

CAMPBELL
TICKELL

ofgem

Making a positive difference
for energy consumers

Board effectiveness review Report

July 2021

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1. Introduction

- 1.1 Ofgem is a non-ministerial government department and an independent economic regulator. The Department for Business, Energy and Industrial Strategy (BEIS) is its sponsor department. Ofgem is governed by the Gas and Electricity Markets Authority (GEMA or 'the Authority') and its principal objective is to protect the interests of existing and future gas and electricity consumers.
- 1.2 The Board currently comprises seven non-executive directors (NEDs) and the Chief Executive. Excluding the Chief Executive, the Executive numbers 10 and operates with its own committee, ExCo. This year, in line with good practice for externally conducted periodic reviews, Ofgem commissioned Campbell Tickell to undertake a Board effectiveness review to ensure the Board discharges its responsibilities effectively and has the right mechanisms and structures in place to deliver on its purpose. The brief for the review also asked that we consider the impact of the transformation programme on the Board. In carrying out this review we have undertaken the following activities:
- An online survey exploring Board effectiveness, and interviews with all the NEDs and with Directors;
 - Focus groups with staff, a meeting with governance team staff, and a meeting with colleagues from McKinsey;
 - Observations of GEMA, Committee and ExCo meetings in February and March 2021;
 - Ongoing discussions with the Chair and liaison with the governance team.
- 1.3 We would like to record our thanks for the honest, open and collaborative manner with which all individuals associated with Ofgem have responded to our review.

2. Summary

- 2.1 We encountered Ofgem at an important period of change – externally a pandemic still playing out globally, climate change acknowledged by the UK government to be relevant to plans for future energy consumption and choices, growing inequality among gas and electricity customers, and then internally a transformation programme under way. We were struck by the sense of purpose shared by all with whom we have engaged during our work.
- 2.2 Against this changing background, the Authority must continue to exercise its regulatory role and the 'business as usual' work. There are also questions of identity for Ofgem that shape the strategic tilt and risk appetite of the organisation – the degree of leading and influencing, or reacting and adapting – and inform the approach to key relationships.
- 2.3 Our review has found much that works well in Ofgem's governance, and considerable progress already under way. GEMA comprises skilled and committed members, conscientious about their duties, self-aware, and serviced by a competent secretariat. The Executives also possess a formidable range of skills and experience, vital to deal with the many complexities of the organisation's role.

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- 2.4 It is also clear that much has been achieved over the last few years to put in place a stronger leadership culture and improve areas such as committee performance and risk management, with these improvements drawing on the commitment of the Chair and of the committee Chairs.
- 2.5 The timing is propitious for a ‘reset’ to maintain progress towards truly excellent governance, prompted by this review, the changes inherent in the transformation programme, and the move back to in-person meetings post-pandemic.
- 2.6 We view Ofgem as midway through profound organisational change, with a lot of hard work undertaken to get to this point and the trajectory moving in the right direction. We have been focused on the changes that support this trajectory.
- 2.7 A consistent thread through our findings has been to ensure clarity of the Board’s stewardship, with various factors contributing to this being the case – meetings in person, fewer people in the room, directive chairing, and an environment that creates space for Directors’ voices.
- 2.8 NEDs and Directors are working together to bring strategic clarity, and support the Board in discerning the key areas of change it will ‘hold’ over the next 12-18 months and how these will shape Board time, alongside its ongoing regulatory role.
- 2.9 There is recognition that GEMA can be engaged in more effective ways around decision choices. There are a number of points of learning:
- Small group work allows for better collaboration and closeness to the issues.
 - Early engagement of NEDs is important to help them frame the issues. We see scope for GEMA to use some of its briefing time for upstream work and collaboration with Directors (perhaps in smaller workshop activity).
 - NEDs need to understand scenarios, choices, trade-offs. This requires close attention to the material submitted to GEMA. Strategic clarity would also help to frame decision taking, with every paper tracing back to one of the overarching strategic objectives.
 - There needs to be alertness to the different modes of thought/operating available to Boards, enabling the Board and senior staff to recognise what ‘type’ of discussion they are jointly engaged in.
- 2.10 Although there was wide respect for the skill and experience of Authority members, suggestions were made for new skills and potential future gaps (such as energy policy expertise).
- 2.11 A question raised in the review was whether more members of the Authority should be executive directors. Currently, only the Chief Executive is a member. We do not hold a set view but see no reason of principle that must obtain either way.
- 2.12 Our recommendations have principally focused on: clarifying Ofgem’s strategic objectives, developing ways of working between NEDs and Directors, coalescing the risk policy and framework, and bringing the Board closer to the Transformation Programme.

