

HM Treasury

External Efficiency Review of Utility Regulators

Final Report

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CONTENTS

	Page
List of Tables	iii
List of Figures	iii
Glossary	iv

EXECUTIVE SUMMARY	V
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1. INTRODUCTION	1-1
BACKGROUND	1-1
OBJECTIVES AND SCOPE	1-3
STRUCTURE OF THE REPORT	1-5
2. MANAGEMENT PROCESSES AND PROCEDURES	2-1
CORPORATE GOVERNANCE	2-1
CORPORATE PLANNING	2-3
PROJECT MANAGEMENT	2-5
PERFORMANCE MANAGEMENT	2-6
HUMAN RESOURCES MANAGEMENT	2-8
FINANCIAL MANAGEMENT	2-11
PROCUREMENT	2-13
IT	2-14
RESOURCE ALLOCATION	2-15
QUALITY ASSURANCE	2-17
COMMUNICATIONS	2-18
FACILITIES MANAGEMENT	2-20
GENERAL OBSERVATIONS	2-21
3. STAKEHOLDER VIEWS	3-1
SURVEY RESPONSES	3-1
INDUSTRY STAKEHOLDERS	3-7

4.	COST EFFICIENCY	4-1
	THE COST OF REGULATION	4-1
	BENCHMARKING RESULTS	4-5
5.	PRINCIPAL FINDINGS AND RECOMMENDATIONS	5-1
	PRINCIPAL FINDINGS	5-1
	RECOMMENDATIONS	5-5

ANNEX A – Terms of Reference

ANNEX B – Interviewees

ANNEX C – Information Request

ANNEX D – Document Review

ANNEX E – Proforma for Project Management Audits

ANNEX F – Stakeholder Survey Questionnaire

ANNEX G – Stakeholder Interviewees

ANNEX H – Benchmarking Questionnaire

ANNEX I – Analysis of Stakeholder Responses

ANNEX J – Project Audit Reports

ANNEX K – Selected Analyses from the IRs

LIST OF TABLES

	Page
Table 1.1: Comparative Cost of Regulation (1999/00)	1-3
Table 2.1: Examples of Good Practice at the Regulators	2-22
Table 3.1: Average Scores to Stakeholder Questionnaire	3-5
Table 3.2: Rank Order of Responses to Stakeholder Questionnaire	3-6
Table 3.3: Stakeholders' Views of Each Regulator's Strengths and Weaknesses	3-7
Table 4.1: Regulators' Operating Costs and Staffing Levels	4-2
Table 4.2: Increases in Staff Levels and Operating Costs	4-3
Table 4.3: Comparison of Operating Cost with Payroll Trends	4-6
Table 4.4: Breakdown of Total Costs, 2000/01 (%)	4-6
Table 4.5: Consultancy Costs as a Percentage of Total Costs	4-6
Table 4.6: Benchmarking Survey Results (Cost Efficiency)	4-8
Table 4.7: Summary of the Benchmarking Cost Efficiency Results	4-9
Table 4.8: Benchmarking Survey Results (Management Processes)	4-810

LIST OF FIGURES

Figure 1.1: Average Annual Increase in Regulators' Operating Costs	1-1
Figure 1.2: Average Annual Increase in Regulators' Staffing Levels	1-2

GLOSSARY

CCTA	Central Computer & Telecommunications Agency
DG	Director General
FM	Facilities management
GECC	Gas & Electricity Consumers Council
IR	Information Request
MAPS	Mechanism for the Advancement of Process Systems
NAO	National Audit Office
NETA	New Electricity Trading Arrangements
OFCOM	Office of Communications
PID	Project Initiation Document
PRINCE	Projects in a Controlled Environment
PSO	Project Support Office
QA	Quality assurance
S-CAT	Services Catalogue
SDA	Service Delivery Agreement
SLA	Service Level Agreement

EXECUTIVE SUMMARY

WS Atkins was commissioned by HM Treasury in August 2000 to carry out an efficiency review of the utility regulators, namely Ofgem (electricity and gas), Oftel (telecommunications), Ofwat (water and sewerage), and ORR (rail). The review is focused on inputs (procedures, processes and resources) rather than outputs (regulatory effectiveness). There were three specific objectives:

- to examine the way in which the regulators define, plan, and prioritise proposed areas of work from which programmes and projects are developed;
- to evaluate the management of programmes and projects from inception to closure, and;
- to assess the cost-efficiency of support functions such as human resources, finance, IT, communications, and estates.

The review had five workstrands:

- an interview programme. We conducted some 50 interviews with Directors and managers of the regulators to consider issues of organisation, planning, budgeting, control of expenditure, management of resources, quality control and so on;
- an Information Request. We submitted an agreed Information Request to the regulators to collect data (both historical and forecast) on assets, expenditure, human resources, and performance indicators;
- Project audits. We carried out audits of a sample of on-going or completed projects to assess the effectiveness of project management;
- Stakeholder survey. We invited some 300 stakeholders of the regulators to rate the regulators against a set of 29 criteria. We received 83 replies, 59 of which came from regulated companies. We also conducted open-ended interviews with 8 of the key regulated companies. Oxera managed this aspect of the work
- Benchmarking survey. We collected information on the costs, staffing, and management of support functions from 15 “comparator” organisations which included UK executive agencies as well as other UK and overseas regulators.

