



UK Government

**Framework Document between the  
Secretary of State for Energy Security  
and Net Zero and The Gas and  
Electricity Markets Authority  
(operating through Ofgem)**

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# Introduction and background

## 1. Purpose of document

- 1.1. This framework document (the “Framework”) has been agreed between the Secretary of State for Energy Security and Net Zero (the “Department”) and the Gas and Electricity Markets Authority (established under Section 1 of the Utilities Act 2000 (“UA2000”) and operating through the Office of the Gas and Electricity Markets (“Ofgem”), having its principal place of business at 10 South Colonnade, Canary Wharf, London E14 4PU). For the purpose of this Framework, the board of Ofgem, appointed under Schedule 1 of UA2000 is referred to as GEMA.
- 1.2. The framework has been agreed in accordance with HM Treasury’s handbook Managing Public Money<sup>1</sup> (“MPM”) (as updated from time to time) and has been approved by HM Treasury. It revokes and replaces the framework agreed dated 19 December 2019  
[https://www.ofgem.gov.uk/sites/default/files/docs/2019/12/framework\\_document\\_final\\_publication\\_version\\_december\\_2019.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2019/12/framework_document_final_publication_version_december_2019.pdf)
- 1.3. The framework document sets out the broad governance framework within which Ofgem and the Department operate. It sets out Ofgem’s core responsibilities; describes the governance and accountability framework that applies between the roles of the Department, Ofgem and HM Treasury; and sets out how the day-to-day relationship works in practice, including in relation to governance and financial matters.
- 1.4. The document is not legally binding; it does not establish, impose or convey any legal powers, obligations or responsibilities and is not intended to compromise Ofgem’s regulatory independence subject to which both parties agree to operate within its terms.
- 1.5. Copies of the document and any subsequent amendments will be placed in the libraries of both Houses of Parliament and published on the Ofgem.gov.uk/Gov.uk website.
- 1.6. This Framework should be reviewed and updated at least every three years unless there are exceptional reasons that render this inappropriate that have been agreed with HM Treasury and the Principal Accounting Officer of the Department. The latest date for review and updating of this document is 2 years and 6 months after publication.
- 1.7. The governance framework set out in this Framework reflects a number of other documents which are set out in the Appendix to this Framework. Ofgem shall act in accordance (as far as required and appropriate given its status as an independent regulator established by statute) with those documents and instructions. These documents have primacy over this Framework should any terms conflict. Any other Memoranda of Understanding entered into between the Department and Ofgem prior to or after the date of this Framework shall not be affected or prejudiced by the terms of this framework and will take primacy over this Framework should any of the terms conflict. This Framework shall be read in light of any other

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<sup>1</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1000670/MPM\\_Spring\\_21\\_with\\_annexes\\_080721.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1000670/MPM_Spring_21_with_annexes_080721.pdf)

Memorandum of Understanding, including the MOU between Ofgem and the Department in relation to Delivery & Schemes.

## **2. Objectives**

2.1. Ofgem and the Department will work together in recognition of each other's roles and areas of expertise, providing an effective environment for Ofgem to achieve its objectives through the promotion of partnership and trust.

## **3. Classification of Ofgem**

3.1. Ofgem has been classified as a central government organisation by the ONS/HM Treasury Classifications Team.

3.2. Ofgem has been administratively classified by the Cabinet Office as a non-ministerial department.

# Purposes, aims and duties

## 4. Purposes

- 4.1. Ofgem is a non-ministerial government department and an independent economic regulator.
- 4.2. Ofgem is established under Utilities Act 2000 (UA2000) and has a number of statutory roles and functions. At the date of this Framework, these include (but are not limited to):
- 4.3. Ofgem's statutory functions set out in the Gas Act 1986 ("GA") and the Electricity Act 1989 ("EA"), and statutory objectives which apply to the majority of these functions, set out in sections 4AA GA and 3A EA. The principal objective of Ofgem under these sections is to protect the interests of existing and future gas and electricity consumers (the "Principal Objective").
- 4.4. Ofgem's role as a National Competition Authority under the EC Modernisation Regulation (EC 1/2003) and part of the European Competition Network with statutory powers under the Competition Act 1998 and the Enterprise Act 2002 concurrent with the Competition and Markets Authority to investigate and enforce against anti-competitive practices;
- 4.5. Ofgem's role as a National Regulatory Authority under the Regulation on Energy Market Integrity and Transparency (EU 1227/2011) ("REMIT") with powers under The Electricity and Gas (Market Integrity and Transparency) (Enforcement etc) Regulations 2013 to monitor, investigate and enforce against breaches of REMIT;
- 4.6. Ofgem delivers Government social and environmental schemes on behalf of the Department for Energy Security and Net Zero through its Delivery and Schemes directorate.
- 4.7. Ofgem has powers under consumer protection legislation, including the Enterprise Act 2002, Consumer Rights Act 2015 and the Business Protection from Misleading Marketing Regulations 2008, to investigate and enforce against breaches of consumer protection law.

