

# Call for input

---

## The development of an Economic Evaluation Strategy

---

Publication date: 23/10/2024

---

Response deadline: 22/11/2024

---

Contact: Daire McCoy, Meghna Tewari

---

Team: Strategic Economic Analysis, Office of Research and Economics

---

Email: [evaluationstrategy@ofgem.gov.uk](mailto:evaluationstrategy@ofgem.gov.uk)

---

We are inviting stakeholder views on our proposed Economic Evaluation Strategy.

We welcome views from the evaluation community, broadly defined and including academics, researchers and practitioners in both public and private sectors. In particular, we would like views from organisations and individuals who work within the energy sector and have knowledge of evaluation.

We welcome responses from licensees and consumer groups. We also welcome views from other interested stakeholders, including charities and members of the public.

© Crown copyright 2024

The text of this document may be reproduced (excluding logos) under and in accordance with the terms of the [Open Government Licence](#).

Without prejudice to the generality of the terms of the Open Government Licence the material that is reproduced must be acknowledged as Crown copyright and the document title of this document must be specified in that acknowledgement.

Any enquiries related to the text of this publication should be sent to Ofgem at:

10 South Colonnade, Canary Wharf, London, E14 4PU.

This publication is available at [www.ofgem.gov.uk](http://www.ofgem.gov.uk). Any enquiries regarding the use and re-use of this information resource should be sent to: [psi@nationalarchives.gsi.gov.uk](mailto:psi@nationalarchives.gsi.gov.uk)

## Contents

<b>The development of an Economic Evaluation Strategy .....</b>	<b>1</b>
<b>1. Introduction .....</b>	<b>4</b>
<b>2 Background and case for change.....</b>	<b>4</b>
<b>3 Our proposed approach .....</b>	<b>7</b>
How we have developed our approach.....	7
Core elements of our approach .....	7
Embed evaluation into policy design (Evaluation Development).....	8
Execute evaluations according to best-practice .....	9
Foster a culture of learning .....	11
Build evaluation capacity .....	11
Robust and efficient governance .....	12
<b>4 Call for views on the Economic Evaluation Strategy .....</b>	<b>13</b>
<b>5 Annex 1: Case-studies .....</b>	<b>14</b>
Case Study 1: Financial Resilience and Control .....	14
Background .....	14
Evaluation framework.....	14
Developing the evaluation framework across the FRC policies .....	15
Early benefits.....	17
Summary .....	18
Case Study 2: Evidence Assessment of Round 1 of the Strategic Innovation Fund.....	19
Scope of review.....	19
Key Findings .....	20
Actions taken.....	20

## 1. Introduction

- 1.1 Ofgem is the regulator of the energy sector with a principal duty to protect the interests of existing and future consumers in relation to gas conveyed through pipes and electricity conveyed by distribution or transmission systems. The interests of such consumers are their interests taken as a whole, including their interests in the reduction of greenhouse gases in the security of the supply of gas and electricity to them.
- 1.2 When it comes to key policy decisions, we currently assess ex-ante (forward-looking) impacts using Impact Assessments, but we do not have a complementary approach developed for ex-post evaluation (i.e. backward looking) of what impacts actually resulted and can be attributed to our actions.
- 1.3 Undertaking proportionate and robust evaluations will help to build a stronger evidence base for future policy interventions and helps us better assess whether we are delivering on our objectives and complying with our statutory duties.
- 1.4 In this Call for Input we set out an Economic Evaluation Strategy based on best-practice and extensive engagement across Ofgem, and with other regulators, government departments and various other external stakeholders. We have taken an integrated approach by embedding it with existing functions such as our Impact Assessment, Consumer Interest and Competition Frameworks.
- 1.5 We are now seeking views on the development and implementation of an Economic Evaluation Strategy. We set out specific questions at the end of this document. We are seeking written comments to these questions by 22/11/2024. Please send comments to [evaluationstrategy@ofgem.gov.uk](mailto:evaluationstrategy@ofgem.gov.uk).