The Final Report is organised into five sections, in addition to this Executive Summary. There are also several annexes containing the Terms of Reference, the Information Request, the questionnaires for the stakeholder and benchmarking surveys, the proforma for the project audits, the interviewees from the regulators and regulated companies, as well as some of the key data emerging from the Information Requests. The report sections are:

- Section 1, in which we set out the background and objectives of the review and our approach;
- Section 2, in which we consider the management processes and procedures of the regulators including their project management practices. Comparisons are drawn between the regulators, and strengths and weaknesses are highlighted. This section pulls together the results of the interview programme, document review, and project audits;
- Section 3, in which we summarise the results of the stakeholder survey. Again, comparisons are drawn between the regulators and strengths and weaknesses identified. The key points emerging from the survey and the follow-up interviews are discussed;
- Section 4, in which we draw some conclusions with regard to the cost efficiency of the regulators as well as their management practices drawing upon both the Information Requests and the benchmarking survey;
- Section 5, in which we set out our key findings and recommendations.

KEY FINDINGS

Headlines

The regulators are professionally run organisations, and there are many examples of good practice. The cost of regulation is rising well in excess of inflation, but it is still very small in comparison to the turnover of the regulated industries and to the benefits received by consumers. New legislation, as well as developments in the market, have placed additional burdens on the regulators and the rising cost is at least partly a reflection of this. Stakeholders generally accept that the regulators' work is of good quality, and that they have good people in senior positions, although they also have pointed to weaknesses in the way they go about their work. There are three main areas of concern. The first is the amount of information made available on which to judge their efficiency. Since the cost of regulation is continuing to rise for most regulators, it is not unreasonable to ask them to make a business case for their main items of expenditure and report on their performance. Second, the cost of support services such as finance, HR and IT is relatively high and on average accounted for about 22 % of the regulators' total expenditure in 1999/00. The regulators do not publish information on activity levels and performance indicators to justify this level of expenditure on non-regulatory activities. Third, we think that the regulators need to have a bigger cadre of senior professionals but with fewer staff supporting them, salaries should be increased, and funds switched progressively from consultants to staff.

Our findings are grouped into three areas - costs, outward perceptions, and internal processes.

Costs

The costs of regulation have been rising steadily. The operating costs of the four utility regulators have doubled from about £ 50 million in 1996/97 to roughly £ 100 million in 2000/01, an increase of 84 % in real terms. Between 1990/91 and 2000/01, the average annual increase in operating costs in real terms has been 16.6 %, 6.8 %, and 7.4 % at Ofgem, Oftel and Ofwat respectively. At ORR, between 1996/97 and 2000/01 the increase has been

14.4 %/pa. Only Ofwat has bucked the general trend since its cost increases in the past three years have been about zero in real terms. Ofgem's costs have in the past two years been distorted by the merger between Ofgas and Offer and the one-off NETA project - together, these account for nearly 50 % of Ofgem's total expenditure in 2000/01. Discounting these, however, the average increase in Ofgem's costs since 1990/91 has still been 10.5 %/pa in real terms.

There is little mileage in comparing the total expenditure or annual increases between regulators. The regulators have broadly similar duties but sector-specific issues to deal with, so their regulatory costs (as opposed to their support costs) are not comparable. Moreover, the complexity of, and extent of competition within, each sector is quite different. Arguably, Ofgem (given the number of licensees, its coverage of generation, distribution and supply, and limited competition in some areas) and Oftel (given the fast pace of technological development) have the more difficult remits. Conversely, ORR has the most focused role since it regulates only one company (albeit a massive monopoly) with well-understood and slow moving technology. Moreover, it is important to remember that the regulators have acquired additional responsibilities from new legislation (e.g. EU Directives, Utilities Act, Competition Act) and they have to respond to developments in the market.

It is also essential to recognise that the cost of regulation is small in comparison to the benefits to the consumer which have come about through increased competition (as well as regulation where competition is not possible). The opening of the domestic gas market provides a clear example of this. The cost of regulation is also quite modest in comparison to the turnover of the industries which are regulated. It is less than 0.2 % for all the regulators. This does not mean, however, that the regulators could not be more efficient.

Payroll accounts for around 50 % of total costs at all the regulators (discounting NETA and the merger in the case of Ofgem). Increases in payroll are strongly linked to the increase in operating costs at all the regulators. Another key cost component is consultancy. These costs are relatively modest in comparison to total costs at Ofwat and Oftel, but very significant at Ofgem and ORR. They are also "peaky". They rise to fill resource holes for periodic events such as price reviews, and to this extent using consultants is an efficient approach to variable workload. However, there is an underlying "baseload" of work that might arguably be more cost-effective to place in-house. The other costs of the regulators, of which the two most significant are accommodation and capital, are more or less fixed. The main opportunities for "give" are therefore in payroll and the consultancy budget.

Across the regulators, support functions (HR, IT, finance, procurement, communications, quality assurance and estates) accounted for about 22 % of total costs in 1999/00. This is nearly double the figure for our comparator group of UK executive agencies and other regulators. There are also wide differences between the four regulators, from Oftel and Ofgem (20 % of total costs in 1999/00) to ORR (31 %). Accommodation adds on average another 11 % or so of costs, so overall support functions and accommodation accounted for 33 % of expenditure. The equivalent figure for our comparator group was 17 %.