## 5. Powers and duties

- 5.1. The Authority's powers and duties are largely provided for in statute, such as the:
  - Gas Act 1986
  - Electricity Act 1989
  - Utilities Act 2000
  - Competition Act 1998
  - Enterprise Act 2002

- Energy Acts of 2004, 2008, 2010, 2011, 2013 and 2023

5.2. References to the Gas Act 1986 and the Electricity Act 1989 are to Part 1 of those Acts<sup>2</sup>. Duties and functions relating to gas are set out in the Gas Act 1986 and those relating to electricity are set out in the Electricity Act 1989. This description must be read accordingly<sup>3</sup>.

## 6. Overall Aims and Strategy

6.1. Ofgem acknowledges its regulatory responsibilities including its responsibilities as per the Energy Act 2013 to have regard to the Strategy and Policy Statement and publish a Forward Work Programme containing a general description of the projects it plans to undertake during that year, including a description of the objectives of each project and an estimate of overall expenditure which Ofgem expects to incur during the year in exercise of its functions.

6.2. Ofgem's annual Forward Work Programme shall be published on the Ofgem website.

## Governance and accountability

### 7. Governance and accountability

7.1. As a non-ministerial department, Ofgem has operational freedom in line with its statutory framework. Ofgem is accountable to Parliament for the performance of its functions and duties.

7.2. Corporate governance and accountability arrangements should draw on best practice in the public sector so far as is appropriate given non-ministerial department status.

7.3. In particular (but without limitation), Ofgem should:

- comply with the principles and provisions of the Corporate Governance in Central Government Departments Code of Good Practice<sup>4</sup> (as amended and updated from time to time) to the extent appropriate and in line with their statutory duties or specify and explain any non-compliance in its annual report
- comply with Managing Public Money (MPM)

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<sup>2</sup> Titled "Gas Supply" and "Electricity Supply" respectively.

<sup>3</sup> However, in exercising a function under the Electricity Act the Authority may have regard to the interests of consumers in relation to gas conveyed through pipes and vice versa in the case of it exercising a function under the Gas Act.

<sup>4</sup> <https://www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments-2017>

- in line with MPM have regard to the relevant Functional Standards<sup>5</sup> as appropriate and in particular those concerning Finance, Commercial and Counter Fraud
- take into account the codes of good practice and guidance set out in Annex A of this framework document, as they apply to non-ministerial departments

7.4. In line with MPM Annex 3.1 Ofgem shall provide an account of corporate governance in its annual governance statement including GEMA's assessment of its compliance with the Code, with explanations of any material departures. To the extent that Ofgem does intend to materially depart from the Code, the Department should be notified in advance.

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<sup>5</sup> <https://www.gov.uk/government/collections/functional-standards>

# Role of the Department

## 8. The Responsible Minister

- 8.1. The Secretary of State's statutory powers in respect of Ofgem are set out in the UA2000.
- 8.2. The Secretary of State has a role in keeping Parliament informed about Ofgem's performance in accordance with paragraph 7.10 of MPM as appropriate, and in discharging his or her obligations in terms of UA2000, including in relation to the appointment of and determination of the terms of appointment of the Chair and members of GEMA.

## Appointments to the Board (GEMA)

- 8.3. The Chair of GEMA is appointed by the Secretary of State accordance to Paragraphs 1 and 3 of Schedule 1 to the UA2000; this appointment is subject to the Public Appointments Order in Council and as such must comply with the Governance Code on Public Appointments.
- 8.4. The Secretary of State shall have the following appointment and approval rights, including reappointments and extensions, in relation to GEMA:
  - The Chair and members of GEMA are appointed by the Secretary of State for a period of not less than five years and not more than seven years in accordance with paragraph 3 of Schedule 1 to the UA2000. Such appointments are subject to the Public Appointments Order in Council and as such must comply with the Governance Code on Public Appointments.
  - Non-executive members are appointed by the Secretary of State after consulting the Chair in accordance with Schedule 1 to the UA2000. This appointment is subject to the Public Appointments Order in Council and as such must comply with the Governance Code on Public Appointments.
  - The executive members of GEMA 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.
  - All such appointments should have regard to the principle that appointments should reflect the diversity of the society in which we live, and appointments should be made taking account of the need to appoint boards which include a balance of skills and backgrounds.

## 9. The Accounting Officer Appointment of the Chief Executive Officer

- 9.1. The Chief Executive Officer of Ofgem is appointed by GEMA. The Civil Service Commissioner should be included in any appointment panel appointing the Chief Executive Officer, but is not included in any extension or reappointment of the Chief Executive Officer.

## **AO's specific accountabilities and responsibilities**

9.2. As a non-ministerial department, the Principal Accounting Officer (“PAO”) of HM Treasury has designated the Chief Executive of Ofgem (the “Chief Executive”) as its Accounting Office (“AO”) and ensures that they are fully aware of their responsibilities. The PAO issues a letter appointing the AO, setting out their responsibilities.

9.3. The responsibilities of the AO are set out in Chapter 3 of MPM.

## **10. The role of the sponsorship teams**

10.1. The Ofgem Sponsorship team in the Department is the primary contact for Ofgem. The responsible senior civil servant for this relationship is the Director General for Energy Markets and Supply. They are the main source of advice to the responsible Secretary of State on the discharge of their responsibilities in respect of Ofgem.

10.2. The Ofgem Delivery and Schemes Sponsorship team in the Department is the primary contact for Ofgem on social and environmental schemes.