## 2 Background and case for change

- 2.1 Ofgem's principal objective is to protect the interests of existing and future consumers. These are defined in legal terms under the Gas Act 1986 and Electricity Act 1989, Utilities Act 2000 and 2023 Energy Act. The interests of consumers include their interest in Net Zero, Security of Supply of Gas and Electricity, and the fulfilment of designated regulatory objectives originating in EU law. We must carry out our functions in the way best calculated to further our principal objectives.
-

- 2.2 In 2023, we published a Consumer Interest Framework which helps explain our interpretation of our principal objective. The main elements of the framework are that we act to ensure (i) fair prices, (ii) quality and standards (iii) low-cost transition and (iv) resilience.
- 2.3 Additionally, Ofgem must also comply with the following statutory duties and responsibilities when it exercises its regulatory functions:
- **Biodiversity Duty**<sup>1</sup>– though there are nuanced differences between requirements in England, Scotland, and Wales, at a high level Ofgem must consider biodiversity when exercising any regulatory functions that may impact upon it;
  - **Growth Duty**<sup>2</sup> – Ofgem must have regard to the desirability of promoting economic growth;
  - **Net Zero Duty**<sup>3</sup> – in determining what is in consumers interests taken as a whole, Ofgem must include their interest in the UK Government meeting its net zero 2050 target and carbon budgets;
  - **The Public Sector Equality Duty**<sup>4</sup> – Ofgem must have due regard to the need to eliminate discrimination, harassment and victimisation, advance equality of opportunity, foster good relations between groups, and any other conduct prohibited by or under the Equality Act 2010;
  - **Strategy and Policy Statement (SPS)**<sup>5</sup> – Ofgem must have regard to the strategic priorities set out in this statement.
- 2.4 Our Impact Assessment Guidance outlines before we act, how we will assess the *potential* impacts of policies, and whether we are meeting our duties and objectives.<sup>6</sup> However, until now, Ofgem have not had a complementary approach to assessing the *actual* impacts of our policies.

---

<sup>1</sup> [Environment Act 2021 \(legislation.gov.uk\)](https://legislation.gov.uk)

<sup>2</sup> [The Economic Growth \(Regulatory Functions\) \(Amendment\) Order 2024 - GOV.UK \(www.gov.uk\)](https://www.gov.uk)

<sup>3</sup> [Energy Act 2023 \(legislation.gov.uk\)](https://legislation.gov.uk)

<sup>4</sup> [The Equality Act 2010 \(Specific Duties\) Regulations 2011 \(legislation.gov.uk\)](https://legislation.gov.uk)

<sup>5</sup> [Strategy and Policy Statement for Energy Policy in Great Britain \(publishing.service.gov.uk\)](https://publishing.service.gov.uk)

<sup>6</sup> [Impact Assessment Guidance | Ofgem](#)

---

## Why we are doing this now

### **It will help us make better decisions and deliver better outcomes for consumers**

- Developing a robust approach to evaluation will help us to ensure our policies are still fit-for-purpose and deliver value-for-money in a rapidly changing energy sector.
- Evaluation will help us to enhance and improve policy delivery, during the policy life-cycle and to inform new decisions. Ultimately this will help to ensure we deliver on core objectives as set out in our Consumer Interest Framework, drive better outcomes for consumers.

### **It will improve our analysis**

- Developing an integrated approach for Evaluation and Impact Assessments, will greatly benefit both. Impact Assessments can help to inform and guide evaluations, while evaluation can help us improve our modelling by enabling us to empirically test, challenge and update our assumptions.

### **It is best practice**

- Evaluation will also help us demonstrate that we are committed to assessing the impact of our actions, and align our approach with best-practice as advocated by the HM Treasury and the Cabinet Office Evaluation Taskforce.<sup>1</sup>
- The National Audit Office (NAO) Principles of Effective Regulation state that, in addition to monitoring performance, regulators should evaluate the impact of major interventions.<sup>2</sup> In recent years, several regulators have now published, or will soon be publishing, evaluation strategies. Ofgem has recently joined a new regulators evaluation network alongside multiple other regulators. This engagement has helped inform our approach and align it with current best practice.

1. [Evaluating Policy in Government - GOV.UK \(www.gov.uk\)](http://www.gov.uk)

2. [Good practice guidance Principles of effective regulation \(nao.org.uk\)](http://nao.org.uk)

## 3 Our proposed approach

### How we have developed our approach

3.1 We have developed our approach through the following activities:

- **Review of best practice.** This Strategy is drafted following best-practice guidance and drawing from the HM Treasury Magenta Book<sup>7</sup>, Green Book<sup>8</sup>, the guidance of the HM Treasury and Cabinet Office Evaluation Task Force, published evaluation strategies from other regulators and Government Departments<sup>9</sup>, the OECD Better Regulation handbook<sup>10</sup>, and various academic publications.
- **Extensive internal and external engagement.** We have consulted extensively internally to develop a process that can be applied across our activities. Where possible, we align with our existing functions, such as our Impact Assessment Guidance. We have also consulted externally with other regulators, government departments and academics.
- **Development of case-studies.** To test our approach, we have developed two case-studies with policy teams across Ofgem which we describe in the Annexes.

