

Accountability Report



Corporate Governance Report

Directors Report

Executive members of the Authority who served during the year

Dermot Nolan, chief executive, was appointed in February 2014. He has no other company directorships.

Rachel Fletcher, senior partner, Consumers and Competition, was appointed in January 2016 and left Ofgem and the Authority in January 2018. Dr Andrew Wright, senior partner, Energy Systems, was appointed in January 2008. He is an advisory board member of Durham University Energy Institute. Dr Wright will be departing Ofgem in 2018.

Non-executive members of the Authority who served during the year

David Gray joined in October 2013 as non-executive chairman. His appointment ends in September 2018. He is a non-executive director of the Civil Aviation Authority, and a Governor of the Central School of Ballet.

Christine Farnish joined in January 2016. Her appointment ends in January 2021. She is a non-executive director of Ofwat, a non-executive on the Zopa Group Board and chair of Zopa Ltd (Zopa's peer-to-peer lending business), a consumer advisory board member at Fairer Finance and a panel member on the Advisory Panel representative action case against google.

Professor David Fisk CB joined in July 2009. He was reappointed in June 2012 and his appointment ended in May 2017. He is Emeritus Professor of Systems Engineering and Innovation at Imperial College, London and is a Council Member of the Chartered Institution of Building Services Engineers.

Professor Paul Grout joined in October 2012. His appointment ends in September 2022. He has a Chair in Political Economy at the University of Bath, is chair of the expert advisory group for National Lottery 4 at the Gambling Commission and is the Senior Advisor for Competition at the Bank of England.

Dr Nicola Hodson joined in March 2015. She left the Authority in June 2017. She is Vice President of Global Sales and Marketing – Field Transformation at Microsoft UK. In addition, she is a board member at Tech UK, and a council member of City University.

Jim Keohane joined in January 2009. He was reappointed in December 2012 and his appointment ended in December 2017. He is the chairman of the Theatre Royal Foundation and Harwich Haven Authority, the senior independent director of the Low Carbon Contracts Company, and the senior independent director of the Electricity Settlements Company.

Keith Lough joined in October 2012. His appointment ends in September 2022. He is a non-executive director, and the Senior Independent Director, of Rockhopper Exploration Ltd. He is also a non-executive director of Cairn Energy plc, and non-executive chairman of Gulf Keystone Petroleum plc.

The non-executive members are considered to be independent of management and make up a majority of the members of the Authority.

Other significant interests held by Authority members

Jim Keohane, Keith Lough, Andrew Wright and Nicola Hodson's husband, having worked for energy companies in the past, are members of their former employers' pension schemes. These schemes are administered in line with the rulings of the Pensions Regulator and are separate from the business of the regulated companies.

Audit arrangements

The Comptroller and Auditor General, who has been appointed under statute and reports to Parliament, has audited the resource accounts. The notional cost of auditing the resource accounts and trust statement was £64,000 (2016-17: £56,000). There was no auditor remuneration, actual or notional, for non-audit work.

The accounting officer has done everything he should to make himself aware of any relevant audit information and to establish that our auditors are aware of that information. He is not aware of any relevant audit information that our auditors don't have access to.

Our internal audit service independently measures and evaluates how adequate, reliable and effective our management and financial control systems are. It makes recommendations and gives the accounting officer an assurance report each year. We have outsourced the internal audit function to make sure we get independent and professional analysis and recommendations. We re-appointed Deloitte to this role on 1 April 2015, after a competitive tender. The current contract is due to end on 30 June 2019.

As part of our project delivery assurance process, we get separate independent assurance at key stages of a project. We have outsourced this service to either Deloitte or other companies available through our procurement framework.

Budgets and liquidity

Parliament approves our budget, after we have consulted with the industry and other interested parties. For 2017-18 Parliament approved through the Main Estimate:

- a gross resource budget of £93.4 million
- a capital budget of £5.239 million
- a net cash requirement of £7.130 million (revised to £10.660 million in the Supplementary Estimate).

Reconciliation between estimate and budget

	2017-18 £000	2016-17 £000
Net resource outturn (estimate)	702	15,207
Net operating costs (accounts)	596	630
Resource budget outturn (budget)	596	630
Of which:		
Departmental expenditure limits	596	630
Annually managed expenditure	-	-

We drew down a contingency fund advance of £20.0 million in April 2017 to provide short-term liquidity until we started receiving licence fees. We repaid this in full in September 2017.

The net cash requirement outturn of £0.569 million is lower than the estimate net cash requirement of £10.660 million. The difference between estimate and outturn is due to capital expenditure being below anticipated and additional income from licence fees & other income streams.

Finance and provisions

Total provisions amounted to £1.068 million as at 31 March 2018. We have provided for voluntary exit payments, dilapidations, and the ongoing costs of early retirements that have occurred in previous financial years.

In 2003, we outsourced statutory examining and testing services to SGS UK Ltd (our laboratories at Leicester had provided those services until then). Some costs of this change, particularly redundancy and continuing pension liabilities, have fallen to us. We had to make provisions in 2003-04 that now total £0.164 million.