3. Document review

- 3.1 We focus here on headlines from the document review.
- 3.2 It is clear that there have been recent improvements to Board and committee papers, and the quality of some of these can be high. In terms of the supporting governance documents and policies, however, while we found some well crafted documents, they would benefit from being better tailored to Ofgem.
- 3.3 Positively, in terms of transparency, the Board and Committee meeting agendas and minutes are easily accessible online, as is Ofgem's strategy document, which is well-written and provides the reader with a clear insight into strategic direction. There is not a business plan that sets out how success will be measured. Attendance records are published as part of the Accountability section in Ofgem's Annual Report (and attendance is very good). The website provides short biographies for each of the GEMA members but this did not include dates of appointment or terms in office. Ofgem's complaints policy can be accessed on the website and is easy to follow, but there does not appear to be any role for GEMA in the complaints process.
- 3.4 Ofgem has a risk management strategy, which would benefit from being tailored to Ofgem's particular circumstances. We understand that Ofgem is trying to build its approach to risk management, and culturally move from being risk aware to risk enabled. Since June 2020 a series of papers have been taken to ExCo, ARAC and the Board, developing various risk management concepts. The quality of the reports is good but they are piecemeal with some concepts in the narrative of the report and some in appendices and some items covered being actions – it is therefore difficult and time consuming to get an overview. It would be of benefit to pull the various strands together in one place as an overall policy/framework.
- 3.5 While Board papers generally make clear the purpose and 'ask' of Board members, this practice is inconsistently used in papers to the committees.
- 3.6 There are documents which are in need of updating and review, and where this work is under way: e.g. the Rules of Procedures of the Gas and Electricity Markets Authority; the Scheme of Delegation and Management Controls; the Conflicts of Interest policy. And there are some that require introduction, such as a Code of Conduct for the Board, and role descriptors for Chair and Board members, or further edits, e.g. the policy on Anti-fraud, Bribery and Corruption policy.
- 3.7 Further improvements are needed to induction and training. The recent skills audit did not appear to provide a link to any training needs assessment. Although GEMA members will bring other non-exec experience to the table, they also need to understand the Ofgem-specific context, which is complex.
- 3.8 We understand that internal guidance is being prepared for executives on the preparation, approval process and format for Board and committee papers, which should address some of the issues raised in this report.

4. Overall findings

- 4.1 This section sets out the findings of the survey data, our meeting observations and our interviews. The overall portrait formed from our findings is of a significant trajectory of improvement over the last few years. The Board has become more strategic and brought challenge, and there is increased rigour in the approach to risk management and assurance. There is a Board appetite for change – recognised among senior staff – and a focus on making Ofgem a more agile organisation.

Board leadership and duties

- 4.2 There were high levels of agreement across our findings about the Board's execution of its fiduciary duties: understanding the range of Ofgem's powers, aligning strategy with Ofgem's remit and capabilities, ensuring the organisation is well run and financially sound, and that statutory obligations are met.
- 4.3 Staff respondents had a less positive view of Board performance than NEDs in relation to the Board providing focused strategic leadership and direction to the work of the organisation, good strategic foresight, and modelling the organisation's values.
- 4.4 It is clear that the organisation has changed hugely over the last few years – for the better. We heard that there is: less short-termism, a reduced volume of papers overwhelming the Board with technical matters (while still improving on this element), but Ofgem also needs to change to ensure that it has the requisite culture, structures and skill sets needed for a world of uncertainty and an industry in flux.
- 4.5 In NED interviews we heard that the Board needs more strategic materials and input. While we understand that a strategy review is under way, the Board needs to arrive eventually at a place where clear strategic objectives have been developed with ExCo and it is better placed to then review best case options as a regulator, trade-offs and choices, and entertain a range of scenarios. At the moment, the bigger picture arrives in a fragmented fashion, and staff could make the link between their Board papers and overarching strategic objectives much clearer.

Integrity

- 4.6 Our findings point to confidence that the Board acts in the public interest, is independent, handles actual or potential conflicts of interest well, and demonstrates and ensures high standards of corporate governance and probity at all times.

Decision-making, risk and control

- 4.7 The majority of survey responses and interviews were favourable about the Board understanding which issues are reserved to it and which are delegated, being up to date with developments in the operating environment, and being clear about its risk appetite.
- 4.8 There was also a range of constructive improvements suggested (and seen as necessary) to the decision-making framework, GEMA's performance oversight and view of risk.