### Core elements of our approach

3.2 This section sets out our mission with regards to evaluation and how we intend to deliver it.

3.3 **Our Mission is to put robust evaluation evidence at the heart of Ofgem decisions, to ensure we deliver on our key objectives.** We set out our Strategy across four areas of activity, underpinned by clear Governance structures, summarised in Figure 1 below.

---

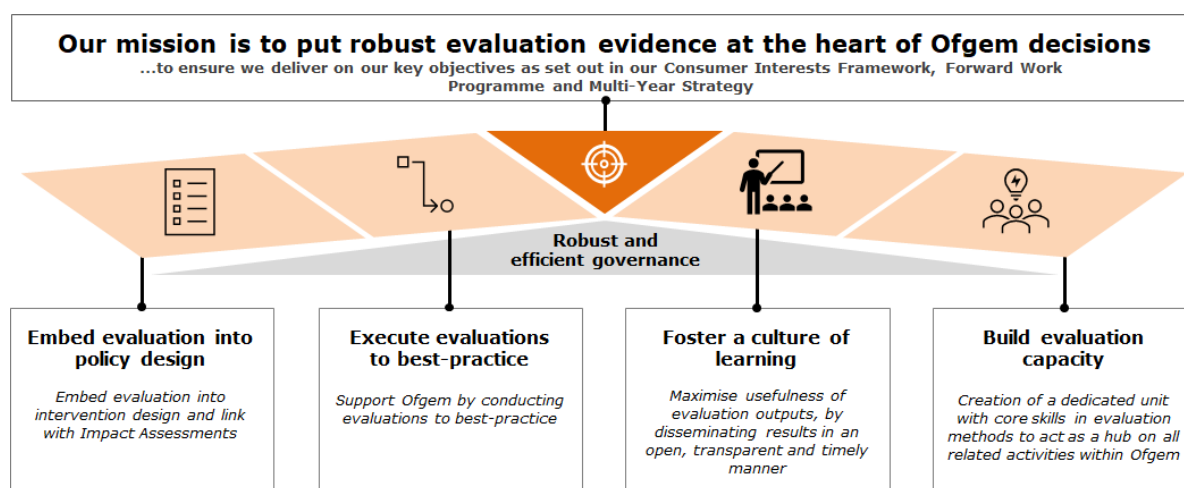
<sup>7</sup> [The Magenta Book - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/542222/magenta-book-2019.pdf)

<sup>8</sup> [The Green Book \(2022\) - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/542222/green-book-2022.pdf)

<sup>9</sup> Available here: [Evaluation Task Force - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/542222/evaluation-task-force-report.pdf)

<sup>10</sup> [Better Regulation Practices across the European Union 2022 | en | OECD](https://www.oecd.org/better-regulation/better-regulation-practices-across-the-european-union-2022/)

---

**Figure 1: Evaluation Mission and Areas of Activity**

### Embed evaluation into policy design (Evaluation Development)

- 3.4 A key feature of our work is to closely integrate evaluation with Impact Assessments. In parallel, or shortly after conducting an Impact Assessment we work with policy and Impact Assessment (IA) teams to determine whether, when and how we should evaluate. We develop an evaluation plan, which summarises key policy objectives, and what monitoring we need to undertake in order to measure and test impacts. This plan may also include a causal chain describing how the policy mechanisms are intended to work.
- 3.5 We recommend all Final Published Impact Assessments complete this process. Where possible we will include details of when and how we will review the intervention in the Final Decision.
- 3.6 Undertaking this process at an early stage helps us to embed evaluation considerations into intervention design, identify monitoring needs in advance of implementation and will make policies much easier to evaluate in future. It also builds a forward-look of future evaluations for the Evaluation Unit.
- 3.7 We call this process Evaluation Development. Ideally it would happen as early as possible and alongside policy development. However, it can also be applied retrospectively. This is necessarily the case for legacy policies which have already been developed.



## **Execute evaluations according to best-practice**

### Evaluation Selection

3.8 Initially, the Strategic Economic Analysis Team will select 1-3 evaluations to undertake per year, based on an agreed process and criteria with sign off from the relevant Director. We will select interventions based on criteria such as those described in Table 1.

**Table 1: Evaluation Selection Criteria**

<b>Criteria</b>	<b>Considerations</b>
<b>Strategic Importance</b>	Is the programme of strategic importance as per Section 5A of the Utilities Act or through our Multi-Year Strategy or Forward Work Programme
<b>Potential harm or cost</b>	Does monitoring or other evidence suggest policy not working as intended? Are vulnerable consumers impacted? Are there significant potential costs to consumers or licensees?
<b>Potential to improve policy and learn</b>	Can evaluation evidence be used to inform an upcoming decision/review? Is there significant learning potential?
<b>Feasibility and reliability of evidence</b>	Has sufficient time passed to effectively evaluate? Is the relevant data available? Can we attribute impacts robustly?