On the face of it, this analysis suggests that too much money is going into non-regulatory activities and some economies might be achievable in overheads. There is probably not too much that can be done about accommodation costs, short of moving outside London (for Ofgem, Oftel and ORR) or taking up lower quality premises. But there may be opportunities for cost reduction in the support services. Budget forecasts for 2000/01 suggest that these costs are already moving in the right direction – to 19-20 % of total expenditure. More detailed comparisons of the costs of individual support functions (e.g. IT, HR and Finance) did not prove productive because it was not possible to obtain or construct adequate input and output data on a comparable basis.

None of the regulators, with the exception of Ofgem, has set a quantified cost reduction target for 2001/02. Ofgem is looking for a saving of 3.1 % on recurrent expenditure (excluding merger and NETA), most of which they plan to obtain from savings in the support functions once the relocation to Millbank is complete and bedded-in.

Outward Perceptions

The views of the stakeholders we consulted and who responded to our survey have been mixed, but there is a general acceptance that the regulators are thorough and their work (particularly the routine work such as price reviews) is usually of good quality. They are complimentary of the people in senior management positions. That said, there are concerns about the way they go about their business. Examples include a perceived lack of focus, decisions on regulatory priorities apparently unsupported by cost-benefit analysis, and a “one-way” consultation process.

Regulated companies are clear that they want to see the regulators commit themselves to a medium-term strategy. This, they argue, will make the regulatory process more transparent. Linked to this, they are keen to participate in the process by which regulators decide upon and then focus on the key issues. They want to see more details in operational plans, specifically a business case for each proposed activity supported by a serious cost-benefit analysis. Companies are particularly concerned about the burden placed upon them by what they consider to be “fishing trips” – requests for information which largely remains unused. They would like to see consultation used not just to invite reaction to proposals but also to shape the activities of the regulators before resources are committed to projects.

The key company stakeholders we consulted are quite consistent in their view that the regulators need strengthening in economics/finance and some technical areas. They would prefer to see the regulators with fewer people but more depth in senior management, and they recognise that this will require them to pay competitive salaries. Stakeholders are also clear in wanting the regulators to reduce their dependence upon consultants, and to improve their

management of consultants so that the quality of their outputs is more consistent. They would like to see budgets switched from consultants to salaries so that the right people can be recruited and retained. They are particularly keen to see the capability and the corporate memory of the regulators strengthened.

Companies are also concerned about the rising cost of regulation. Some do not understand why so many people are needed to discharge the duties of the regulators. There is of course a difference in perspective on this point between incumbents/dominant players (who fund the largest part of the costs and want them reduced) and new entrants (who pay relatively little and want the regulators to be more active to facilitate competition). However, neither party wants an inefficient regulator and for that reason they would all like to see greater transparency in budgets and some independent oversight of the process of setting priorities and costing up work programmes.

Internal Processes

Our general impression is that the regulators are professionally run organisations. It is clear that they are concerned about efficiency and are committed to continual improvement in performance. We encountered many examples where systems and procedures have been or will be revised to make them more effective in serving business needs or more efficient. To this extent, the regulators are moving in the right direction. In terms of the management of their support functions, the regulators are with some exceptions broadly similar to the comparators we used in the benchmarking survey.

One area of weakness in our view is financial accountability. The regulators do not publish much information on their costs, nor do they produce indicative medium-term budgets. We have encountered only one or two financial targets for routine activities. With the exception of HM Treasury, there is also no independent assessment of budgets. The regulators put their proposals to consultation with little or no prioritisation and cost information. They do not have to publish a business case to justify their expenditure on each activity. This reduces the value of the consultation on their expenditure which is an important part of the process leading to the Treasury's decision on the regulators' final budgets.

Another concern is that whereas the regulators do put their proposals out to consultation there is no routine stakeholder assessment of their performance. It would facilitate such an assessment if the regulators provided more information on their performance indicators.

A third area of weakness, in our view, is the management of support functions. There are differences between the regulators of course and some examples of good practice, but as a rule it does not appear that the cost efficiency of the support functions is receiving the

attention it merits even though they account for a significant proportion of expenditure. We would have liked to have seen financial targets set for these functions, some simple SLAs/SDAs in place for all of them, and routine collection and publication of performance indicators. Inputs (costs and resources) could then be linked to outputs (activity levels and results).

A final concern is the structure of the regulators. In our view, there are too many people in lower grade positions and not enough in at the top. This is why the average staff cost is relatively low, no higher than comparators which do not have the same demand for top lawyers, economists, and technical specialists. Although all the regulators have taken steps to improve their recruitment and remuneration policies, it remains difficult to attract and retain good people. For this reason, staff turnover is too high and the regulators remain dependent to a greater or lesser degree on consultants.