- 4.9 As we understand it, there is a challenge for GEMA in some of the decision making it faces and to feel that the Board is served with the right content. There is a clear timetable of regulatory decisions and the necessary time is devoted to these. We understand that the Board is trying to navigate the difficult territory of not being too operationally involved but nevertheless facing some technically specialist matters in the decisions it has to make. The process of getting to grips with complex and technical subject matter is time-consuming.
- 4.10 We heard from some interviewees that this conundrum can best be resolved by a clearer focus in the papers and debate on the trade-offs inherent in such complex economic and policy decisions – for instance the impact on consumers as against the interests of industry operators.
- 4.11 Regarding performance, GEMA itself does not particularly engage in extensive oversight of organisational performance. There is reliance on ARAC and PRC to escalate matters from committee considerations. There was interest from several NEDs and Directors in some form of dashboard (financial performance against budget, efficiency gains, compliance, dealing with complaints, risks, morale of staff and all of the things that one might normally expect) and more Board engagement in consideration of strategic risks (working in concert with ARAC).

Board operations

- 4.12 We explored various aspects of Board operations: structures and the annual calendar making good use of people's time; effective paper, agendas, meetings, minutes and action log, and good governance support. There were high levels of support for the value of Board briefing sessions, and of satisfaction with the Chair seeking feedback on how to foster constructive challenge and discussion at meetings; meeting minutes; and the governance and secretariat team.
- 4.13 The ideal form of Board papers, and the balance of Board and senior staff time, emerged as areas for further probing during our review, together with the complexity of subject matter previously mentioned.
- 4.14 More time on agendas is needed for the 'bigger' discussions. At the same time, Directors recognise that they could improve in their presentation of information. Shorter papers would solicit better engagement from GEMA, as would papers that illuminate 'the weakest bit of the story'. For Directors, the production of papers creates a lot of work throughout the organisation and there is a need to understand what 'GEMA ready' is by way of standardisation of format and content and length. We heard that: *'There needs to be an iterative process. Board members need to understand what they could be given, what format might be available, and how it will be relevant to their decisions. At the same time, staff need to get better at thinking themselves into the position of Board members, and what information they need to fulfil their role.'*
- 4.15 NEDs are content with the monthly cycle of meetings, but there was interest in using the Tuesday (briefing) sessions in a different way, for example examining options on tweaking or fundamentally fixing problems that have been discussed, and being innovative rather than

getting an update about something coming to the Board in any case (which could just be distributed less formally as a short update).

- 4.16 Directors offered differing views on the meeting cycle, some who think the frequency works well, some who think it leads to inefficient use of time. A monthly cycle can create a struggle for substantive agenda items and potentially leads to a lack of discipline in pushing back papers and more of a tendency to escalate matters to GEMA that do not need to go there. One suggestion was for a cycle of meetings with alternate 'full' and 'light' agendas and papers to the extent that events permitted.
- 4.17 It was said that there is scope (and an ambition) for the Secretariat to be and feel more part of the governance sharpening rather than being entrapped in the administrative support. Our sense is that at the moment a relentless treadmill of meetings hinders their ability to focus on making Board meetings work better. Addressing getting all the governance documents to an optimal standard may require additional resource if nothing is to change about the meeting cycle.

Board culture and dynamics

- 4.18 Our evidence found that Board members prepare well for meetings and make time to meet their responsibilities. There is respect for the Board's application of wisdom and insight to critical issues facing the organisation.
- 4.19 There were different responses around how much of a team the Board feels itself to be and a feeling that remote working has understandably had an impact on the Board dynamic.
- 4.20 Positively, the Board was described as learning together, trying to do the right thing, supporting each other and having a high level of trust. Mutual respect is a strength and people value each other's skill sets and diversity. The point was made several times that the Board is refreshingly free of ideologues and politics.
- 4.21 Directors credited the Board with a strong sense of mission around the public/consumer interest, bringing debates back to the customer, and some were highly positive about the level of challenge the Board provides. Directors were also highly positive in their reception of the newer arrivals to the Board and at an individual level there is deep respect for the talents of Board members.
- 4.22 There were a lot of different observations of the NED and Executive Director relationship. On a personal level, there was much positivity and examples of NEDs engaging with staff outside meetings and offering quality one-to-one time. We also heard from staff that NEDs get out to meet customers and stakeholders. The Chair and CEO are valued by all as a great axis for connectivity between the Board and Executive staff, and the CEO is credited with bringing a welcome focus in his role to organisational management.
- 4.23 There was also keenness, however, to create an optimal boardroom environment for decision making and the need to attend more to the dynamics of meetings, and numbers of people present. This would require a better collective relationship between NEDs and members of ExCo. Strategy sessions had not always worked as well as anticipated, and it

was noted that inadvertent distance has been created as a result of organisational structure changes, making NEDs more reliant on the CEO rather than other Directors.