3.9 We will consult annually on the work programme, by signalling a Minded-to decision on the evaluation work programme in the Forward Work Programme each December.

### Evaluation Execution

3.10 We will use best-practice approaches as set out by, for example, HM Treasury Magenta Book and by the UK Govt Evaluation Taskforce.

3.11 We will be evidence-driven and will develop whichever evaluation approaches deliver the best-value and quality evidence for specific projects. It is likely that most evaluations we undertake will require us to use a range of approaches (e.g. quantitative, qualitative, and participatory).

3.12 We will take a collaborative approach and work with internal teams to leverage expertise. Where appropriate we will draw on external expertise such as Ofgem’s Academic Panel and the Evaluation and Trials Advice Panel (ETAP).

3.13 In terms of the type of evaluations we will conduct, we align with the Financial Conduct Authority's Rule Review Framework, and will undertake three broad categories of evaluation.<sup>11</sup>

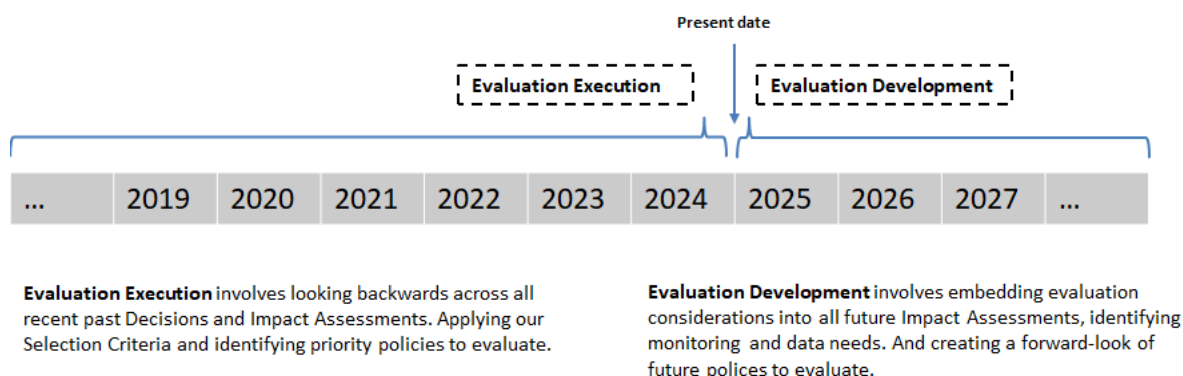
- **Evidence Assessment.** This approach is relatively light-touch and looks to assess questions such as whether an intervention has achieved its intended outcomes, and whether there been any market or other developments that might impact effectiveness.
- **Post Implementation Review (PIR).** A PIR looks to assess whether an intervention has achieved its intended outcomes, assess compliance with the rule, identify any implementation issues, and potential unintended consequences. A PIR typically does not seek to assess causality, i.e. what would have happened in the absence of the decision.
- **Impact Evaluation.** An Impact Evaluation aims to isolate and quantify the impacts of our interventions and attribute them to our actions. Where possible we will attempt to establish causality, typically through developing a counter-factual. We identify unintended consequences and assess implementation and compliance questions insofar as they influence impacts.

3.14 Evaluation Execution is necessarily retrospective and is only feasible if we are able to access the right data. However, the process of Evaluation Development will help to ensure we are collecting the right data from the start. Ultimately these processes will align as the new policies we are currently developing evaluations for become sufficiently mature to enable us to execute the evaluation.

---

<sup>11</sup> [FCAs Rule Review Framework](#).

**Figure 2: Alignment between Evaluation Development and Execution**



### Foster a culture of learning

- 3.15 For each evaluation we undertake we will form a working group of key internal, and potentially external stakeholders. These groups will ensure that policy and other colleagues are involved in the design of evaluation and regularly receive updates on emerging evidence.
- 3.16 We will internally disseminate results iteratively and as the evaluation progresses, ensuring that we align with any upcoming policy reviews.
- 3.17 We expect to publish most of our larger evaluations where possible, taking into account potential commercial sensitivities. We will report to the relevant internal boards each year on evaluations conducted, lessons learned, and publish a summary of findings in our Annual Report on Accounts.
- 3.18 We will create a central repository of all relevant materials and conducted evaluations.

### Build evaluation capacity

- 3.19 We have created a dedicated unit within the Office of Research and Economics with core skills in evaluation methods to act as a hub on all related activities within Ofgem.
- 3.20 We are linked with other similar groups in other regulators, through a cross-regulator evaluation network and also with DESNZ and other relevant departments.
- 3.21 We are actively upskilling through external training and are building capacity in Ofgem through the Unit providing and facilitating training, and through our collaboration with policy teams.