10.3. The Department and Ofgem will have an open and honest, trust-based relationship supported by the principles set out in the Partnerships between Departments and ALBs: Code of Good Practice. As such, all parties will ensure that they clearly understand each other's strategic aims and objectives and commit to developing constructive working relationships while maintaining Ofgem's regulatory independence.

10.4. In addition to routine contact between the Department and Ofgem, meetings will take place between:

- The Secretary of State for Energy Security and Net Zero and the Ofgem Chair at least annually; and
- The responsible Department for Energy Security and Net Zero Directors General and the Ofgem Chair or Chief Executive quarterly.

10.5. Both the Department and Ofgem commit to providing each other with notice of material public announcements, in line with the independence of Ofgem.

## **11. Resolution of disputes between Ofgem and the Department**

11.1. The Department and Ofgem will take a pragmatic and issue-based approach to dispute resolution.

11.2. This Framework and other governance documents and guidance should be used as a reference point for agreement between the two parties. A resolution should be agreed upon in a timely manner and in such a way that any potential disruption to on-going projects or operations is limited

as much as possible.

- 11.3. The parties should endeavour to identify emerging disputes as early as possible, and to communicate these to each other through the most appropriate route of engagement. This could include routine sponsorship meetings for more day-to-day issues, or direct conversations between the senior management for more urgent matters.
- 11.4. Both parties will agree clear routes of escalation for addressing both routine issues and urgent matters arising. In the first instance, issues should be escalated within the organisation at a working level and in a timely manner. Where this does not resolve the dispute, the issue should be escalated within the Department to the relevant director and subsequently to the Director General for the Energy Markets and Supply, the Permanent Secretary and, where appropriate, to the Secretary of State. Within Ofgem, the issue should be escalated within the organisation at working level, then to the relevant Director, Director General and/or committee chair, and ultimately to the Chief Executive as AO and/or the Chair (as appropriate).
- 11.5. Once the dispute is resolved, both parties should endeavour to learn the lessons from this process, and guidance should be recorded and communicated within each organisation to aid future deliberations.
- 11.6. Nothing in this Clause 11 is intended to or shall operate to affect or compromise Ofgem's independence.

## **12. Freedom of Information requests**

- 12.1. Where a request for information is received by either party under the Freedom of Information Act 2000, or the Data Protection Act 2018, the party receiving the request will consult with the other party prior to any disclosure of information that may affect the other party.

## **13. Reporting on legal risk and litigation**

- 13.1. Ofgem shall provide updates to the Department on any material legal risk and litigation relating to social and environmental schemes in line with the separate MOU between Ofgem and the Department.
- 13.2. Ofgem will monitor anticipated legal risk and current litigation, and ensure GEMA is appropriately informed and updated to enable it to manage legal risk effectively.

# Ofgem governance structure

## 14. The Chief Executive

### Responsibilities of Ofgem's chief executive as accounting officer

14.1. The Chief Executive as AO is personally responsible for safeguarding the public funds for which he or she has charge; for ensuring propriety, regularity, value for money and feasibility in the handling of those public funds for the day-to-day operations and management of Ofgem. In addition, they should ensure that Ofgem as a whole is run on the basis of the standards, in terms of governance, decision-making and financial management that are set out in Box 3.1 of Managing Public Money.

### Responsibilities for accounting to Parliament and the public

14.2. Responsibilities to Parliament and public include:

- signing the accounts and ensuring that proper records are kept relating to the accounts and that the accounts are properly prepared and presented in accordance with any directions issued by the HM Treasury and the Secretary of State
- preparing and signing a Governance Statement covering corporate governance, risk management and oversight of any local responsibilities, for inclusion in the annual report and accounts
- ensuring that effective procedures for handling complaints about Ofgem in accordance with Parliamentary and Health Service Ombudsman's Principles of Good Complaint Handling are established and made widely known within Ofgem and published on ofgem.gov.uk
- acting in accordance with the terms of MPM and other instructions and guidance issued from time to time by the sponsor department, the Treasury and the Cabinet Office
- ensuring that as part of the above compliance the Chief Executive is familiar with and act in accordance with:
  - any governing legislation
  - this Framework
  - any delegation letter issued to Ofgem from HM Treasury
- ensuring they have appropriate internal mechanisms for monitoring, governance and external reporting regarding non-compliance with any conditions arising from the above documents
- giving evidence when summoned before the Public Accounts Committee (PAC) on the Ofgem's stewardship of public funds and other Parliamentary Committee's on Ofgem's performance

### Responsibilities to Department

14.3. Responsibilities to Department for Energy Security and Net Zero:

- in relation to the Delivery and Schemes directorate, ensuring that timely forecasts and monitoring information on performance and finance are provided to Department; that Department is notified promptly if over or under spends are likely and that corrective

action is taken; and that any significant problems whether financial or otherwise, and whether detected by internal audit or by other means, are notified to Department in a timely fashion. This is to be in line with any relevant statements in the separate MOU between Ofgem and the Department.