RECOMMENDATIONS

Headlines

We would like to see the regulators provide more information on their plans and performance. Each should produce a medium term strategy, detailed breakdowns of their expenditure, and impact assessments for their major projects. Performance on the delivery of key projects and the cost of non-regulatory activities should be published. Annual satisfaction surveys of stakeholders might be considered. We would like to see more accurate costing of activities and post-implementation reviews of major consultancy projects. Consultation should commence earlier than at present to provide stakeholders with more opportunity to shape the regulatory agenda. We think that this will reduce the burden on regulated companies and the amount of non-productive work for the regulators. In order to reduce staff turnover, which will have many benefits besides reduced recruitment and training costs, the regulators should be allowed to pay competitive salaries to top people – although we would expect the numbers of staff overall to fall. Since the regulators are strong and weak in different areas, we think that they should be learning from each other and applying the lessons learned.

We have separated our recommendations into two sections concerned with costs and procedures. Recommendations have also been categorised as “priority” (where we believe that the regulators should definitely implement them within twelve months), “desirable” (where we believe that there are significant benefits to be realised from implementation), and “for consideration” (where we expect the regulators to look into the practicalities as well as the costs and benefits of implementation).

Costs

The circulation of draft business plans and publication of non-confidential responses from stakeholders is a welcome improvement in transparency. In our view, however, stakeholders

are provided with insufficient information on which to base their submissions. This is clearly one of the major concerns of the regulated companies. For this reason, we recommend that:

1. *Priority.* The regulators should continue to publish draft business plans, but these need to contain more cost information. All major projects and work programmes (e.g. above £ 250k) should be costed, and there should be a breakdown of total expenditure between policy and support activities. The regulators should also indicate what they would choose not to do or do less of with a lower level of funding (e.g. 5 % or 10 %).
2. *Priority.* The regulators should publish annually a medium-term strategy setting out the regulatory agenda for the next 3-5 years. This should include indicative budgets as well as the priorities for the regulator, the main work programmes, and a rough timetable.
3. *Desirable.* The regulators should publish more information on their expenditure in the Annual Reports. In particular we would like to see a fairly detailed breakdown of expenditure by category, a separation of costs between policy and support activities, and a costing of major projects completed in the year under review.
4. *Desirable.* Since the support functions account for a significant proportion of the regulators' expenditure we would like to see their costs as a proportion of total expenditure falling. In our experience, we would have expected the proportion to be around 15 % and all the regulators are above this - especially ORR. At the very least, we would expect to see any proposed support cost increases supported by evidence of rising activity levels. For this reason, the regulators should agree on a consistent basis (to render comparisons meaningful) a number of activity indicators for their support functions that can be monitored and related to expenditure. Ideally we would like to see unit costs (£ expenditure divided by activity levels) falling, and we would therefore recommend that the regulators collect and publish this information.
5. *Desirable.* We would like to see the regulators collect and publish information on the cost of regulatory activities which have a predicable scope and duration where it is practicable to do so. This will require calculation of historic costs where these are unknown and the setting up of financial benchmarks such as total cost and total man-hours.
6. *Desirable.* Since consultants account for such a large percentage of the regulators' expenditure, we would expect the regulators to carry out post-implementation value for money reviews of major projects (e.g. above £ 250k). This will supplement the procedures which are already in place for justifying use of consultants before they are commissioned and for procuring them by competitive tender. We are particularly keen that these reviews should consider the success of knowledge transfer from consultants to the regulator and the interface between consultants and regulated companies.
7. *For consideration.* We would like to see better calculation of the cost of regulatory activities, and this will in our view require some form of project costing or activity based costing which in turn will involve timesheeting of staff. We recognise that Ofwat already has a form of activity costing and timesheets and that Ofgem is planning to introduce activity based costing. We would also like to see project managers incentivised to control costs on projects. Since staff is the biggest cost on most projects, this also suggests timesheeting. We do not expect this to lead to any material increase in administration costs since timesheets can be completed electronically, circulated via the intranet, and processed by computer.

We have considered the proposal put forward by some regulated companies as well as academics that the regulators should be subject to a RPI-x cap on their expenditure. The main difficulty with this is that the business of regulation is not entirely predictable. The regulators have to comply with EU Directives and Acts of Parliament which may impose new responsibilities upon them or change the direction of their work. They also have to respond to changing technology and market conditions. For these reasons, arbitrary cost reductions may compromise their ability to be an effective regulator. Arguably, a RPI-x formula could be imposed upon the routine regulatory activities and support functions. But we can see difficulties in agreeing exactly which activities are not sensitive to exogenous factors and could therefore be subjected to cost reduction targets. For these reasons, we would prefer to see more transparency in the process of budgeting such that activities are costed, their costs made public, and business cases developed for each major project proposed by the regulator. We think that this case by case analysis of the regulators' "shopping lists" will be a fairer and more sensible way of auditing their expenditure.

One of our main concerns has been the cost of support functions, and it has been suggested that merging the sectoral regulators would generate significant savings. Under this scenario, the super-regulator would have four policy divisions with a single spine providing business support services. If the cost of support services was reduced from an average 22 % to say 14 % of total costs, the annual savings would be in the order of £ 6 million. This is probably in itself not enough to justify the relocation and restructuring expenses. Moreover, it may not be possible to obtain much saving from merging of the external relations functions which will continue to be sector specific. A merger may have other benefits in cross-fertilisation between the policy teams, identification and dissemination of best practice, and staff career development. But the one model we have for amalgamation of regulators (Ofgem) is not encouraging if one is looking for cost savings. For these reasons, we do not recommend a super-regulator.