## Robust and efficient governance

3.22 Underpinning all of the above are key principles to ensure that evaluation governance is robust and efficient:

- **Integration with Impact Assessment Process.** Where possible Evaluation Development happens at Impact Assessment stage before a policy is implemented.
- **Documentation.** All evaluation plans are logged internally in a central repository. Where possible we include a Monitoring Evaluation section in each final published Impact Assessment.
- **Selection and Prioritisation.** We undertake a collaborative and transparent process followed to select programmes for evaluation based on clear criteria. We signal our intention to evaluate as a Minded-to Decision each year in our Forward Work Programme.
- **Ownership.** Evaluation should be seen as part of effective programme management. It can be owned by policy team or the Office of Research and Economics, depending on the type of review. The ORE will typically undertake more complex impact evaluations and analytical post-implementation reviews.
- **Independent review.** Each evaluation should have a nominated internal or external reviewer.
- **Reporting and Sign-off.** Sign-off for evaluation selection and on completed evaluations will be undertaken by relevant Director and circulated to relevant internal boards as appropriate.
- **Knowledge retention and dissemination.** We will create a central repository of all relevant materials and conducted evaluations. All materials, templates, methods continually updated to reflect new learnings. We will feed-back "Lessons Learned" through various internal and external fora.
- **Transparency.** We will be transparent in our approach, in line with UK Government Evaluation Task Force and HM Treasury guidelines by: (i) Where possible signalling in any Final Decision/Impact Assessment whether, when and how we will evaluate; (ii) By making a public commitment to publish at least one evaluation per year; (iii) Consulting and signally in advance what programmes/policies we are evaluating through our Forward Work

Programme, and (iv) Annually publishing insights/lessons learned in our Annual Report on Accounts.

## **4 Call for views on the Economic Evaluation Strategy**

- 4.1 Do you agree with the aims and objectives of developing and implementing an Evaluation Strategy?
- 4.2 Are there any other examples of best-practice you would recommend we consult to help further develop our approach?
- 4.3 Do you agree with our approach to Evaluation Development? If not, how could it be improved?
- 4.4 Do you agree with our proposed Selection Criteria? If not, what other factors should we consider?
- 4.5 Do you have views on which specific policies we should consider for evaluation? And why? Noting that these would be considered with regard to our Selection Criteria and other strategic priorities.
- 4.6 Do you have views on which type of policy might be more suitable/amenable to evaluation? Please give examples of existing policies, and provide as much detail as possible.
- 4.7 Do you have views on our proposed evaluation governance?
- 4.8 Do you have views on how we can maximise the usefulness of evaluation evidence, both internally and externally?
- 4.9 Do you have views on how we can best incorporate external stakeholders views in our evaluations?
- 4.10 Do you have views on any other area not covered by the above questions?

## 5 Annex 1: Case-studies

### Case Study 1: Financial Resilience and Control

#### Background

Following the 2021 Energy Crisis, Ofgem began to introduce a suite of policies aimed at improving supplier financial resilience. A review of the market concluded that the 30 suppliers who exited the market were under capitalised and pursuing risky business models between 2021/2022.<sup>12</sup> In response, Ofgem introduced the Financial Resilience and Controls (FRC) policies, a suite of measures to improve capitalisation and strengthen resilience to external shocks. These policies put the retail market on a solid foundation to deliver the innovation, high standards and consumer outcomes needed to achieve our principal objective to protect the interests of existing and future consumers including reducing cost to consumers.<sup>13</sup> As part of the development of the Economic Evaluation Strategy, these policies were selected due to the significant impact on consumers and market conditions.

#### Evaluation framework

The Office of Research and Economics evaluation team is working with the FRC policy teams to co-develop an ongoing process of monitoring and review, and scope out a longer-term impact evaluation. We undertake an iterative process for each policy to develop an initial set of evaluation questions, causal chains mapping out the key policy mechanisms, along with scoping key data sources and metrics.

Undertaking this process at the policy-level is helping us develop the overall picture including creating an initial high-level categorisation of the types of questions we need to answer across the entire suite and an overall picture of how the policies should work together. Below we will describe how we apply this across the entire suite.

This Case-Study describes how we are applying the Evaluation Development process, i.e. setting up the policies for future evaluation. It does not describe how we have executed the evaluation as sufficient time has not elapsed to effectively evaluate the impacts of the policies.