- 4.24 For Ofgem’s Directors, a viewpoint we commonly heard is that it’s not always easy to understand the purpose or locus of NED questioning or that discussions may sometimes take an apparently unexpected direction (and ExCo members feel they cannot come in to help). Directors are not always in a position to understand the key steers, and this has contributed on occasion to the feeling that NEDs are not fully bought into the decisions that have been made by the Board and that collective responsibility isn’t fully secured. Suggestions on how to improve this focused on the Chair taking on a more dynamic role and on better Board papers that are sharper in their ask of the Board.
- 4.25 We asked if there was anything that respondents had learned from the Board experience under COVID-19 that they would like to retain. An ‘equalising’ environment had been one output, levelling the field between those ‘in the room’ and those dialling in. Several people mentioned the development of (and the need to retain) the capacity to hold remote meetings, especially helpful for short, focused, transactional elements, and thereby freeing up time for oversight of major change or longer run strategic issues.

Board effectiveness

- 4.26 We found that the numbers of people at (particularly virtual) meetings are problematic for NEDs and may work against openness; some NEDs said they don’t know who is present in the virtual room and many of the staff never get to speak. This makes for an overly formal environment.
- 4.27 NEDs themselves were positive about the mix of skills on the Board, but a couple of people did raise what they see as skills gaps – the voice of the customer, digital insight, decarbonisation, and the possibilities of future systems, as well as commercial skills and diversity attributes. A viewpoint heard several times among Directors was about the need for more members of the Board with ‘deep energy policy’ expertise.
- 4.28 Induction does not appear to have been fully effective for new NEDs. A more structured, guided process is needed.

Diversity

- 4.29 While NEDs are motivated by good intentions and there has been some initial debate, we found that the Board is not driving a discussion around diversity and inclusion (with scope to align this with understanding organisational culture).
- 4.30 Executive staff commented on the Chair’s huge commitment to EDI, which is apparent in his communications to staff and his own attendance at training events.

Stakeholders and accountability

- 4.31 Board members and staff were generally positive about the Board promoting the transparency of its and Ofgem’s considerations publicly, and taking seriously its responsibility for building public trust and confidence in the organisation’s work.

- 4.32 One viewpoint we encountered in our interviews is that the Board should have a deeper discussion about Ofgem's reputation and about what space it should be occupying in five years' time, whether in relation to how it matters to consumers or other considerations such as being an effective regulator of new entrants to the market who think differently.

GEMA Meetings observation

- 4.33 We observed the GEMA meetings of 24 February and 31st March 2021; and the GEMA briefing session on 23 February. All of these sessions were conducted virtually.
- 4.34 All the meetings took place within a respectful and measured atmosphere, and chaired in such a way that all GEMA members had appropriate opportunities to express their views. The expertise and technical understanding of the Chair and all participants was also clear. In terms of the housekeeping of governance, all participants arrived on time and had evidently read the papers carefully beforehand. Presentations from staff were brief and relevant, and there was evidence of challenge and scrutiny from GEMA members.
- 4.35 The meetings were within planned timetables, papers well-drafted with their status clearly signalled (decision, discussion etc). The Chief Executive's report was clear, and covered a number of key changes and developments within the organisation and the wider industry. We noted that the minutes of previous meetings were agreed without significant comment, indicating that they were clear and comprehensive. The Chairs of ARAC and PRC provided updates on their meetings, highlighting key items of their work.
- 4.36 The GEMA briefing session was based first on a presentation by an external organisation, followed by a separate discussion on legal risk. The external presentation clearly had some relevance to the work of Ofgem, although we considered it possible that the (valuable) time of non-executives may have been better directed to subjects more directly such as that covered in the second half of the meeting, which would help better to steer the future work of GEMA and the organisation.
- 4.37 As was raised subsequently, we were struck by the number of people attending the meeting, of course partly a function of the virtual meeting format.
- 4.38 We saw scope for the Chair to be more directive in framing debates, and summing up what conclusions had been reached at certain key junctures.
- 4.39 Although the debate was properly at a strategic/tactical level, the wider or longer-term strategic context for the debate was not always clear to us (albeit as lay outsiders).
- 4.40 We were particularly interested in the papers and debates concerning the transformation programme, and were left wishing to explore further the Board's past and future role in terms of guiding and monitoring the programme, and considering its impact on the Board's own proceedings and role in relation to the organisation.
- 4.41 Finally, we were struck by the relative lack of information about both the organisation's business performance, even if it were not an item for major debate, and about the application of risk to different discussions.