Procedures

Based on the submissions of stakeholders and our own observations, we have concluded that the consultation process needs to be modified. Our recommendations in this regard are:

8. *Priority.* The consultation on the annual business plans as well as the major projects/programmes they contain should start earlier, before the regulator has finalised a view on priorities and the way in which subjects will be taken forward. Without compromising the independence of the regulators, we would like to see stakeholder workshops (as at Ofwat and Ofgem) at which ideas can be discussed openly well before consultation documents are produced.
9. *Priority.* Stakeholders need more information to provide sensible input into discussions on the regulators' proposals. For this reason, we would like to see the regulators produce an "impact assessment" (costs to the regulated companies and benefits to consumers) when consulting on major projects and programmes in addition to estimates of costs for the regulators (recommendations 1 and 3).

In our discussions with the regulators and analysis of their IRs we have encountered very little information on performance or activity levels. Although data is being collected, it does not appear to be systematically collated or processed. Our view is that the regulators should

be publishing this information routinely so that an assessment can be made on an on-going basis of their efficiency. Our recommendations in this regard are:

10. *Priority.* The regulators should publish in their Annual Reports their performance on major projects and programmes by comparing actual against estimated completion dates, duration, costs, and impact.
11. *Desirable.* The regulators should publish performance indicators and activity level data for their support functions in their Annual Reports. As far as is practicable, the indicators and measures should be consistent between regulators.
12. *For consideration.* The regulators might commission an independent annual satisfaction survey of their performance similar to the one conducted for this report. The results of such a survey should be published in the Annual Report. It would be desirable for the survey to have a common format across the regulators.

We have noted that one of the major problems faced by the regulators is high staff turnover. This is largely a function of salaries, but it is exacerbated by the fact that the pool of expertise is very small and thus both the regulators and the industries they regulate are seeking to recruit the same specialists. Such a high staff turnover imposes a cost in terms of recruitment and training, undermines knowledge retention, and quite possibly increases dependence upon consultants.

It is clear that the quality and credibility of the regulators' work depends on a small group of key individuals. We agree with the stakeholders therefore that the regulators should have more senior professionals, but with fewer staff supporting them. To keep the top people at the regulators and attract more of them will require a radical overhaul of the remuneration strategy. Up to now, salary increases have been on average quite modest. For this reason, we recommend that:

13. *Priority.* The regulators be allowed to pay competitive salaries to individuals down to project manager level whose skills are marketable to regulated companies, the City and consultancy practices. In return, however, we would expect the numbers of staff overall to be reduced.

With regard to internal management processes, the main recommendations are:

14. *Desirable.* Ofwat and ORR to improve their project management procedures. This does not necessarily mean adopting a standard methodology such as PRINCE 2, but it involves developing a more structured and documented approach for which training is provided and is supported on the intranet. Ofgem's version of PRINCE 2 is worth consideration.
15. *Desirable.* All the regulators to collect and analyse activity level data and performance indicators for their support functions. We would suggest that simple SLAs are set up (ORR's model is worth considering) which incorporate performance indicators. The regulators should also consider annual performance reviews of the support functions like those carried out by Ofwat.
16. *Desirable.* ORR and Ofwat to further develop their knowledge management strategies.
17. *For consideration.* Ofgem, ORR and Ofwat to put in place a stronger QA system. This would help to focus staff on the quality of their outputs, reduce any inefficiencies in work practices, and provide a stronger audit trail in the event of any challenge to their decisions.

18. *For consideration.* We have noted that whereas the regulators do consult each other at various levels and on a wide range of topics, their approach to running their businesses is markedly different in many areas. We recognise that the regulators have to deal with issues which are specific to their sectors, and this is reflected in their set-up, but there are also many aspects of business management in both policy and support which are common to all (from cost of capital to quality assurance). We would have expected therefore to encounter more examples where one regulator's approach has been borrowed or developed by another. For this reason, we suggest that the regulators review their procedures for inter-regulator consultation and consider in particular how the outputs from these meetings can be disseminated and taken forward. We would also suggest that the regulators review the examples of good practice set out in Table 2.1, and which are not already covered by the other recommendations in this report, with a view to identifying those which can be widely applied.
19. *For consideration.* Ofwat and Oftel to consider appointing non-executive Directors to their Boards.

We believe that the regulators should be able to implement our recommendations within their existing budgets. Some of the recommendations should lead to cost reduction. Lower staff turnover, for example, will reduce recruitment and training costs. Some should result in enhanced effectiveness - through, for example, less re-work. We would also expect budgets to be linked more closely to activity levels, and a reduced burden on regulated companies.

1. INTRODUCTION

BACKGROUND

- 1.1 WS Atkins has been commissioned by HM Treasury to carry out an efficiency review of the utility regulators, namely Ofgem (electricity and gas), Oftele (telecommunications), Ofwat (water and sewerage), and ORR (rail). This review is not concerned with the regulatory agenda and the effectiveness of the regulators in promoting competition and improving choice, quality and service, and value for money for consumers. Its focus is on the efficiency with which the regulators go about their business.
- 1.2 The review has been in part provoked by criticism of the rising cost of regulation. Figures 1.1 and 1.2 set out the average annual percentage increases in operating costs (real terms, not including capex) and staffing levels for each of the regulators. Clearly there has been a very significant increase in both.