---

<sup>12</sup> [Ofgem publishes report into its regulation of the energy market | Ofgem](#)

<sup>13</sup> [Decision on Strengthening Financial Resilience | Ofgem](#)

---

**Developing the evaluation framework across the FRC policies**

Table 2 summarises the initial steps undertaken across all policies. As an illustrative example we describe how we are applying the approach to Renewables Obligations Ringfencing (RO), as this was one of the first policies we were able to assess for evaluation. This gives an illustrative concept of how an evaluation may be undertaken for FRC policies.

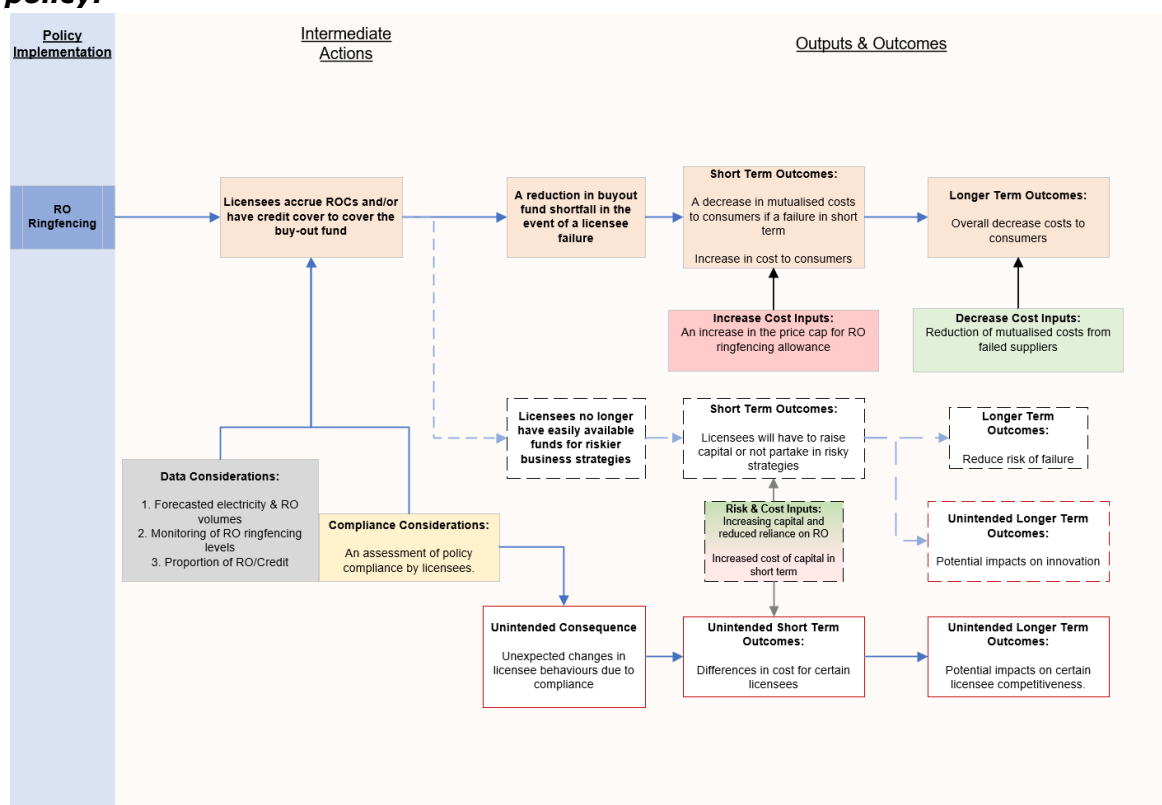
**Table 2: Application of the evaluation framework FRC policies with RO ringfencing as an illustrative example.**

<b>Steps undertaken</b>	<b>Outcome</b>
<b>Identifying policy objective</b>	<p>The core policy objectives are identified through assessment of previous decisions and impact assessments and confirmed with policy teams. For RO ringfencing, we have taken the objectives from the respective consultations and decision. That is, to reduce the funds at risk of mutualisation in the case of supplier failure ultimately leading to an overall decrease in cost to consumers. A secondary objective is to reduce moral hazard by ensuring that business owners have capital at risk, reducing incentive to take excessive risks.<sup>14</sup></p> <p>As part of this step, we also attempt to identify potential unintended consequences as part of the introduction of this policy. These are further developed in the next step.</p>
<b>Development of evaluation question and scoping of data</b>	<p>Based on the policy objectives we develop a set of evaluation questions. We then assess how best to answer them, given available data sources and resource requirements.</p> <ol style="list-style-type: none"> <li>1) Develop a set of potential evaluation questions.</li> <li>2) Scoping out the relevant data sources and resource requirements for the evaluation question.</li> <li>3) Develop potential approaches possible with a recommendation of the type of evaluation approach.</li> <li>4) Determine possible timings for the evaluation.</li> </ol>
<b>Workshopping approach</b>	<p>Additional workshopping with other teams within Ofgem helps refine evaluation questions, identify further data sources and determine the frequency of review.</p> <p>At this stage we start to develop causal chain diagrams which graphically explain how we think the policy should work, but might not.</p> <p>At this step, further intended and unintended consequences could be identified which can form the basis for additional questions.</p>
<b>Refining approach</b>	<p>We confirm the final set of evaluation questions and outcomes at this stage. We also group questions by policy and type to summarise broadly the type of questions we are asking across the entire suite of policies</p> <p>We refine the causal chains diagrams to develop intermediate short-term outcomes and how they create the long-term key outcomes that is associated with the policy objective. This forms the basis for the collection of metrics and outcome data to collect and analyse.</p>