A number of voluntary exit payments totalling £0.504 million have been agreed as a result of an internal reorganisation.

The agreement for the Lower Ground Glasgow Cornerstone states Ofgem will be liable for dilapidation cost. The provision totals £0.029 million. The agreement for the new Glasgow Commonwealth House lease states Ofgem will be liable for dilapidations cost. The provision totals £0.368 million.

A provision for onerous lease of £0.032 million was recognised for lower floor Glasgow Cornerstone.

In total we have provided £0.754 million during 2017-18. Our statement of financial position at 31 March 2018 shows taxpayer's equity of £5.880 million.

Improving our supply chain

Environmental procurement

Our Procurement team makes buying decisions based on best value for money (which incorporates environmental sustainability criteria) and we continually search for ways in which we can buy sustainably.

Our processes conform to the Standard of Excellence Certification of the Chartered Institute of Procurement and Supply having achieved certification previously.

Quicker creditor payment

We are signed up to the Better Payment Practice Code set by the Better Payment Practice Group, a forum of business community members and government representatives. This means we pay bills within 30 days (or another agreed period) of receiving either goods or services, or an invoice, whichever is later. In 2017-18 we paid 99.93% of all undisputed bills inside this timeframe.

In 2008, the government challenged departments to pay all suppliers within ten working days. This year we paid 95% of undisputed bills inside this timeframe. For amounts contractually due and invoiced by 31 March 2018, the outstanding number of days' purchases is 3.0 days.

Reports to the Parliamentary Ombudsman

In 2017/18, the Parliamentary and Health Service Ombudsman (PHSO) received 41 new enquiries about Ofgem, and accepted 9 complaints for investigation. The PHSO completed 11 investigations⁴, of which 4 were upheld and 7 partly upheld. 3 further investigations were discontinued, and 1 resolved without the need to complete the investigation.



Dermot Nolan
Accounting officer

21 June 2018

⁴The number of complaints the Parliamentary Ombudsman accepts for investigation in a financial year differs from the number of investigations that are completed in that same year.

Statement of the accounting officer's responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed us to prepare, for each financial year, resource accounts detailing the resources acquired, held or disposed of during the year, and our use of resources 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 net resource outturn, application of resources, changes in taxpayers' equity and cash flows for the financial year.

In preparing the accounts, the accounting officer must comply with the requirements of the Government Financial Reporting Manual. In particular, he must:

- 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.
- confirm that, as far as he is aware, there is no relevant audit information of which Ofgem's auditors are unaware, and that all steps have been taken to make himself aware of relevant audit information, and to establish that Ofgem's auditors are aware of that information.
 - confirm that the Annual Report and Accounts as a whole is fair, balanced and understandable and that he takes personal responsibility for the annual report and accounts and the judgements required for determining that it is fair, balanced and understandable.

HM Treasury has designated the chief executive as our accounting officer. The responsibilities of our accounting officer, including responsibility for the propriety and regularity of the public finances for which he is answerable, for keeping proper records and for safeguarding our assets, are set out in *Managing Public Money*, published by HM Treasury.

Governance statement

We are directed and governed by the Gas and Electricity Markets Authority, which makes all major decisions and sets policy priorities. The Authority is made up of executive and non-executive members.

Who's part of the Authority?

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 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 set out in the EU's Third Energy Package and its rules covering appointments to national regulatory authorities in member states.

Details of Authority members' remuneration, and their pension arrangements are shown in the remuneration report starting on page 48.

How the Authority works

The Authority meets formally 10 times a year. In addition, Authority members also attend regular informal briefing sessions to allow high level review of developing issues and serve on the Authority's committees, details of which are below.

In 2017-18, the chair again reviewed the individual performance of Authority members, looking at their contributions to the Authority's work. The other non-executive members set objectives for the chair after discussion with him and reviewed his performance against these objectives.

The Authority reviews the activities, plans and performance of the organisation against its strategic objectives and reviews the activities and priorities of its principal support functions on a six-monthly basis.

The activities and priorities of E-Serve are reviewed by the Authority, following a report from the E-Serve Board, three times a year. The Authority also reviews Ofgem's strategic risks, that is, those risks most consequential to Ofgem's strategy, on a twice-yearly basis.

In December 2014 we published our corporate strategy setting out how we aim to make the most of our resources and powers to make a positive difference for current and future consumers over the following few years. We review our strategy every year, with a more fundamental review every five years or so to make sure it is flexible enough to adapt to changes in the world around us. Every year we publish our Forward Work Programme following consultation and stakeholder engagement. We published our draft Forward Work Programme for 2018-19 in November 2017 for consultation and published the final plan in March 2018.

Following a review of the Authority in 2017 the Authority decided to refocus some of its discussions to enable more holistic and cross cutting issues to be discussed. This has resulted in the removal of the individual divisional reports every six months. Instead the Authority considers the joint executive review of the external factors driving the landscape every four months and a full review of the overall programme of medium and longer term work every six months alongside the capability and health of the organisation every six months. In addition, the Authority takes decisions on specific major regulatory issues that have not been delegated to committees or executives.