## **Responsibilities to the board (GEMA)**

14.4. The Chief Executive is responsible for:

- advising GEMA on the discharge of their responsibilities as set out in this document, in the applicable legislation and in any other relevant instructions and guidance that may be issued from time to time;
- advising GEMA on Ofgem's performance compared with its aims and objectives;
- advising GEMA on relevant financial considerations so that these may be taken fully into account by GEMA in reaching and executing its decisions, and ensuring that relevant financial appraisal techniques are followed; and
- taking action as set out in the provisions of this framework document in relation to managing conflicts at paragraphs [14.7 and 14.8] below

## **Managing conflicts**

14.5. The Chief Executive should follow the advice and direction of GEMA.

The Chief Executive should follow Ofgem's policy on conflicts of interest.

14.6. As Ofgem's AO, the Chief Executive must take care that their personal AO responsibilities do not conflict with their duties as a board member. In particular, the AO should vote against any proposal which appears to cause such a conflict; it is not sufficient to abstain.

## **Managing conflicts – policy matters**

14.7. If GEMA, or its Chair, is contemplating a course of action involving a transaction which the Chief Executive considers would infringe the requirements of propriety or regularity or does not represent prudent or economical administration, efficiency or effectiveness, is of questionable feasibility, or is unethical, the Chief Executive in their role as AO should reject that course of action and ensure that GEMA have a full opportunity to discuss the rationale for that rejection.

14.8. The AO must write a letter of justification to the chair of GEMA setting out the rationale for not following the advice and recommendation of GEMA and copy that letter to the Treasury Officer of Accounts.

14.9. The AO should then seek GEMA's written direction to carry it out in compliance with paragraph 3.6 and following the process set out in paragraph 3.6.6, both of MPM, but with references to "Minister" in those paragraphs substituted with "GEMA". Following receipt of such written direction, the AO should proceed to implement without delay.

## Managing conflicts – operational matters

14.10. If the Chair or GEMA is minded to instruct its AO to carry out a course inconsistent with their duties as AO, then the AO should:

- make their reservations clear, preferably in writing and inform HM Treasury
- seek GEMA's written direction to carry it out in compliance with paragraph 3.6 and following the process set out in paragraph 3.6.6, both of MPM, but with references to "Minister" in those paragraphs substituted with "GEMA",
- proceed to implement without delay

## 15. The Board (GEMA)

### Composition of GEMA

15.1. GEMA will have a composition in line with good standards of corporate governance and as set out in UA2000 and in guidance as set out in Annex A. Detailed responsibilities of GEMA and procedure (including quorum) shall be set out in GEMA Rules of Procedure. Remuneration of GEMA will be disclosed in line with the guidance in the Government Financial Reporting manual (FReM)<sup>6</sup>.

### Board Committees

15.2. GEMA may set up such committees as necessary for it to fulfil its functions. As is detailed below at a minimum this should include an Audit and Risk Committee chaired by an independent and appropriately qualified non-executive member of GEMA.

15.3. While GEMA may make use of committees to assist its consideration of appointments, succession, audit, risk and remuneration it retains accountability in all of these areas. The Chair should ensure that sufficient time is allowed at GEMA for committees to report on the nature and content of discussion, on recommendations, decisions and on actions to be taken.

15.4. The Chair should ensure committees are properly structured with appropriate terms of reference. The terms of each committee should set out its responsibilities and the authority delegated to it by GEMA. The Chair should ensure that committee membership is periodically refreshed and that individual independent non-executive directors are not overburdened when deciding the chairs and membership of committees.

### Duties of GEMA

15.5. GEMA is specifically responsible for:

- establishing and taking forward the strategic aims and objectives of Ofgem, consistent with its overall strategic direction and within its policy and resources framework

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<sup>6</sup> <https://www.gov.uk/government/collections/government-financial-reporting-manual-frem>

- ensuring a framework of prudent and effective controls which enables risk to be assessed and managed
- reviewing management performance
- ensuring that GEMA receives and reviews regular financial and management information concerning the management of Ofgem
- ensuring that it is kept informed of any changes which are likely to impact on the strategic direction of GEMA or on the attainability of its targets, and determining the steps needed to deal with such changes and where appropriate bringing such matters to the attention of the Secretary of State via the executive team, sponsorship team or directly
- ensuring that any statutory or administrative requirements for the use of public funds are complied with; that GEMA operates within the limits of its statutory authority and any delegated authority agreed with the Department, and in accordance with any other conditions relating to the use of public funds
- ensuring that as part of the above compliance they are familiar with:
  - this framework document,
  - any delegation letter issued to Ofgem by HM Treasury;
- demonstrating high standards of corporate governance at all times, including by using the independent audit committee to help GEMA to address key financial and other risks
- appointing, with the inclusion of the Civil Services Appointments Commissioner on the appointment panel, the Chief Executive and setting performance objectives and remuneration terms linked to these objectives for the Chief Executive which give due weight to the proper management and use and utilisation of public resources.
- determining all such other things which GEMA considers ancillary or conducive to the attainment or fulfilment of its objectives

15.6. GEMA should ensure that effective arrangements are in place to provide assurance over the design and operation of risk management, governance and internal control in line with the Management of Risk – Principles and Concepts (The Orange Book)<sup>7</sup>. GEMA must ensure that the Department's Audit and Risk Assurance Committee are provided with routine annual assurances, via its Annual Report and Accounts, with escalation of any significant limitations or concerns. GEMA is expected to assure itself of the adequacy and effectiveness of the risk management framework and the operation of internal control.

