or greater.

No. of existing engagements as of 31 March 2021	**10**
Of which:	
No. that existed < 1 year	5
No. that have existed for between 1 and 2 years	5
No. that have existed for between 2 and 3 years	0
No. that have existed for between 3 and 4 years	0
No. that have existed for 4 or more years	0

Table 2

All highly paid off-payroll workers engaged at any point during the year ended 31 March 2021, earning £245 per day or greater.

No. of temporary off-payroll workers engaged during the year ended 31 March 2021	**10**
Of which:	
Not subject to off-payroll legislation[31]	0
Subject to off-payroll legislation and determined as in-scope of IR35	9
Subject to off-payroll legislation and determined as out-of-scope of IR35	1
No. of engagements reassessed for compliance or assurance purposes during the year	1
Of which: No. of engagements that saw a change to IR35 status following review	0

Table 3

For any off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, between 1 April 2020 and 31 March 2021.

No. of off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, during the financial year.	**0**
Total no. of individuals on payroll and off-payroll that have been deemed "board members and/or senior officials with significant financial responsibility", during the financial year. This figure should include both on payroll and off-payroll engagements.	0

[30] The £245 threshold is set to approximate the minimum point of the pay scale for a Senior Civil Servant.

[31] A worker that provides their services through their own limited company or another type of intermediary to the client will be subject to off-payroll legislation and the Department must undertake an assessment to determine whether that worker is in-scope of Intermediaries legislation (IR35) or out-of-scope for tax purposes.

Appendix IV
Trade union facility time

Table 1
Relevant union officials

What was the total number of your employees who were relevant union officials during the relevant period?

Number of employees who were relevant union officials during the relevant period	Full-time equivalent employee number
14	14

Table 2
Percentage of time spent on facility time

How many of your employees who were relevant union officials employed during the relevant period spent a) 0%, b) 1%-50%, c) 51%-99% or d) 100% of their working hours on facility time?

Percentage of time	Number of employees
0%	0
1-50%	14
51-99%	0
100%	0

Table 3
Percentage of pay bill spent on facility time

Provide the figures requested in the first column of the table below to determine the percentage of your total pay bill spent on paying employees who were relevant union officials for facility time during the relevant period.

Total cost of facility time	£6,479
Total pay bill	£76.058 million
Percentage of the total pay bill spent on facility time	0.008%

Table 4
Paid trade union activities

As a percentage of total paid facility time hours, how many hours were spent by employees who were relevant union officials during the relevant period on paid trade union activities?

Time spent on paid trade union activities as a percentage of total paid facility time hours calculated as: (total hours spent on paid trade union activities by relevant union officials during the relevant period ÷ total paid facility time)	42%

Appendix V
Statutory arrangements under Section V of the Utilities Act 2000

Section 5(1) of the Utilities Act 2000 requires that the Authority makes a report to the Secretary of State each year on:

- the activities of the Authority during the year; and
- the activities of the CMA during that year in respect of any reference made to it by the Authority.

The activities of the Authority during the year are reported on throughout this report. [There have been no references made by the Authority to the CMA on which to report]

Section 5(2) of the Utilities Act 2000 requires that the annual report of the Authority includes the following:

- A general survey of developments in respect of matters falling within the Authority's functions, including in particular developments in competition between persons engaged in, or in commercial activities connected with:
  - the shipping, transportation or supply of gas conveyed through pipes; and
  - the generation, transmission, distribution or supply of electricity;
    (These developments are referred to in the Performance Report)
- A report on the progress of the projects described in the forward work programme for that year;
  (Progress is reported in the Performance Report)
- A summary of final and provisional orders made by GEMA in that year;
  (This can be found in Appendix II)
- A summary of the penalties imposed by GEMA during that year;
  (This can be found in Appendix II)
- A summary of any final notices given by GEMA under REMIT in that year;
  (This can be found in Appendix II)
- A report on such other matters as the Secretary of State from time to time may require.

Section 5(2A) of the Utilities Act 2000 requires the Authority to include in its annual report a report on

(a) the ways in which the Authority has carried out its duties under section 132(1) and (2) of the Energy Act 2013 in relation to a strategy and policy statement designated by the Secretary of State (so far as the statements designation was in effect during the whole or any part of the year); and

(b) the extent to which the Authority has done the things set out in a forward work programme or other document as the things the Authority proposed to do during that year in implementing its strategy for furthering the delivery of the policy outcomes contained in the strategy and policy statement.

(The Secretary of State has not designated a strategy and policy statement applicable to this reporting year)

Section 5(3) of the Utilities Act requires the Authority to set out in its annual report any general directions given by the Secretary of State under s34(3) of the Gas Act 1986 or s47(2) of the Electricity Act 1989.

(The Secretary of State has not made any such general directions)