<sup>14</sup> [Statutory Consultation: Strengthening Financial Resilience \(ofgem.gov.uk\)](https://www.ofgem.gov.uk/statutory-consultation-strengthening-financial-resilience)

As part of this process, we developed an illustrative causal chain<sup>15</sup> (Fig. 3) for how RO ringfencing the policy is intended to work, and potential unintended consequences. The causal chain links the policy with intermediate actions, intermediate and final outcomes. We also map out key compliance requirements for the policy to work as intended, and data needs for the evaluation.

**Figure 3: Illustrative example of a causal chain diagram using RO ringfencing policy.**



Note: This Causal Chain maps out the longer-term benefits resulting from the RO Ringfencing policy, and the intermediate steps that need to happen for these benefits to be realised. It identifies potential unintended consequences and how they might arise. It summaries risks, compliance considerations and data needs to undertake an evaluation. This mapping is intended to inform the evaluation, but we would not necessarily evaluate all links of this causal chain. For example, our own internal monitoring and assessments might determine that evaluating a particular potential outcome is not necessary or infeasible

By working through multiple policies in a similar way, we plan to develop an overall evaluation framework for the policy suite. This includes a set of intended and unintended outcomes across the entire policy suite, interdependencies between the policies and an overview of how the FRC suite of policies improves supplier resilience and reduces cost to consumers.

<sup>15</sup> This causal chain diagram is a working draft and is subject to change or revision.



Across the suite, we are developing a set of evaluation questions that can be categorised into primary and secondary outcomes, as illustrated by Table 3. The primary outcomes are categorised as intended impacts and unintended consequences. Where possible, we intend to use the evaluation approaches discussed above to assess these primary outcomes. In parallel, we also examine a range of secondary outcomes that can be used to help understand if the necessary conditions are in place for our policies to deliver the intended impact, these include questions regarding compliance, changing supplier behaviour and improvements in Ofgem capacity to monitor and identify risks.

**Table 3: Illustrative example of FRC primary outcomes and their evaluation questions.**

Area of Focus	Evaluation Question
<b>Intended Impacts</b>	Does the FRC suite of policies reduce the costs at risk of mutualisation?
	Does the FRC suite of policies improve the supplier’s financial resilience?
<b>Unintended Consequences</b>	Can we isolate any impact the policy has on competition and innovation?
	What impact might the policies have on costs for licensees and consumers, and how do these evolve over time?

### **Early benefits**

Beyond the evaluation, other early benefits of this approach include:

- **Establishing an agreed understanding of the mechanisms** of each policy as well as the overall policy mechanisms to get to the desired outcomes within the FRC Team and wider Ofgem.
- **Building an early understanding of potential negative outcomes** enables us to consider these as part of ongoing policy development.
- **The framework can be used as the basis for training materials.** Enabling new members to understand the objective and mechanisms behind each policy and ensuring the entire team is on the same page from the start.
- **Developing a prototype** that can then be adapted and applied to other policies across Ofgem’s portfolio.

**Summary**

We have presented an illustrative/proof of concept describing our development of a policy-by-policy approach to evaluate Financial Resilience and Control. This approach is helping us both develop an ongoing process of monitoring and review for FRC, and identify any gaps not covered by our regular cycle which may form the basis of discrete pieces of work.

This approach is still in development, and we will engage with stakeholders as and when we begin to undertake the evaluation.

## **Case Study 2: Evidence Assessment of Round 1 of the Strategic Innovation Fund**

This case-study summarises a review of the first phase of funding (Round 1) allocated by Ofgem's Strategic Innovation Fund (SIF), a £450m fund established in 2021 to fund 'big, risky, strategic' projects that 'move the needle' towards net zero and lowers consumer bills. At the time of conducting the review we had allocated a total of £130m of SIF funding to 157 projects across 613 project partners.