Audit and Risk Assurance Committee (ARAC)

- 4.42 Our understanding is that the work of ARAC has improved considerably under the previous interim Chair and the current one. The current Chair had made good progress in prioritising an organisation-wide approach to risk management and assurance.
- 4.43 There is a closed session at the end of every meeting, and the Chair has instituted an extra meeting to preview the annual report and accounts.
- 4.44 It is unconventional practice to have the Chair of the Board being a member of ARAC; the Chair of the Committee accepts this but has seen benefits for access from the committee to the Board.

Meeting observation

- 4.45 The meeting we observed on 23rd February was well run, pacy and well chaired. The Chair was very competent at introducing items, raising questions in respect of the papers and summarising at the end. It's evident that the Chair draws on the currency of knowledge from a number of conversations with the Executive in between meetings.
- 4.46 It is clear that there were lots of issues last year which are being positively addressed and that there is a significant amount of change and improvement under way relating to developing both the IA Performance Management Balanced Scorecard and the approach to risk management.
- 4.47 The papers were well organised, the agenda was well structured, although the agenda did not specifically identify if papers were for decision, discussion or to note.
- 4.48 The papers were all well written and the Committee receives sufficient information to take an informed view – not too long or too short. A template is used for reports but not for other material, such as PowerPoint presentations.
- 4.49 The risk report was a good introductory paper identifying changes by exception and showing 13 key risks scored using current severity against tolerance and target severity, and against risk appetite – we see this as good practice. The report is up to date and appears to be dynamic. The summary risk report shows key current controls although the effectiveness of the controls is not shown. A heatmap is provided – with narrative – again an area we see as good practice.
- 4.50 All members asked pertinent and probing questions. They also demonstrated resilience in following up their questions until satisfied/assured. There was constructive challenge and robust debate on all key items. The members clearly worked together as a team and were strategic – it was a professional and friendly meeting. There was a good open relationship in play between employees and NEDs.
- 4.51 We had expected that the 'amber' audits (relating to Programme and Project Management Strategic Planning and the Assurance Framework) would be discussed in more detail.

People and Remuneration Committee (PRC)

- 4.52 There has been a lot of work to change the remit and focus of PRC with a view to looking more widely at culture and performance, and the journey to have the right quality of information is still ongoing although progress has been made with a dashboard. Survey respondents were positive about the mix of skills and experience on the committee.
- 4.53 We observed the PRC meeting on 15th February. Overall, this was a well run meeting, with a positive climate and insightful input from the NEDs. As with ARAC, the members clearly worked together as a team.
- 4.54 The issues were understood by the Committee and fully explored but the role they are expected to play was not always clear either on the agenda or in the papers.
- 4.55 All members asked pertinent and probing questions and were strategic in their bent. They also demonstrated resilience in following up their questions until satisfied/assured. There was constructive challenge and robust debate on all key items e.g. in relation to transformation 'are we trying to do too much?' NEDs used their wider experience well, picking up on benchmarking and the pros and cons of different structures.
- 4.56 There were a couple of agenda items that we felt could have been better planned – one from external people where there was no introduction from Ofgem staff to put it in context, and outline the expectations/outcomes for the session, and another around an internal (people-related) paper where there was a lot of describing but not a lot of focus on actions and outcomes. It fell to the Committee to make the connections between the paper and the Transformation programme.
- 4.57 There was no reference risk in any of the papers, though the Chair of ARAC did attend.