## 16. The Chair's role and responsibilities

16.1. The Chair is responsible for leading GEMA in the delivery of its responsibilities. Such responsibility should be exercised in the light of their duties and responsibilities as set out in their contract of employment/appointment letter, the statutory authority governing Ofgem, this document and the documents and guidance referred to within this document.

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<sup>7</sup> <https://www.gov.uk/government/publications/orange-book>

16.2. Communications between GEMA and the responsible Secretary of State should normally be through the Chair or CEO.

16.3. The Chair is bound by the Code of Conduct for Board Members of Public Bodies<sup>8</sup>, which covers conduct in the role and includes the Nolan Principles of Public Life<sup>9</sup>.

16.4. The Chair has the following leadership responsibilities:

- leading GEMA in formulating GEMA's strategy
- ensuring that GEMA, in reaching decisions and where appropriate given Ofgem's status as an independent regulator, takes proper account of guidance provided by the responsible Secretary of State or DESNZ
- promoting the efficient and effective use of staff and other resources
- delivering high standards of regularity and propriety
- representing the views of GEMA to the general public

16.5. The Chair also has an obligation to ensure that:

- the work of GEMA and its members are reviewed and are working effectively including ongoing assessment of the performance of individual board members with a formal annual evaluation and more in-depth assessments of the performance of individual board members when being considered for re-appointment
- in conducting assessments of members performance, that the view of relevant stakeholders including employees and the sponsorship team are sought and considered
- GEMA has a balance of skills appropriate to directing Ofgem's business, and that all members including the Chair and Chief Executive continually update their skills, knowledge and familiarity with Ofgem to fulfil their role both on GEMA and committees. This will include but not be limited to skills and training in relation to financial management and reporting requirements, risk management and the requirements of board membership within the public sector
- GEMA members are fully briefed on terms of appointment, duties, rights and responsibilities
- they, together with the other GEMA members, receive appropriate training on financial management and reporting requirements and on any differences that may exist between private and public sector practice
- the Secretary of State is advised of Ofgem's needs when board vacancies arise
- there are GEMA Rules of Procedure ([Rules of Procedure of GEMA](#)) in place setting out the role and responsibilities of GEMA consistent with the Government Code of Good Practice for Corporate Governance

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<sup>8</sup> <https://www.gov.uk/government/publications/code-of-conduct-for-board-members-of-public-bodies>

<sup>9</sup> <https://www.gov.uk/government/publications/the-7-principles-of-public-life>

- there is a code of practice for GEMA members in place, consistent with the Cabinet Office Code of Conduct for Board Members of Public Bodies

## 17. Individual board members' responsibilities

17.1. Individual board members should:

- comply at all times with the Code of Conduct for Board Members of Public Bodies, which covers conduct in the role and includes the Nolan Principles of Public Life as well as rules relating to the use of public funds and to conflicts of interest
- demonstrate adherence to the 12 Principles of Governance for all Public Body Non-Executive Directors as appropriate<sup>10</sup>
- not misuse information gained in the course of their public service for personal gain or for political profit, nor seek to use the opportunity of public service to promote their private interests or those of connected persons or organisations
- comply with GEMA's rules on the acceptance of gifts and hospitality, and of business appointments
- act in good faith and in the best interests of Ofgem
- ensure they are familiar with any applicable guidance on the role of public sector non-executive directors and boards that may be issued from time to time by the Cabinet Office, HM Treasury or wider government

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<sup>10</sup> <https://www.gov.uk/government/publications/public-bodies-non-executive-director-principles/12-principles-of-governance-for-all-public-body-neds>

# Management and financial responsibilities and controls

## 18. Delegated authorities

18.1. Ofgem's delegated authorities are set out in the delegation letter issued by HM Treasury annually

18.2. In line with MPM Annex 2.2 these delegations will be reviewed on an annual basis.

## 19. Banking and managing cash

19.1. Ofgem must maximise the use of publicly procured banking services (accounts with central government commercial banks managed centrally by Government Banking).

19.2. Ofgem should only hold money outside Government Banking Service accounts where a good business case can be made for doing so and HM Treasury consent is required for each account to be established. Only commercial banks which are members of relevant UK clearing bodies may be considered for this purpose.

19.3. Commercial accounts where approved should be operated in line with the principles as set out in MPM.

19.4. The AO is responsible for ensuring Ofgem has a banking policy as set out in MPM and ensuring that policy is complied with.

## 20. Procurement

20.1. Ofgem shall ensure that its procurement policies are aligned with and comply with any relevant UK or other international procurement rules and in particular the Public Contracts Regulations 2015 and any amendment or update to those Regulations, including the Procurement Act 2023.

20.2. Ofgem shall establish its procurement policies and document these in a Procurement Policy and Procedures Manual.

20.3. Ofgem shall comply with the delegated financial limits as set out in any delegation letter issued by HM Treasury prior to the commencement of a new financial year. These delegations shall not be altered without prior agreement of HM Treasury;

20.4. Procurement by Ofgem of works, equipment, goods, and services shall be based on, a full option appraisal and value for money (VfM), i.e. the optimum combination and whole life costs and quality (fitness for purpose).