### **Scope of review**

The review sought to assess: (i) how the SIF is delivering on its aims, (ii) how it is working for the industry, and (iii) how it is working for Ofgem Subject Matter Experts (SMEs). The review focused more on process and operational questions as, at the point of undertaking the evaluation, it was too early to be able to assess impacts. The review was led by the SIF project team at Ofgem, with guidance and support provided by the Office of Research and Economics Evaluation team, and comprised of several parts:

1. A desk-based literature review of SIF formation documents to assess how well SIF is delivering against the core aims of the programme;
2. Assessment of qualitative and quantitative data through surveys of key stakeholders such as networks, innovators and Ofgem SMEs;
3. A review of the projected estimated net benefits from all funded Beta project Cost Benefit Analyses (CBA) and of projected spend across the SIF's lifetime (2021-28).
4. A series of workshops with Ofgem SMEs to give feedback on the collated results and gather input on next steps.

## Key Findings

**Table 4: Summary of Key Findings**

	Overall	For Industry	For Ofgem
<b>Working Well</b>	<ul style="list-style-type: none"> <li>• Significant potential benefits, both financial and environmental</li> <li>• External assessors and Ofgem experts view projects to be of high quality</li> <li>• Significant market engagement with the fund</li> </ul>	<ul style="list-style-type: none"> <li>• High engagement and significant market stimulus created</li> <li>• Phased approach allows for agility and flexibility to change direction/scope of project</li> <li>• SIF operating model helps develop demonstration scale projects, whilst ensuring robust planning</li> </ul>	<ul style="list-style-type: none"> <li>• View of internal experts is that SIF well run programme with a highly capable and responsive team</li> </ul>
<b>Needs Improvement</b>	<ul style="list-style-type: none"> <li>• Estimated benefits are likely on the high end</li> <li>• Need to take steps ensure high levels of innovation rollout</li> <li>• Greater alignment of funding needed between SIF and other similar mechanisms</li> </ul>	<ul style="list-style-type: none"> <li>• Discovery Phase can be very resource intensive</li> <li>• Timings of various phases can be rigid and challenging</li> <li>• Resource challenges in applying for and delivering multiple rounds</li> <li>• Need to encourage more small innovators</li> </ul>	<ul style="list-style-type: none"> <li>• Internal processes could be simplified</li> <li>• Clearer communications between Ofgem experts and external assessors</li> <li>• Greater access to live information on all projects</li> </ul>

## Actions taken

Following the review, several actions were taken to address the identified areas for improvement, summarised in Table 5.

An external review of the CBA and benefits tracking was commissioned by Ofgem and IUK. As part of the review, the CBA template was updated to improve its functionality and usability.

**Table 5: Summary of identified issues and corresponding actions taken**

<b>Areas identified as needing improvement</b>	<b>Actions taken</b>
Benefits tracking	Programme of work completed to review and improve the CBA template, informing the project selection process.
High levels of rollout	Communicated in RIIO-3 SSMD that networks may request additional totex allowance in business plans to fund the deployment of previously proven innovation.
Alignment of funding	Engagements underway with Ofwat and DESNZ to improve coordination of innovation funding initiatives.
Difficulties in resourcing and delivery due to rigid application process and timings	Application windows for each phase of SIF have been increased to three a year. Projects also now have flexible start dates and durations. Projects can also now complete the route from the Discovery to Beta phase within 23 months, eight months shorter than the previous process.
<b>Areas identified as needing improvement</b>	<b>Further actions in train</b>
Benefits tracking	Further work is underway exploring improvements to benefits tracking, particularly after SIF funding has ended.
Ensuring high rates of rollout	Communicated in RIIO-3 SSMD that we will give consideration to introducing a reputational and/or financial incentive to further incentivise innovation deployment.
Challenge Setting	Work underway to establish a process for setting longer term, strategic challenges.

Improvements were also made to address concerns around timings and flexibility of project delivery, with application windows for each SIF phase increased to three a year, and projects being given flexible start dates and durations. Furthermore, engagement is underway with DESNZ and Ofwat to improve coordination and alignment of funds.

The recommendations for improvement have also been incorporated into our RIIO-3 policy development work. In the RIIO-3 Sector Specific Methodology Decision (SSMD), we signalled a number of areas we would continue to explore to ensure high rates of project rollout. Firstly, we stated that networks may request additional totex allowance in their business plans to fund the deployment of previously proven innovation. Secondly, we signalled our intention to explore the introduction of a reputational and/or financial incentive to further incentivise innovation deployment by networks. The option of introducing a reputational incentive would also help with the long-term benefits

tracking of projects. Other further actions in train include changing the SIF Challenge-setting process to set a more consistent, long term strategic direction.

We will be continuing market engagement on these options ahead of RIIO-3 Draft Determinations in 2025.