Figure 1.1: Average Annual Increase in Regulators' Operating Costs

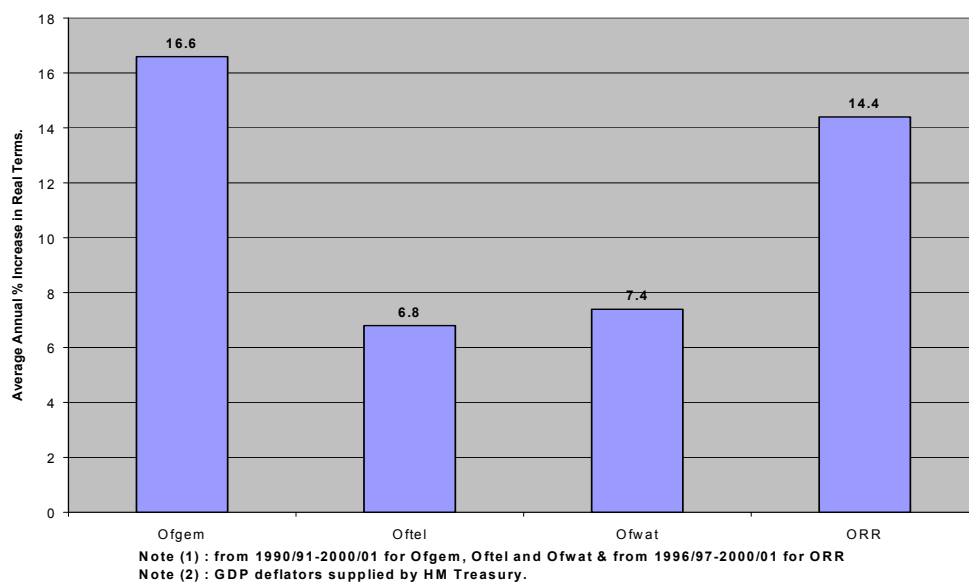
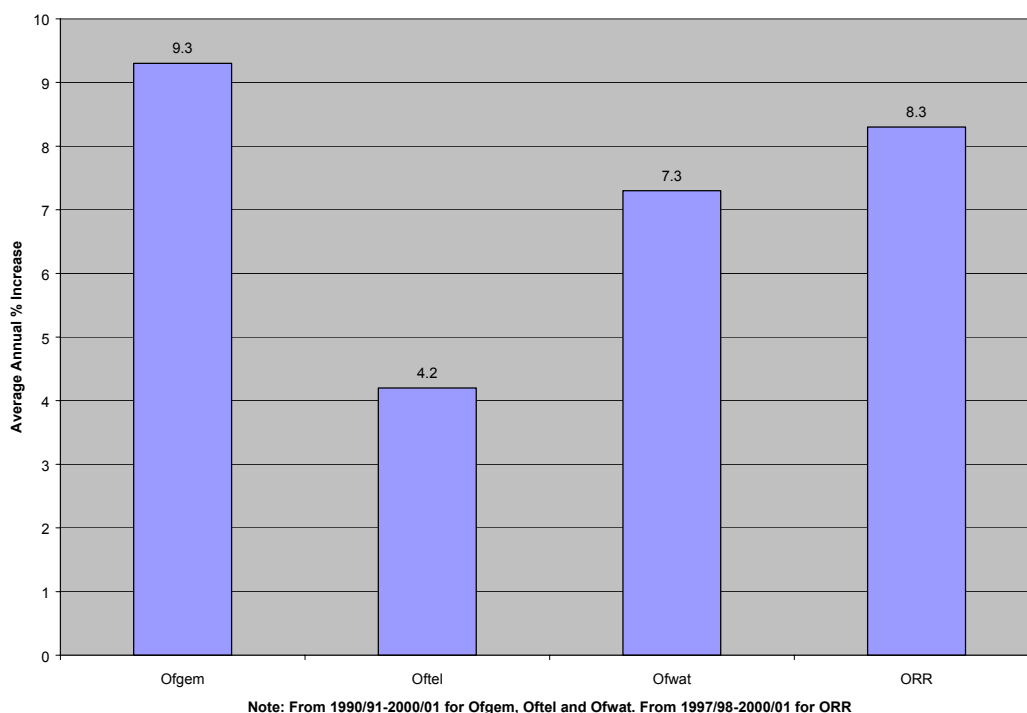


Figure 1.2: Average Annual Increase in Regulators' Staffing Levels

- 1.3 From one perspective, the increase in operating costs and staff numbers can be taken as evidence of inefficiency and empire-building. But the regulators argue that they are justified by widening and deepening of the regulatory agenda (the Competition Act, for example, has added another dimension to their work) and by the impact of their interventions. Since the opening of the domestic gas market in 1996, for example, customers' annual gas bills have been reduced by about £ 1 billion in real terms. The impact of the price controls on the Public Electricity Suppliers and the introduction of NETA is likely to reduce electricity bills by a similar amount. Significant price reductions have also been experienced in water and telecommunications. These figures dwarf the cost of regulation, although this is not to say that that regulation could not be more efficient.
- 1.4 Moreover, it is instructive to compare the cost of regulation against the size of the industries affected. As Table 1.1 demonstrates, the cost of regulation is very small in comparison with the turnover of the regulated industries (less than 0.2 %) and as expressed on a per customer basis (less than £ 1/pa).