We publish minutes of the Authority's meetings on our website, along with the committees' terms of reference. We also provide provisional agendas for the main Authority meetings. The chair and other non-executive members play a full part in Authority business. They attended full Authority meetings and committee meetings as follows:

Members	The Authority	Audit and Risk Assurance Committee	E-Serve Board	Remuneration Committee	RIIO 2 Committee
Christine Farnish	9/10	-	1/1	4/4	1/1
David Fisk	2/2	-	-	-	-
David Gray	10/10	-	-	-	-
Jim Keohane	7/8	1/1	3/3	3/3	-
Keith Lough	10/10	4/4	-	-	-
Nicola Hodson	3/3	-	1/1	-	-
Paul Grout	10/10	4/4	-	4/4	1/1

The Authority met in Cardiff on 15 March 2018, using the occasion to meet local political representatives, consumer groups and energy stakeholders in the public and private sectors.

Meetings with interested parties took place the day before the main meeting, allowing the Authority to debate current topics such as the future of local energy in Wales with stakeholders.

What committees does the Authority have?

The Authority's corporate structure – with committees having clear terms of reference – continues to assure us that there is strong governance throughout the organisation.

Audit and Risk Assurance Committee

This committee advises the Authority and the accounting officer, where it concerns them, on anything that affects our financial health, financial reporting, probity, reputation or wider risk management and governance system. The committee also looks at any aspect of the business that may impinge on the strategic objectives and effective functioning of Ofgem and oversees our Spending Review 2015 cost control regime.

This year the committee's work included:

- receiving reports from both internal and external audit
- receiving reports and monitoring actions taken

to address weaknesses arising from assurance reports, that have been brought to the attention of the Committee by any other Authority Sub-Committee or the Executive

- receiving reports on IT security in the organisation, in particular to review and advise as to the adequacy of cyber-security, anti-fraud and whistleblowing policies and processes, and the actions taken by the organisation in response to adverse incidents.

The Committee met four times in 2017-18. Keith Lough chairs the committee; the other non-executive member is Paul Grout.

E-Serve Board Committee

This committee advises the Authority on the effectiveness and efficiency of E-Serve in delivering its relevant activities. In particular, it reviews and makes recommendation to the Authority on E-Serve's strategy and overall budget, significant new activities to be performed by E-Serve and major changes to existing activities. It provides assurance to the Authority on performance of those activities. It is chaired by the chief executive and its members include the managing director of E-Serve, non-executive directors. The Board met four times in 2017-18.

Enforcement Decision Panel

The Enforcement Decision Panel (EDP) is in place to take important decisions in contested enforcement cases on behalf of the Authority. EDP members

are dedicated specialists, who provide a visible separation between the investigation and decision-making functions. The chair of the EDP is John Swift QC. Members of the EDP also chair Enforcement Settlement Committees (see next section).

Enforcement Decision Panel (EDP) Remuneration

Panel members are remunerated to the value of £1000 pd. The Chair of the Panel receives £1500pd. As employees of Ofgem, they are only entitled to claim expenses related to business activity.

Each member is guaranteed a minimum of five days' payment in each year, although commitments vary according to caseload.

Enforcement Settlement Committees

Enforcement Settlement Committees may be established to decide whether to authorise a settlement procedure in respect of an investigation under the Competition Act 1998 or in respect of alleged contraventions under various sections of the Gas Act 1986, the Electricity Act 1989 and other legislation. Committees are appointed separately for each case and comprise two members of the EDP nominated by the chair of the EDP as well as a Senior Civil Servant nominated by the chair of the Authority. For more details on the EDP please see the EDP pages on the Ofgem website <https://www.ofgem.gov.uk/about-us/how-we-work/our-approach-regulation/enforcement-decision-panel>.

Europe Committee

The Authority has become more strategic and considers more issues in the round. As most significant European issues are integral to Ofgem's work it was felt that they should be treated as such by the Authority and that there was no longer a need for a separate Europe Committee. A number of issues, such as the impact of Brexit preparations, progress of new European legislation and interconnector developments were discussed by the Authority.

Lord Mogg completed his tenure as president of the Council of European Energy Regulators and chairman of the EU's Agency for the Cooperation of Energy Regulators and left Ofgem's employ as EU adviser at the end of 2017. The Chairman wishes to thank Lord Mogg for his significant contribution to Ofgem.

Remuneration and People Committee

This committee, chaired by Christine Farnish, advises the Authority on performance and reward issues of members of the Senior Civil Service within Ofgem and considers and advises on other people related issues as required by the Authority. For details of the committee's members, its role, and senior staff salary and pension entitlements, see the remuneration report later in this section.

How is the Authority's performance measured?

Following the external review of the Board in early 2017, the Board has looked to incorporate more time for strategic discussions and reviewing progress in a more holistic manner than previously. An internal review of board effectiveness was conducted in March 2018 and showed an increase in overall effectiveness.