20.5. Ofgem shall:

- Where appropriate, engage fully with government wide procurement initiatives that seek to achieve VfM from collaborative projects
- comply with all relevant Procurement Policy Notes issued by Cabinet Office
- co-operate fully with initiatives to improve the availability of procurement data to facilitate the achievement of VfM

20.6. Ofgem shall comply with the commercial<sup>11</sup> and, where applicable, grants standards<sup>12</sup>. These standards apply to the planning, delivery, and management of government commercial activity, including management of grants in all departments and non-ministerial departments, regardless of commercial approach used and form part of a suite of functional standards that set expectations for management within government.

## 21. Risk management

21.1. Ofgem shall ensure that the risks that it faces are dealt with in an appropriate manner, in accordance with relevant aspects of best practice in corporate governance, and develop a risk management strategy, in accordance with the Treasury guidance Management of Risk: Principles and Concepts<sup>13</sup> .

## 22. Counter fraud and theft

21.1. Ofgem should adopt and implement policies and practices to safeguard itself against fraud and theft.

22.2. Ofgem should act in line with guidance as issued by the Counter Fraud Function and in compliance with the procedures and considerations as set out in Managing Public Money Annex 4.9 and the Counter Fraud Functional Standard<sup>14</sup>. It should also take all reasonable steps to appraise the financial standing of any firm or other body with which it intends to enter a contract or to provide grant or grant-in-aid.

22.3. Ofgem should report detected loss from fraud, bribery, corruption and error, alongside associated recoveries and prevented losses, to the counter fraud centre of expertise in line with the agreed government definitions as set out in Counter Fraud Functional Standard.

## 23. Staff

### Broad responsibilities for staff

23.1. Within the arrangements approved by HM Treasury Ofgem will have

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<sup>11</sup> <https://www.gov.uk/government/publications/commercial-operating-standards-for-government>

<sup>12</sup> <https://www.gov.uk/government/publications/grants-standards>

<sup>13</sup> [http://www.hm-treasury.gov.uk/orange\\_book.htm](http://www.hm-treasury.gov.uk/orange_book.htm)

<sup>14</sup> <https://www.gov.uk/government/publications/government-functional-standard-govs-013-counter-fraud>

responsibility for the recruitment, retention and motivation of its staff. The broad responsibilities toward its staff are to ensure that:

- the rules for recruitment and management of staff create an inclusive culture in which diversity is fully valued; appointment and advancement is based on merit; there is no discrimination against employees with protected characteristics under the Equality Act 2010
- the level and structure of its staffing, including grading and staff numbers, are appropriate to its functions and the requirements of economy, efficiency and effectiveness
- the performance of its staff at all levels is satisfactorily appraised and the non-ministerial department performance measurement systems are reviewed from time to time
- its staff are encouraged to acquire the appropriate professional, management and other expertise necessary to achieve the non-ministerial department's objectives
- proper consultation with staff takes place on key issues affecting them
- adequate grievance and disciplinary procedures are in place
- whistle-blowing procedures consistent with the Public Interest Disclosure Act are in place
- a code of conduct for staff is in place based on the Cabinet Office's Model Code for Staff of Executive Non-departmental Public Bodies<sup>15</sup>.

## **Staff costs**

23.2. Subject to its delegated authorities, Ofgem shall ensure that the creation of any additional posts does not incur forward commitments that will exceed its ability to pay for them.

## **Pay and conditions of service**

23.3. Ofgem's staff are subject to levels of remuneration and terms and conditions of service (including pensions) within the general pay structure approved by HM Treasury. Ofgem has no delegated power to amend these terms and conditions.

23.4. If civil service terms and conditions of service apply to the rates of pay and non-pay allowances paid to the staff and to any other party entitled to payment in respect of travel expenses or other allowances, payment shall be made in accordance with the Civil Service Management Code<sup>16</sup> and the annual Civil Service Pay Remit Guidance, except where prior approval has been given by the Department (or the Cabinet Office and/or HM Treasury as applicable depending on the nature of the variation) to vary such rates.

23.5. Ofgem shall abide by public sector pay controls, including the relevant approvals process as detailed in the Senior Pay Guidance<sup>17</sup> and the

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<sup>15</sup>[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/80082/PublicBodiesGuide2006\\_5\\_public\\_body\\_staffv2\\_0.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/80082/PublicBodiesGuide2006_5_public_body_staffv2_0.pdf)

<sup>16</sup><https://www.gov.uk/government/publications/civil-servants-terms-and-conditions>

<sup>17</sup><https://www.gov.uk/government/publications/senior-civil-service-pay-and-reward>

Public Sector Pay and Terms Guidance<sup>18</sup>.

- 23.6. Ofgem shall operate a performance-related pay scheme and will be implemented in line with the provisions of the Senior Civil Service pay framework and the Civil Service pay remit guidance.
- 23.7. The travel expenses of GEMA members shall be tied to the rates allowed to senior staff of Ofgem. Reasonable actual costs shall be reimbursed.

### **Pensions, redundancy and compensation**

- 23.8. Compensation scheme rules and pension scheme rules should reflect legislative and HM Treasury guidance requirements regarding exit payments.
- 23.9. Ofgem staff shall normally be eligible for a pension provided by PCSPS. Staff may opt out of the occupational pension scheme provided by Ofgem, but that employers' contribution to any personal pension arrangement, including stakeholder pension, shall normally be limited to the national insurance rebate level. Note that there is an exception for non-ministerial departments covered by the PCSPS partnership arrangement, and for PCSPS by-analogy versions.
- 23.10. Any proposal by Ofgem to move from the existing pension arrangements, or to pay any redundancy or compensation for loss of office, requires the prior approval of the Cabinet Office. Proposals on severance must comply with the rules in chapter 4 of MPM.