The Chair

- 4.58 Peers view the Chair with respect and esteem for his considerable intellectual abilities, collaborative and collegiate instincts and willingness to learn. He is well liked by staff, engages with them, has regular catch-ups with Directors, and is seen to be caring about staff welfare. We heard of his humility, open-mindedness and intellectual rigour.
- 4.59 He was described as dynamic and abreast of the right developments which he brings into the debate. He is seen to be clear on what is important to Ofgem as an organisation and lives this, for example by prioritising spending time with customers. His knowledge base is strong – privatised utility markets and their regulation; high level competition economics expertise, wide experience of regulation and public policy. This experience, combined with his deft curiosity and general enthusiasm, make for effective stakeholder engagement with people from a wide range of backgrounds and status.
- 4.60 In terms of meeting conduct, the Chair sets an inclusive tone directed at bringing the best out of people, as well as being attuned to how individual aspects fit (or do not fit) into a bigger picture and ensuring this gets sight at Board meetings.

- 4.61 There is scope for the Chair to be more assertive and directive, both in Board meetings (to cement a Board position and ensure clarity of the steer to staff) and outside meetings (if difficult conversations are needed).

Areas to improve Board effectiveness and to focus on over the next 12 months

- 4.62 The most important areas of focus identified by NEDs and Directors were:
- Board and Executive dynamics – building a culture of working together, and recovering social capital from remote meetings
 - Greater strategic clarity and ensuring that more Board time is spent on strategy
 - Agenda management – helping the organisation to better understand the Board needs (e.g. five strategic change programmes at a programme level?) and pushing off the agenda those elements which don't require Board time; a greater focus of GEMA meetings on a smaller number of questions where GEMA can add value
 - Shorter, clearer papers with reporting against milestones
 - Refreshing Board membership and diversity
 - More interactions between Board members and staff
 - Investing time in building personal relationships with the top 3-5 external stakeholders
 - Aspects of Director performance – holding to account and using new reporting frameworks to do so, drawing them into agenda item discussions, upskilling them, creating more of 'one team' with the Board, not just bringing a smoothed vision of the executive output to the Board and showing the plausible alternative opinions that have arisen along the chain.

5. Staff engagement

ExCo observation

- 5.1 We observed a meeting of ExCo on 16th March. Overall, the tone of this meeting was collaborative, engaged and constructive in tone.
- 5.2 There was strong evidence of team-work, professional behaviours, commitment to reading the papers and understanding the issues. Views were shared openly and the quality of debate was generally high.
- 5.3 There was strong chairing by the CEO, involving others, summarising, ensuring decisions are clearly taken, and recognition of presenters for their work. We saw evidence of a team in cultural transition, strongly guided by the CEO to focus on strategic topics, the need for cultural change, recognition of distance travelled and distance yet to travel.
- 5.4 Strategically, there was alertness to how agenda items and discussions are connected into the strategy and transformation agenda but no evidence of specific ExCo agenda items to track progress of the transformation agenda. We observed discussion on how better to

connect ExCo in GEMA strategic explorations, how to manage cogent messages to GEMA and how to ensure soft intelligence from GEMA meetings is fed back to the organisation, as well as of ensuring that E-Serve considerations are part of all decisions.

5.5 Generally papers were of a good quality and reasonable length, with some good examples of risk-based decision-making in papers (but a large volume of papers for members to read ahead of the meeting). Discussions on risk are developing but are still on a journey towards maturity.

5.6 Our reflections were that some complex topics may benefit from:

- pre-briefings (e.g. Finance) and/or discussion elsewhere, with key issues, recommendations and decisions summarised on a cover sheet to speed decision-making and reduce reading time (gaps emerged regarding the connection between Finance and ExCo members in the understanding of budget-setting processes)
- setting out options which use the development of principles/decision-making frameworks when taking complex decisions (for example in relation to decisions about tariffs).

5.7 We felt we saw limited discussion on people, systems, transformation and financial issues.

Focus groups

5.8 We ran two staff focus groups (one on 19th March and one on 16th April), with staff from one having little contact with the Board or committees, and the other having some.

5.9 **Interactions with Board and NEDs.** Participants told us that that papers are not clearly commissioned. Although there is now a stronger process to review papers through Governance and Secretariat, there remains a concern about the amounts of time devoted to preparing papers for Board and meeting with NEDs to brief them beforehand.

5.10 Participants also told us that some topics taken to Board are extremely complex and require months of separate meetings with Board members as a committee outside the formal Board meeting to ensure sufficient understanding.

5.11 Interactions with individual NEDs were described as positive and helpful, and participants said that informal opportunities (now disrupted by COVID) to engage between leaders and NEDs had helped leaders understand them.