Executive governance framework

Senior Leadership Team

The Senior Leadership Team supports the chief executive in the day-to-day running of Ofgem. It is made up of all the executive members shown in the remuneration report. They meet weekly and decide on everything relating to management and resources, subject to the Authority's overall control.

Governance Framework

Our executive governance framework focuses on leadership and strategy, high quality and faster decision making and ensuring we use our resources to benefit consumers efficiently and effectively. There was a review of Ofgem's governance in 2017 and from 1 September a new more streamlined structure of boards was put in place.

Regulatory Board

The Regulatory Board ensures the appropriate scrutiny of regulatory decision-making in the organisation, provides early stage guidance on policy matters and provides an SLT view on matters going to the Authority. The board is chaired by the chief executive.

Performance and Delivery Board

The Performance and Delivery Board assists the chief operating officer in determining how Ofgem is performing against its strategic objectives and enables the SLT to discuss the most strategic operational matters.

The Board is chaired by the chief operating officer.

Management Committee (for E-Serve)

This committee supports the day-to-day running of the E-Serve business unit. It is chaired by the managing director of E-Serve and its members include all E-Serve team heads. It decides on everything relating to E-Serve's management, subject to the Authority's overall control and it meets every two weeks.

E-Serve Risk Assurance Committee (ERAC)

This is a new committee chaired by a non-executive from the E-Serve Board. It meets monthly and its members are from E-Serve. It is there to manage risk in E-Serve and give an additional layer of assurance to ARAC and the E-Serve board.

E-Serve Operations Board

This is chaired by the chief operating officer of E-Serve and its members include all E-Serve team heads. It meets once a month and decides on everything relating to operations in E-Serve subject to the Authority's overall control.

Risk management framework

Our risk management framework sets out how risk management should be embedded across Ofgem; how we identify, administer and manage risks.

This framework describes:

- the mechanisms we employ to manage risk
- how we identify, assess and manage risk
- the importance of risk management in delivering positive outcomes for consumers
- details of roles and responsibilities for managing risk
- guidance and resources on risk management.

Risk management is integral to our policymaking, planning and delivery. Senior management have specific objectives for risk management in their area.

Partners and directors are responsible for implementing our risk framework and making sure everyone knows about it. All staff can see the framework on our intranet.

We have established a risk appetite that is set in the context of our mission to make a positive difference to energy consumers. We can't operate without taking risk, so this framework helps us identify and evaluate these risks in a structured way that relates them to our mission and strategy.

Risk and control

During 2017-18, energy policy again remained high on the political and consumer agenda; consumers are understandably concerned about increases to their energy bills.

To ensure that all of our work is focused on delivering better outcomes for consumers, we published our strategy in December 2014 and, following consultation, our Forward Work Programme for 2018-19 was published on 28 March 2018. Protecting and making a positive difference for British energy consumers is our central objective, and everything we do feeds into this. Our focus is on delivering better outcomes for consumers, including lower bills, reduced environmental damage, improved reliability and safety, better quality of service and benefits for society as a whole.

As well as our core business activities which are central to us fulfilling our role as regulator and continuing to deliver government environmental schemes effectively and efficiently, over the course of the year we oriented our planned work towards five key objectives:

- 1. enabling a better functioning retail market**
- 2. facilitating change in the energy system**
- 3. learning from the first RIIO framework and setting up RIIO-2 for success**
- 4. introducing competition into monopoly areas**
- 5. being an authoritative source of quality analysis**

We recognised and embraced risk management as a way to tackle the challenges that these objectives presented and we have sought to establish sensible and proportionate risk management procedures in all areas of our work. Our managers see risk management as an integral part of their job, and the Senior Leadership Team keep Ofgem's top risks under review.

As reported last year, in January 2017 the Minister for Finance of the Northern Ireland Executive established a public inquiry⁵ to consider the Northern Ireland Non-Domestic Renewable Heat Incentive scheme (NI NDRHI) to consider the design, governance, implementation and operation, and efforts to control the costs of the scheme. As scheme administrator, we continue to engage with the Inquiry on any issues raised that relate to our role in the NI NDRHI scheme.

Subsequent to the establishment of the NI NDRHI Inquiry, in 2017 the National Audit Office assessed⁶ the value for money of the Great Britain Renewable Heat Incentive (GB RHI) schemes which are also administered by Ofgem. The NI NDRHI scheme does not fall within the scope of this report. The NAO report was published in February 2018 and concluded that the Department for Business, Energy and Industrial Strategy (BEIS) showed flexibility in rolling out the scheme, adjusting scheme objectives to respond to a changing strategy and overly optimistic initial planning assumptions. Measures introduced to control the scheme's costs avoided problems that arose in the Northern Ireland scheme. However, the report concluded overall that the GB RHI schemes have not achieved value for money. BEIS does not have a reliable estimate of the amount it has overpaid to participants that have not complied with the regulations, nor the impact of participants gaming them, which could accumulate to reduce the scheme's value significantly.

We welcome the NAO's report and both Ofgem and BEIS are learning lessons for the future which will contribute to a government decision on a successor policy to the RHI due to be announced in 2018.