## **Financial reporting and audit**

### **24. Annual report and accounts**

- 24.1. Under section 5 UA2000, Ofgem is required to give the Secretary of State an annual report of its activities with its audited accounts after the end of each financial year (the "**Annual Report**"). The accounts should be prepared in accordance with the relevant statutes (including the terms of UA2000) and any specific accounts direction issued by the Secretary of State as well as the Treasury's Financial Reporting Manual (FReM).
- 24.2. The Annual Report will also be published on Ofgem's website as soon as reasonably practicable after the document has been laid before Parliament.
- 24.3. The annual accounts of Ofgem are audited and signed by the Comptroller & Auditor General pursuant to section 6 of the Government Resources and Accounts Act 2000.

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<sup>18</sup> <https://www.gov.uk/government/publications/public-sector-pay-and-terms-guidance-note>

24.4. Information on performance against key financial targets is included within the annual report and subject to the auditor's consistency opinion.

## 25. Internal audit

25.1. Ofgem shall:

- establish and maintain arrangements for internal audit
- ensure that any arrangements for internal audit are in accordance with the Public Sector Internal Audit Standards (PSIAS) as adopted by HM Treasury<sup>19</sup>
- ensure that an internal audit plan is prepared (including by, if applicable, external contracted auditors) and approved by ARAC and that an end of year report is presented annually to ARAC on how progress has been made against the approved internal audit plan;
- keep records of, and prepare and forward to the Department and Cabinet Office quarterly reports on prevented and detected fraud under the Government environmental and social schemes administered by Ofgem; and
- report to Cabinet Office on fraud and theft suffered by Ofgem through the annual self-assessment Government Functional Standard – Counter Fraud Annual Assurance checklist and notify Department for Energy Security and Net Zero, HM Treasury and the National Audit Office of any unusual or major incidents as soon as possible.

## 26. External audit

26.1. The Comptroller & Auditor General (C&AG) audits Ofgem's annual accounts and lays them before Parliament, together with their report.

26.2. The Department and Ofgem acknowledge and agree that the C&AG:

- may consult Ofgem on whom – the National Audit Office or a commercial auditor – shall undertake the audit(s) on their behalf, though the final decision rests with the C&AG
- has a statutory right of access to relevant documents, including by virtue of section 25(8) of the Government Resources and Accounts Act 2000, held by another party in receipt of payments or grants from Ofgem
- may consider requests from departments and other relevant bodies to provide regulatory compliance reports and other similar reports at the commencement of the audit. Consistent with the C&AG's independent status, the provision of such reports is entirely at the C&AG's discretion
- may share with the Department if information identified during the audit process and the audit report (together with any other outputs) at the end of the audit, in particular on issues impacting on Department's responsibilities in relation to financial systems within Ofgem, which relate to issues impacting on the Department's responsibilities;
- may, where asked, provide the Department and Ofgem with Regulatory Compliance Reports and other similar reports which

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<sup>19</sup> <https://www.gov.uk/government/publications/public-sector-internal-audit-standards>

the Department or Ofgem may request at the commencement of the audit and which are compatible with the independent auditor's role.

26.3. The C&AG may carry out examinations into the economy, efficiency and effectiveness with which the non-ministerial department has used its resources in discharging its functions. For the purpose of these examinations the C&AG has statutory access to documents as provided for under section 8 of the National Audit Act 1983. In addition, Ofgem shall provide, in conditions to grants and contracts, for the C&AG to exercise such access to documents held by grant recipients and contractors and sub-contractors as may be required for these examinations; and shall use its best endeavours to secure access for the C&AG to any other documents required by the C&AG which are held by other bodies.

# Annex A: Guidance

Ofgem shall comply with the following guidance, documents and instructions:

## Corporate governance

- This framework document
- Corporate Governance Code for Central Government Departments (relevant to Arm's Length Bodies) and supporting guidance:  
<https://www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments-2017>
- Code of conduct for Board members of Public Bodies:  
<https://www.gov.uk/government/publications/code-of-conduct-for-board-members-of-public-bodies>
- Code of practice for partnerships between Departments and Arm's Length Bodies: <https://www.gov.uk/government/publications/partnerships-with-arms-length-bodies-code-of-good-practice#:~:text=This%20code%20of%20good%20practice,partnership%20approach%20to%20shaping%20relationships.>

## Financial management and reporting

- Managing Public Money (MPM):  
<https://www.gov.uk/government/publications/managing-public-money>
- Government Financial Reporting Manual (FReM):  
[www.gov.uk/government/collections/government-financial-reporting-manual-frem](https://www.gov.uk/government/collections/government-financial-reporting-manual-frem)
- Relevant Dear Accounting Officer (DAO) letters:  
[www.gov.uk/government/collections/dao-letters](https://www.gov.uk/government/collections/dao-letters)
- Relevant guidance and instructions issued by the Treasury in respect of Whole of Government Accounts:  
<https://www.gov.uk/government/collections/whole-of-government-accounts>
- The most recent letter setting out the delegated authorities, issued by the HMT.