Table 1.1: Comparative Cost of Regulation (1999/00)

	Ofgem	Ofel	Ofwat	ORR
Total cost of regulator (£ mill)	33.9	13.5	10.8	13.6
Turnover of regulated industry (£ mill)	36,840	20,800	7,014	8,254
Cost of regulation/turnover	0.09%	0.06 %	0.15 %	0.16 %
No. of customers	48,150,000	53,900,000	24,000,000	N/a
Cost of regulation/customer	£ 0.70	£ 0.25	£ 0.45	N/a

Sources: Ofgem, Ofwat and ORR internal data plus SCHEMA for telecommunications

Notes:

- (1) figure for Ofgem excludes NETA and merger costs
- (2) total cost of regulators includes both operating expenditure and capital expenditure
- (3) turnover and number of subscribers of the telecommunications industry includes both fixed and mobile services
- (4) Ofgem number of customers adds together electricity and gas accounts. Ofwat figure is households
- (5) turnover in rail is the collective turnover of Railtrack and the TOCs. The figure is £ 5,866 million netting out the rail access charges levied by Railtrack on users.

OBJECTIVES AND SCOPE

1.5 This efficiency review has three objectives:

- to examine the way in which the regulators define, plan and prioritise proposed areas of work from which programmes and projects are developed;
- to evaluate the management of programmes and projects from inception to closure, and;
- to assess the cost-efficiency of support functions such as human resources, finance, IT, communications, and estates.

1.6 The review is therefore focused on inputs (procedures, processes and resources) rather than outputs (regulatory effectiveness). A copy of the Terms of Reference is attached as Annex A.

1.7 The review has had five workstrands:

- an interview programme. Meetings with key individuals within the regulators to consider issues of organisation, planning, budgeting, control of expenditure, management of resources, quality control and so on;
- an Information Request. Submission of an agreed Information Request (IR) to the regulators to collect data (both historical and forecast) on assets, expenditure, human resources, and performance indicators;

- Project audits. Audits of a sample of on-going or completed projects to assess the effectiveness of project management;
- Stakeholder survey. Polling the views of stakeholders (regulated industries, consumer representative bodies, environmental lobby groups, and the City) on the efficiency of the regulators;
- Benchmarking survey. Collection and comparison of information on the costs, staffing, and management of support functions in comparator organisations including other UK and overseas regulators.

Interview Programme

- 1.8 A total of 51 individuals were consulted during the interview programme. A list is provided in Annex B. Follow-up telephone enquiries were made to clarify points arising following receipt of the Information Requests and supporting documentation.

Information Request

- 1.9 Following consultations, an IR was agreed with the regulators and submitted to them on September 1st 2000. A copy of the IR is set out in Annex C. A list of documents submitted by the regulators with their IRs is provided in Annex D. Some of the key data from the IRs are set out in Annex K.

Project Audits

- 1.10 Meetings were held with the regulators to discuss in detail a number of projects to understand and assess their project management systems and procedures. The format of the audits is set out in the proforma attached as Annex E.

Stakeholder Survey

- 1.11 Using contact lists provided by the regulators, invitations to participate in an opinion survey were sent to around 300 organisations including regulated companies, trade associations, consumer representative bodies, environmental and other pressure groups, and financial institutions. Responses were lodged via e-mail using *Oxera Benchmark Online*. A copy of the invitation and questionnaire is included as Annex F. To provide some comparison with other regulators, Ofreg and CAA were included in the survey with their permission and about 100 of their stakeholders were contacted.

- 1.12 A number of major regulated companies were contacted for more detailed discussion. These were Centrica, National Grid, National Power, Seeboard, Severn Trent Water, BT, WorldCom, and Railtrack. A list of contacts is provided in Annex G.

Benchmarking Survey

- 1.13 In order to draw some conclusions about the cost efficiency and management of the regulators' support functions, 23 organisations were invited to participate in a benchmarking exercise. These included other UK regulators, overseas regulators, and UK executive agencies. A copy of the questionnaire is included in Annex H.

STRUCTURE OF THE REPORT

- 1.14 This report follows an Interim Report in which we described and commented upon how the regulators are managing their work. The relevant sections of the Interim Report as well as the complete Draft Report were circulated to the regulators to invite comment, and their responses have been taken into consideration in preparing this Final Report.
- 1.15 The Final Report is organised into four sections in addition to this Introduction, namely:
- Section 2, in which we consider the management processes and procedures of the regulators including their project management practices. Comparisons are drawn between the regulators, and strengths and weaknesses are highlighted. This section pulls together the results of the interview programme, document review, and project audits;
 - Section 3, in which we summarise the results of the stakeholder survey. Again, comparisons are drawn between the regulators and strengths and weaknesses identified. The key points emerging from the survey and the follow-up interviews are discussed;
 - Section 4, in which we draw some conclusions with regard to the cost efficiency of the regulators as well as their management practices drawing upon both the IRs and the benchmarking survey;
 - Section 5, in which we set out our key findings and recommendations.