5.12 **Decisions and communications.** Participants in one group attended Board 2-3 times a year. They said that Board meetings have got better with the arrival of the new Chair, CEO and several new NEDs, and would welcome wide-ranging discussions being better summarised and conclusions or gaps further explored. In another group, a few had had limited contact with the Board but had prepared material for GEMA, and said they had limited inputs about material (is the Board to give a steer or make a decision) and no feedback on the outcomes of material prepared for the Board, i.e. what decisions have been made, or satisfaction with (or challenge of) the material.

- 5.13 **Focus areas.** Participants said they do not have any understanding of areas of interest to the Board, for example “for information” papers or presentations rarely receive any response or feedback and the impact sought from various visits isn’t always clear.
- 5.14 In the group with limited contact with NEDs, there was a view that if the Board is making decisions beyond policy areas – e.g. about working conditions – then the Board should be engaging directly with staff below the Director tier. It was also suggested that the Board could develop the concept of ‘one Ofgem’ by being better connected with the organisation.
- 5.15 **Meeting attendance.** In previous years, a wider range of people were able to attend Board meetings as observers, which participants felt was useful to people writing papers in knowing what a meeting is like. It was mentioned that under remote working conditions some people have been able to observe Board meetings online, and a mix of physical and virtual attendance might enable more people to observe without disrupting proceedings.
- 5.16 **Delegation.** Participants felt that there is a huge range of topics going to Board and what should go to Board and what to ExCo lacks clarity and consistency.

6. The Transformation Programme impact on the Board

- 6.1 Ofgem is currently undergoing a major transformation programme. A key objective of the programme is to make Ofgem a faster, more responsive and flexible organisation. This programme is seen as essential to enable Ofgem to respond to its evolving role in a changing regulatory environment, requiring ever greater flexibility, and builds on lessons learned from previous less successful change initiatives.
- 6.2 Transformation programmes of this nature are known to be complex and at risk of failing to deliver expected benefits. Key success factors include:
- Demonstrable Board buy-in of the need to change, with clear leadership and modelling of the changes to be made throughout the organisation
 - Efficient programme governance which provides an appropriate balance of challenge and support, enabling rapid decision-making, across the entirety of the programme
 - Recognition that culture change is a long process; agreement of realistic expectations in terms of what is achievable, and by when
 - Change needs to be consistently addressed throughout the whole organisation.
- 6.3 Observations on each of these factors are provided below.
- 6.4 The Board was recognised as fully supporting the need for the transformation programme, and, indeed, as a driving force for the organisation to become more fast-moving and responsive, having largely set the ambition and direction for the programme. Ongoing primary engagement with the programme is through the PRC. This was seen as positive, with active engagement from the Chair and members. Given the importance of the programme to the organisation, and the Board’s level of ambition for change, we think it should feature at each GEMA meeting.

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- 6.5 It was seen that the PRC and individual NEDs have provided intelligent questions and appropriate challenge, including areas such as scope management, implementation phases, and benefit realisation. There have also been valuable discussions around the work on purpose and values.
- 6.6 However, there does not seem to be a full recognition of the need for culture change to be led from the Board, members of which need to be role-models for new ways of working and behaviours. It appears that the Board may not appreciate that the key messages from the programme also apply to GEMA itself.
- 6.7 There is a perception that the Board sees that it is the role of the Executives to make the changes happen. However, their own active engagement and recognition that they need to be part of the culture change, and demonstrably live the values, is essential to its success.
- 6.8 The programme has provided a clear definition of its governance arrangements, laying out the roles and responsibilities of the various boards and committees. In practice however there was seen to be a lack of clarity of the actual accountability for some aspects of oversight, e.g. between PRC and ARAC. Additionally, the oversight from PRC is primarily focused on the organisational/HR issues, and does not fully cover all aspects of the programme (such as digital).
- 6.9 It is worth considering that, for a programme intended to introduce clearer empowerment and more rapid decision making, there are several boards and committees involved. Above the Programme Board itself, there is regular engagement with an OD Sounding Board, ExCo, ARAC and PRC (and this excludes GEMA). This multi-layered structure brings risks of both duplication and gaps – some topics may be referred to several meetings, causing frustration and possible delay, while other key questions may get missed.
- 6.10 Delegating primary Board involvement to the PRC allows for closer engagement of some Board members, but this currently risks distancing the rest of the Board from a greater understanding of the entire programme, its challenges, risks and progress, or from the ability to contribute where appropriate. More regular updates from the programme, with the opportunity for open discussion around some of the challenges, would be a visible indication of the Board's active support for the programme.
- 6.11 In terms of agreeing clear expectations, it was apparent that the Board is keen for the programme to deliver to a distinctly ambitious timescale, which of itself may create risks. Individual members were seen to understand the need to manage scope strongly, but it was felt that as a group they provided mixed messages about the preferred balance between scope and timescales. While it did not appear that the programme team had yet provided the Board/PRC with clear options as to the "trade-off" decisions that may need to be made, the programme would benefit from a more unified steer from the Board as to its priorities and tolerance for delivery risk.
- 6.12 It is notoriously difficult to plan timescales for the realisation of benefits of a change programme, especially one which involves changes to organisation, culture, and working practices. It is therefore very important for there to be an agreed "roadmap" of the likely