On 26th February 2018 the Minister of State for Energy and Clean Growth introduced a Domestic Gas & Electricity (Tariff Cap) Bill⁷ to Parliament. The Bill makes provision for the imposition of a cap on

rates charged to domestic customers for the supply of gas and electricity and requires Ofgem to put in place an absolute cap on Standard Variable Tariffs (SVT) until at least 2020, when we'll then recommend to Government whether the cap should be extended on an annual basis up to 2023. The cap will apply to 11 million households in England, Scotland and Wales and the Government hopes it will be in place by winter 2018. Our number one priority is to protect consumers and we share the Government's concern that the market is not working for all consumers, especially the vulnerable. We also share the government's ambition to better protect consumers on poor value deals. We worked extensively with Government on the draft Bill's design and pre-legislative scrutiny and will continue to work with Government as the Bill makes its legislative passage through Parliament and comes into force.

It should be noted that these significant developments took place during a period when three members of the Authority left, with replacements not yet appointed. This situation has placed additional weight on the current non-executives. We are confident that this situation will be rectified shortly as a recruitment campaign is in progress.

Internal risks and mitigations

Sir Nicholas Macpherson's 2013 review of quality assurance of government analytical models recommended that the Accounting Officer's governance statement within the annual report should confirm that an appropriate QA framework is in place and is used for all business-critical models. We can confirm that Ofgem has implemented a modelling QA framework in line with the recommendations of the Macpherson review and has a rolling programme of model QA for its business-critical models.

Following a pilot in 2016 and in anticipation of our office relocations in both London and Glasgow in 2018, in 2017 we commenced implementation of our Greater Working Environment (GWE) programme. This is in line with Government's The Way We Work strategy (TW3) – creating a decent working environment for all staff, with modern workplaces enabling flexible working, substantially improving IT tools and streamlining security requirements to be less burdensome for staff. Smarter working

⁵ <https://www.rhiinquiry.org/>

⁶ <https://www.nao.org.uk/report/low-carbon-heating-of-homes-and-businesses-and-the-renewable-heat-incentive/>

⁷ <https://services.parliament.uk/bills/2017-19/domesticgasandelectricitytariffcap.html>

has become common in recent years across both the private and public sector. TW3 is a Cabinet Office led programme and all government departments have started smarter working strategies. Our GWE programme has allowed us to relocate our operations to alternative properties in London and Glasgow in line with government occupancy guidelines, improve our working practices and ensure we have fit-for-purpose technology.

During August 2017, a physical relocation of Ofgem I.T. hardware equipment & data servers between two off-site facilities was carried out. A significant I.T. outage occurred when the hardware was restarted. This led to disruption to key business systems and services between 12-18 August 2017. An internal review was conducted and enhancements have been implemented to our IM&T and Business Continuity processes.

The HMT document on managing public money says that it is good practice for Arm's Length Bodies (ALBs) to include a professionally qualified finance director on their Board. The Chair of ARAC is a professionally qualified accountant, and the Chief Operating Officer, who is supported by a professionally qualified finance team, is also on the Board. We are content that these arrangements ensure that the view of finance is well represented at Board level and there are sufficient senior voices to provide oversight and who understand the importance of driving value by putting finance at the heart of decision making.

HMT and Cabinet Office Corporate Governance Code

We recognise the value of good corporate governance and comply with the principles of the HMT and Cabinet Office Corporate Governance Code⁸ for central government departments. The only exception is that the Code requires boards to be chaired by the lead minister. As a non-ministerial government department and an independent national regulatory authority, with Authority members appointed by the Secretary of State, the Authority has a non-executive chairman instead.

Last year, we contributed to the Committee on Standards in Public Life (CSPL) report "Striking the Balance" on the upholding of the Seven Principles of Public Life in Regulation (the so-called Nolan principles). Throughout the year we have continued to work to ensure that our own behaviours as a regulator are as practically consistent with the committee's best practice

recommendations for regulatory bodies.

The Government published the first UK Anti-Corruption Plan in 2014 and has since published a bribery and corruption risk assessment for Government departments, aligned with the Cabinet Office fraud risk assessments. We have completed it. The Authority and Ofgem senior management are committed to preventing bribery and corruption by everyone associated with Ofgem and to fostering a culture in which bribery and corrupt activity are never acceptable.

In 2018 we signed a Cabinet Office Memorandum of Understanding on internal fraud policy which is agreed between participating departments and seeks to reduce losses from internal fraud in government. The memorandum sets out our approach to the Cabinet Office Internal Fraud Policy. Its purpose is to protect the civil service and the public purse against loss caused by internal fraud and to introduce a strong deterrent against this form of misconduct.

Data quality

We collect and analyse a lot of financial and other data to inform our regulatory decisions and to create transparency on the workings of the energy market to consumers, market participants, and other interested parties.

The Authority considers that this information is generally of good quality. Data used to inform regulatory decisions is kept under constant review against a background of continuing change in the relevant markets, and quantitative analysis undergoes quality assurance by the Office of the Chief Economist.