## Management of risk

- Management of Risk: [www.gov.uk/government/publications/orange-book](https://www.gov.uk/government/publications/orange-book) and <https://www.gov.uk/government/publications/management-of-risk-in-government-framework>
- Public Sector Internal Audit Standards:  
[www.gov.uk/government/publications/public-sector-internal-audit-standards](https://www.gov.uk/government/publications/public-sector-internal-audit-standards)

- HM Treasury approval processes for Major Projects above delegated limits: <https://www.gov.uk/government/publications/treasury-approvals-process-for-programmes-and-projects>
- The Government cyber-security strategy and cyber security guidance: [https://www.gov.uk/government/publications/national-cyber-strategy-2022](https://www.gov.uk/government/publications/national-cyber-strategy-2022/national-cyber-security-strategy-2022) and <https://www.gov.uk/government/collections/cyber-security-guidance-for-business>

## Commercial management

- Procurement Policy Notes: <https://www.gov.uk/government/collections/procurement-policy-notes>
- Cabinet Office spending controls: <https://www.gov.uk/government/collections/cabinet-office-controls>
- Transparency in supply chains - a practical guide: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1040283/Transparency\\_in\\_Supply\\_Chains\\_A\\_Practical\\_Guide\\_2017\\_final.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1040283/Transparency_in_Supply_Chains_A_Practical_Guide_2017_final.pdf)

## Public appointments

The following are relevant where public bodies participate in public appointments processes.

- Guidance from the Commissioner for Public Appointments: <https://publicappointmentscommissioner.independent.gov.uk/>
- Governance Code on Public Appointments: [www.gov.uk/government/publications/governance-code-for-public-appointments](https://www.gov.uk/government/publications/governance-code-for-public-appointments)
- Procurement Policy Note 08/15 – Tax Arrangements of Public Appointees: <https://www.gov.uk/government/publications/procurement-policy-note-0815-tax-arrangements-of-appointees>

## Staff and remuneration

- HM Treasury guidance on senior pay and reward: [www.gov.uk/government/publications/senior-civil-service-pay-and-reward](https://www.gov.uk/government/publications/senior-civil-service-pay-and-reward)
- Civil Service pay guidance (updated annually): [www.gov.uk/government/collections/civil-service-pay-guidance](https://www.gov.uk/government/collections/civil-service-pay-guidance)
- Public sector pay and terms: <https://www.gov.uk/government/publications/public-sector-pay-and-terms-guidance-note>
- Whistleblowing Guidance and Code of Practice: <https://www.gov.uk/government/publications/whistleblowing-guidance-and-code-of-practice-for-employers>

- The Equalities Act 2010: [www.gov.uk/guidance/equality-act-2010-guidance](http://www.gov.uk/guidance/equality-act-2010-guidance)

## General

- Freedom of Information Act guidance and instructions:  
[www.legislation.gov.uk/ukpga/2000/36/contents](http://www.legislation.gov.uk/ukpga/2000/36/contents) and <https://ico.org.uk/for-organisations/guide-to-freedom-of-information/>
- The Parliamentary and Health Service Ombudsman's Principles of Good Administration: <https://www.ombudsman.org.uk/about-us/our-principles>
- Other relevant instructions and guidance issued by the central Departments (Cabinet Office and HM Treasury)
- Recommendations made by the Public Accounts Committee, or by other Parliamentary authority, that have been accepted by the Government and are relevant to Ofgem.
- Guidance from the Public Bodies team in Cabinet Office:  
[www.gov.uk/government/publications/public-bodies-information-and-guidance](http://www.gov.uk/government/publications/public-bodies-information-and-guidance)
- The Civil Service diversity and inclusion strategy (outlines the ambition, to which Arm's Length Bodies can contribute):  
<https://www.gov.uk/government/publications/civil-service-diversity-and-inclusion-strategy-2022-to-2025>
- Guidance produced by the Infrastructure and Projects Authority (IPA) on management of major projects:  
[www.gov.uk/government/organisations/infrastructure-and-projects-authority](http://www.gov.uk/government/organisations/infrastructure-and-projects-authority)
- The Government Digital Service:  
[www.gov.uk/government/organisations/government-digital-service](http://www.gov.uk/government/organisations/government-digital-service)
- The Government Fraud, Error, Debt and Grant Efficiency function;  
[www.gov.uk/government/collections/fraud-error-debt-and-grants-function](http://www.gov.uk/government/collections/fraud-error-debt-and-grants-function) and  
[www.gov.uk/government/publications/grants-standards](http://www.gov.uk/government/publications/grants-standards)
- Code of Practice for Official Statistics:  
<https://code.statisticsauthority.gov.uk/#:~:text=The%20Code%20of%20Practice%20for%20Statistics%20sets%20the,produced%20by%20people%20and%20organisations%20that%20are%20trustworthy.>
- Accounting Officer System Statements (AOSS are produced by departments with input from ALBs): [www.gov.uk/government/publications/accounting-officer-system-statements](http://www.gov.uk/government/publications/accounting-officer-system-statements)

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## **HM Treasury contacts**

This document can be downloaded from [www.gov.uk](http://www.gov.uk)

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