stages, with an understanding of “what good looks like” at the end of each stage. There was concern that the Board would have little tolerance for slippages if they occur. However, it is not unlikely that some stages of benefit may take longer to realise than hoped, and if this is the case, the support of the Board, and its engagement with any necessary changes to plan, will be essential to ensuring that the benefits are only delayed rather than lost.

- 6.13 The transformation programme includes a workstream to transform working practices, but this only extends up to ExCo level, and so does not include the working practices of the Board. This may be because of the parallel Board Effectiveness Review, but risks giving a clear message to the organisation that the changes apply from the top down.
- 6.14 There is a number of aspects of the Board working practices which we believe will need to change in line with the objectives of the transformation programme. A frequent comment was that the existing process for submission of papers is too lengthy for rapid decision-making. Additionally, there is currently seen to be a two-stage process, whereby most papers are discussed fully at ExCo before being presented to GEMA.
- 6.15 A suggested evolution would be to have more topics presented at an earlier stage of consideration, where there can be a full debate between the Executive and NEDs, operating more as one team. This would require deliberate changes in approach for these topics. Papers would be expected to be higher level, with a recognition that they were “work in progress” and that Board members were providing input and ideas rather than challenge. This kind of approach is often referred to as a Board ‘getting upstream’, and can be a key component of more agile, co-creative governance.
- 6.16 Clearly, some topics will continue to require a more formal approach. However, the Board could consider a “triage” approach for defining the information which is needed for different types of approvals – i.e. some decisions to be made quickly, and potentially between meetings, while others may require a greater degree of rigour. This would also support the move towards greater empowerment.
- 6.17 Beyond these points, it is probably most important that the transformation programme consciously includes the whole Board when considering improvements to how meetings are held and other related working practices. This in itself will help demonstrate that the Board is actively participating in the changes which are expected throughout the organisation.

7. Recommendations

7.1 We recommend that:

Ways of working

7.2 There is a wider Board discussion about developing the governance culture between NEDs and Directors through an explicit discussion/workshop on ways of working, how the meeting cycle can be optimised, and whether attendance at GEMA meetings needs alteration.

Strategy

7.3 The plans for NEDs and Directors to work to develop the overarching [‘fewer’, The plans for NEDs and Directors to work to develop the overarching [‘fewer’, ‘bigger’] strategic objectives are framed in a collaborative way and subsequently are translated into an operational plan supported by a risk register and dashboard. This is work under way.

7.4 The Board timetables a deeper discussion and immersion in the work of the Transformation Programme, and that this extends beyond the ‘people’ elements to data and digitalisation.

Board effectiveness

7.5 The Board induction process is strengthened to include a ‘guided’ approach and interaction with peers and members of staff.

7.6 PRC sets aside time [as is scheduled for September 2021] for a substantive debate about the skills needed on the Authority, succession planning and the question of executive membership.

7.7 The Board to set aside time [scheduled for June] for a discussion about diversity and inclusion, and the application of these principles to GEMA.

Risk management

7.8 The various strands of work that have been undertaken over recent months on risk are brought together as an overall policy/framework for GEMA’s consideration, with scheduled Board discussion of strategic risks, and papers to GEMA offering a risk opinion.

GEMA and Committees

7.9 Committee Chairs and the GEMA Chair and Secretariat working annually on mapping how their work contributes to the overall strategic objectives and any specific areas of focus. This should then form the basis of updates back to the Board – formal assurance that the areas of focus are in hand, and/or escalation of substantive matters that merit GEMA time.

7.10 Review the practice of having the Chair of the Board being a member of ARAC.

Open governance

7.11 The feedback from staff shows a keen curiosity about the Board and about the experience of individual NEDs. GEMA should consider what kind of information is helpful to cascade through Ofgem about the work of governance.

7.12 *Document review. Ofgem progresses the improvements to documents we have communicated separately.*

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