During 2017 we established a Data Services project to transform how we manage and exchange data with our data users and stakeholders to ultimately benefit consumers and reduce the regulatory burden on industry. The project will also examine our governance, processes and policies on data capture and exchange. This is an exciting piece of work for us to transform the way we operate in the energy industry.

Personal data incidents

We have a data security policy to keep all official information private and secure. During 2017, four minor erroneous data disclosure incidents occurred

⁸ <https://www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments-2017>

as part of our administration of the Energy Company Obligation scheme. The data was very limited in volume but shared within a secure and closed environment. The suppliers concerned were immediately informed and deleted the data from their systems. As an outcome of our internal review, we have updated and further strengthened our standard operating procedures and are looking to implement further enhancements to our IT solutions for administering the scheme.

The General Data Protection Regulation (GDPR) 2016 has applied from 25 May 2018 and, along with the Data Protection Act 2018, forms a new data protection regime superseding the Data Protection Act 1998. In preparation, we examined what the changes mean for us, conducted a data audit and review of our privacy notices and policies, and established a staff training and communication programme to help staff understand their responsibilities under the new regime.

The accounting officer's review of effectiveness

As the accounting officer, I'm responsible for reviewing the effectiveness of our governance system. I base my review on the work of the internal auditors and the executive managers who are responsible for developing and maintaining the governance system. I also take into account the comments the external auditors make in their management letter and other reports. The Authority and the Audit and Risk Assurance Committee have told me about the implications of the result of my review, and a plan exists to address the weaknesses we find and make sure we continuously improve the system.

In internal audit reviews undertaken during 2017-18 and prior years, the internal auditors made 32 recommendations that had a due date for implementation before 31 December 2017. Of these, as at April 2018, satisfactory progress had been made with 20 out of the 32 recommendations either implemented or substantially complete, a further eight recommendations in progress, with three recommendations outstanding and one recommendation where management have accepted the risk.

On the basis of the work completed in the internal audit plan for the year ended 31 March 2018 as approved by the Audit and Risk Assurance Committee internal

auditors provided Ofgem with a reasonable level of assurance that the arrangements and systems for risk, control and governance provide for the effective and efficient achievement of Ofgem's objectives.

This year, we took steps to monitor and improve our governance system:

- The Authority reviewed our strategic risks in July 2017 and February 2018
- The Senior Leadership Team, the Management Committee (for E-Serve) and the Audit and Risk Assurance Committee reviewed our strategic risks.
- E-Serve's Risk and Fraud Management Group met each month to initiate and review work related to fraud prevention and detection, and to make sure we were properly managing suspected cases of fraud, misreporting or money laundering
- Assurance: We established a new, wide-ranging assurance function to add additional strength to our risk management, compliance oversight and audit functions across our delivery portfolio.
- The chief operating officer and associate director of finance and risk management regularly met senior partners and managing directors individually to review resources and progress towards objectives, and to identify and evaluate the associated risks
- We updated our governance statements to require partners and directors to consider and report on all aspects of financial and risk management and other governance control issues in their area

No significant problems with our governance system came up during the financial year. We announced a new organisational structure in February 2018 and the governance system for 2018-19 will be amended to reflect this.

Dermot Nolan
Accounting officer

21 June 2018

Remuneration and staff report

Remuneration and People Committee

The Committee's role includes agreeing the performance objectives of the Chairman of the Authority, and advising on objective setting and performance issues for the CEO and SLT members. It also considers and approves the remuneration, bonus and compensation packages payable, beyond standard, to the CEO and SLT members.

Wider roles performed by the Committee include reviewing the performance and reward structures for senior level staff, and having regard to succession planning, conflicts of interest, expense policy approvals and compliance with Civil Service Business Appointment Rules. The Committee also provides advice to the Chairman and Chief Executive, as appropriate, on people-related issues.

Remuneration policy

Remuneration of senior employees is set out in their contracts and is subject to annual review in line with awards recommended by the Senior Salaries Review Body. Apart from the chairman, all our senior employees are permanent members of staff. None of them have a notice period longer than six months.

Each senior level employee is eligible to participate in a bonus scheme that is in line with Senior Salaries Review Body recommendations. The bonus is based on the individual's performance. Bonus payments are non-consolidated and non-pensionable.

During 2016-17 we considered the feasibility of introducing clawback provision of senior level bonuses. It was decided, owing to the size of the bonus payments and the lack of such provision across the wider civil service, to keep this under annual review.

Service contracts

The Constitutional Reform and Governance Act 2010 requires civil service appointments to be made on merit on the basis of fair and open competition. The recruitment principles published by the Civil Service Commission specify when appointments may be made otherwise.

Unless otherwise stated, the officials covered by this report hold appointments that 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 www.civilservicecommission.org.uk.

Remuneration (including salary) and pension entitlements

The information in the following tables has been subject to external audit.

The salary, the bonus payments and the value of any taxable benefits in kind of the most senior members of Ofgem (not all of whom are Authority members) in 2017-18 are shown in the table overleaf.

Single total figure of remuneration

	Salary (£000)		Bonus payments (£000)		Benefits in kind (to nearest £100)		Pension benefits (to nearest £1,000)‡		Total (£000)	
	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17
Senior executive members of Ofgem										
Dermot Nolan Chief Executive	195-200	190-195	-	15-20	-	-	36,000	34,000	230-235	240-245
Jonathan Brearley Senior Partner (from May 2016)	140-145	115-120	-	-	-	-	56,000	45,000	200-205	160-165
Sarah Cox Chief Operating Office from May 2016	135-140	110-115	-	-	-	-	67,000	46,000	200-205	155-160
Martin Crouch Senior Partner	140-145	140-145	-	-	-	-	45,000	74,000	185-190	215-220
Rachel Fletcher Senior Partner to January, 2018*	115-120*	140-145	-	15-20	-	-	34,000	42,000	150-155	200-205
Rob Salter-Church Acting Senior Partner from January 2018*	30-35*	-	-	-	-	-	46,000	-	75-80	-
Dr Andrew Wright Senior Partner	190-195	195-200	-	-	-	-	29,000	28,000	215-220	220-225
Chris Poulton Acting Managing Director	135-140	140-145	-	15-20	-	-	49,000	17,000	185-190	175-180
Patricia Dreghorn Director	120-125	-	-	-	-	-	47,000	-	165-170	-
Non-executive members of the Authority										
David Gray Chairman	160-165	160-165	-	-	-	-	-	-	160-165	160-165

* Annual equivalent basic salary (excluding performance pay):

Rachel Fletcher 145-150

Rob Salter-Church: 105-110

‡ The value of pension benefits accrued during the year is calculated as the real increase in pension multiplied by 20, less the contributions made by the individual. The real increase excludes increases or decreases due to a transfer of pension rights.

Other non-executive members of the Authority who were paid	2017-18		2016-17	
	Honorarium	Allowance	Honorarium	Allowance
Christine Farnish	£20,000	£3,000	£20,000	-
David Fisk (to May 2017) *	£3,000	-	£25,000	-
Paul Grout	£20,000	-	£20,000	-
Nicola Hodson (to July 2017) *	£7,000	-	£20,000	-
Jim Keohane (to January 2018) **	£21,000	-	£25,000	-
Keith Lough	£20,000	£3,000	£20,000	£3,000

* Annual equivalent £20,000 ** Annual equivalent £20,000

Non-executive members have fixed-term appointments, normally for up to five years. These appointments are renewable. Information on appointment dates is on page 36. Remuneration and appointments are set by the Secretary of State for Business, Energy and Industrial Strategy after consulting the chairman. Their remuneration is by payment of an honorarium plus an additional allowance for chairing any Authority committees. They aren't entitled to performance-related pay or a pension. Compensation for early termination is at the discretion of the Secretary of State. The non-executive chairman of the Authority, David Gray, has an appointment that started on 1 October 2013 and lasts for five years.

As well as honoraria, which are included in salaries, non-executive directors are entitled to actual expenses, evidenced by receipts.

Expenses claimed by our senior members and non-executive directors are published on our website www.ofgem.gov.uk.

Salary

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

Bonuses

In 2017-18 there were 697 (2016-17: 679) staff who received a bonus. The average bonus payment was £1,238 (2016-17: £1,357) and the total amount paid in bonuses equalled £862,907 (2016-17: £921,403). Four individuals (2016-17: three) received the largest bonus payment which was £12,500 (2016-17: £15,000).

Bonuses are based on performance levels and are made as part of the appraisal process. The bonuses reported in 2017-18 relate to performance in 2016-17. The bonuses reported for 2016-17 relate to performance in 2015-16.

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 information below has been subject to external audit.

The banded remuneration of our highest-paid director in 2017-18 was £195,000-£200,000 (2016-17: £205,000-210,000). This was 4.73 times (2016-17: 5.22) the median remuneration of the workforce, which was £41,782 (2016-17: £40,000).

In 2017-18 no (2016-17: none) employees received remuneration in excess of the highest-paid director. Remuneration ranged from £10,000 to £195,757 (2016-17: £8,840 to £208,819).

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.

The average number of permanently employed staff decreased in 2017-18. The increase in the pay multiple reflects the fact that this decrease was concentrated in staff at the lower grades, resulting in a higher median remuneration compared to 2016-17.

Pension Benefits

	Real increase in pension and related lump sum at age 60	Accrued pension at age 60 at 31 March 2018 and related lump sum	Cash equivalent transfer value at 31 March 2018	Cash equivalent transfer value at 31 March 2017	Real increase in cash equivalent transfer value	Employer's contribution to partnership pension account
Pension benefits	£000	£000	£000	£000	£000	Nearest £1000
Senior executive members of Ofgem						
Dermot Nolan Chief executive	-	-	-	-	-	36
Jonathan Brearley Senior partner (from May 2016)	2.5-5	5-10	58	25	21	-
Sarah Cox Chief Operating Officer (from June 2016)	2.5-5	30-35	470	402	37	-
Martin Crouch Senior partner	2.5-5	35-40	529	477	15	-
Rachel Fletcher Senior partner	0-2.5	30-35	516	469	27	-
Rob Salter-Church Acting Senior Partner from January 2018	2.5-5	25-30	286	252	13	-
Dr Andrew Wright Senior partner	-	-	-	-	-	29
Senior executive members of Ofgem E-Serve						
Chris Poulton Acting managing director	22.5-25	20-25	193	-	9	-
Patricia Dreghorn Director	2.5-5	0-5	46	16	20	-

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 3% and 8.05% of pensionable earnings for members of classic (and members of alpha who were members of classic immediately before joining alpha) and between 4.6% and 8.05% for members of premium, classic plus, nuvos and all other members of alpha. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions

Increase legislation. Benefits in alpha build up in a similar way to nuvos, except that the accrual rate is 2.32%. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 8% and 14.75% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. 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 or contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement). It uses common market valuation factors for the start and end of the period.

Staff report

(The information below has been subject to external audit)

Average number of people employed

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

			2017-18 £000	2016-17 £000
	Permanently employed staff	Others	Total	Total
Regulatory	366	35	401	434
E-Serve	241	32	273	357
Corporate Services	117	25	142	180
Total	724	92	816	971

There was an average of 43 whole-time equivalent people in the SCS grade during the year. Of these 24 were in payband 1, 15 in payband 2, and 4 in payband 3.

Staff Costs

Staff costs comprise			2017-18 £000	2016-17 £000
	Permanently employed staff	Others	Total	Total
Wages and salaries	38,767	5,453	44,220	46,424
Social security costs	4,389	-	4,389	4,544
Other pension costs	7,723	-	7,723	7,995
Other staff costs	21	-	21	330
Apprenticeship Levy (tax expense)	170	-	170	-
Total	51,070	5,453	56,523	59,293

Reporting of civil service and other compensation schemes – exit packages

(The information below has been subject to external audit)

Exit package cost band	2017-2018			2016-2017		
	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
<£10,001	0	3	3	0	0	0
£10,001 - £25,000	0	3	3	0	0	0
£25,001 - £50,000	0	2	2	1	0	1
£50,001 - £100,000	0	7	7	1	0	1
£100,001 - £150,000	0	1	1	0	0	0
£150,001 - £200,000	0	0	0	0	0	0
Total number of exit packages	0	16	16	2	0	2
Total cost £000	0	808	808	116	0	116

We have paid redundancy and other departure costs in accordance with the provision of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. We account for exit costs in full when the early retirement programme becomes binding but actual dates of departure may fall in the following reporting period. Where we have agreed early retirements we, not the Civil Service Pension Scheme, meet the additional costs. Ill-health retirement costs are met by the pension scheme and are not included in the table.

Employee involvement

This year our staff engagement survey received a response rate of 88%, and an engagement index of 59%, a decrease of two percentage points on 2017.

Our staff also continue to find their roles interesting (87%) and challenging (77%), and would recommend Ofgem as a great place to work (50%).

Single Equalities Scheme

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. To this end, in 2013 we published our Single Equalities Scheme (SES). This sets out our approach to our staff, internal processes, policy development and decision-making. We are reviewing the scheme during 2018.

Equal opportunities

We promote equality and diversity at work – in 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 don't tolerate discrimination, bullying or harassment. Our score for inclusion and fair treatment in the 2017 staff engagement survey was 77%.

In 2017, Ofgem has continued to support our diversity networks covering women, LGBT+, ethnicity and disability.

In 2017-18 we continued to provide diversity and unconscious bias 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. At the end of the financial year:

- 2.1% (2016-17:2.4%) of staff were known to have a disability.
- 45% (2016-17:47%) of staff were women.
- 46% (2016-17:45%) of staff in managerial grades were women.
- 35% (2016-17:35%) of Senior Civil Service members in Ofgem were women.
- 18% (2016-17:18%) of staff were known to be of ethnic minority origin.
- 71% (2016-17:62%) of staff known to be of ethnic minority origin were in managerial grades.

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

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 in a number of ways.

In 2017-18, our areas of focus were on developing leadership and line management skills.

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 have also allowed a number of charities to run events at our offices.

We continue to work with Career Ready and have staff giving 16-19 year-olds' one-to-one support and guidance through the mentoring scheme. In 2017, we offered three, six-week summer internship placements in London and two four-week summer internship placements in Glasgow.

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.

Days lost because of absence

In 2017-18, we lost an average of 4.9 days a year per employee (2016-17: 4.6 days). This compares favourably with the central government sector average of 7.9 days a year per employee, and the all sector average of 5.5 days.

Review of tax arrangements of public sector appointees

In May 2012 the government published a review of the tax arrangements of public sector appointees. The review identified the number of off-payroll engagements worth more than £58,200 a year across government.

Information on current off-payroll appointees is at Appendix IV on page 107.



Dermot Nolan
Accounting officer

21 June 2018