2. MANAGEMENT PROCESSES AND PROCEDURES

2.1 In this section, we review the internal processes and procedures of the regulators. Comparisons are made between the regulators, and strengths and weaknesses are highlighted. Our observations on good practice are based on experience in both public and private sector organisations. The areas covered in the review are:

- corporate governance
- corporate planning
- project management
- performance management
- human resources management
- financial management
- procurement
- IT
- resource allocation
- quality assurance
- communications
- facilities management.

2.2 Project management was reviewed in some depth, and full reports of our audits of specific projects are set out in Annex J.

CORPORATE GOVERNANCE

2.3 Corporate governance concerns the way in which the regulators are organised, supervised and controlled.

2.4 Ofgem (now the Gas and Electricity Markets Authority) at the time of this study was run by a Management Board of seven including three non-executive Directors. The Authority has a Chairman, four Executive Directors, and six non-Executives. Ofel is run by an Executive Board of five. Ofwat has a Management Board of five, and ORR a Management Board of nine including three non-executive Directors. Ofel and Ofwat do not make use of non-executive Directors, but Ofwat's important Regulatory Policy Committee currently has three external advisors. The regulators, including the new Gas and Electricity Markets Authority, are creatures of statute but the Regulators

and the Authority still have considerable flexibility on the arrangements for corporate governance. The regulators are accountable to Parliament.

- 2.5 All the regulators have recently undergone or are planning a reorganisation. Ofgem has restructured its business into three policy divisions (Customers & Supply, Competition & Trading Arrangements, Regulation & Financial Affairs) plus “Operations” (the support services). Oftel underwent a reorganisation in 1998 which replaced 11 functional branches with two core activities of Policy and Compliance plus “Business Support”. At Ofwat, the Executive Policy Group has been replaced by a Management Board consisting of the Director General, the three policy directorates (Consumer Affairs, Cost & Performance, Competition & Regulatory Finance) together with the Operations Director (who is responsible for the support services but not communications/external relations). At ORR, a new structure will be in place by January 2001 which will contain five Directorates – Strategy, Planning & Communications (which will include the business support functions presently under the Resources Directorate), Economics & Finance, Infrastructure Regulation, Access, Competition & Licencing, and Legal Services.
- 2.6 Each of the regulators has structures in place to facilitate cross-office working and “joined-up thinking”. Ofgem has a Policy Development Committee which considers new and emerging policy priorities and initiatives. Oftel has an Operations Board (covering both policy and compliance), the purpose of which is to provide a strategic framework for, and to ensure the coherence, of the regulator’s operational work. It approves all new major cross-cutting projects/programmes, monitors progress on these specific projects, and considers the most significant policy issues arising from project/programmes/compliance cases. In addition, Oftel’s Regulatory Policy Directorate is steered by the Policy Group which has cross-office membership. This Group acts as the project initiation and steering committee for the majority of the policy projects/programmes within the office. Likewise, the Compliance Directorate functions through the Compliance Management Group. Ofwat has a Regulatory Policy Committee with external advisors. At ORR, policy and work programme development is determined jointly by the Executive Directors, facilitated by the Directorate of Strategy, Planning & Communications.

Comments:

Corporate governance is satisfactory at all the regulators. Organisation structures have been re-shaped to bring them into line with the needs of their businesses. Reporting lines and responsibilities appear to be clear. Non-executive Directors will bring balance and a broader perspective, and we would suggest that Ofwat and Oftel consider adding them to their Boards (Oftel is planning to look at this). The issue of coherence is fundamental, and a key concern of stakeholders, and we are

impressed by the structures Oftel has introduced to develop “joined-up thinking” and facilitate cross-office working. This may be a model for other regulators seeking best practice in this aspect of their operations. ORR has, just recently, brought its support functions under one umbrella and this is a sensible move.

CORPORATE PLANNING

- 2.7 Corporate planning concerns the processes and procedures for defining priorities for the organisation, converting these into work programmes, apportioning resources, and allocating budgets.
- 2.8 All the regulators publish an annual Business Plan – the “corporate plan” for Ofgem, “management plan” for Oftel, the “forward programme” for Ofwat, and the “operational plan” for ORR. The plans are put out for consultation around November, and then published in March. Non-confidential responses to the draft plans are now published. Ofwat conducts a stakeholder workshop as part of its process of consultation. Ofgem holds two open consultation meetings (London and Scotland) in addition to considering written responses. The plans contain descriptions of priorities and work programmes as well as deliverables and target dates, together with the budget for the year. All the regulators intend to publish their performance against the 2000/01 plan in their 2000/01 Annual Reports.
- 2.9 With the exception of Oftel, none of the regulators has gone public recently with a medium-term strategy although ORR is currently developing a three-year plan for 2001-2004. The intention is to give all parties a clearer understanding of the framework within which the management plan has been developed. As part of this strategy, Oftel has established a cycle of reviews of individual market segments to evaluate the extent of competition within them and to provide stakeholders a greater degree of certainty. This document has won praise from industry. Ofgem has an internal “blue skies thinking” document which helps inform the development of the corporate plan, but it is not published. Ofwat published a three-year plan in 1998, but now produces annual plans following the passing of the Utilities Bill 2000. Ofwat’s Divisional Plans, however, still have a three year time horizon.
- 2.10 Priorities are set by means of both internal and external consultation, but the process appears to be most structured at Ofgem. Here, for 2001/02 Directors are required to bid for resources for each of their “workstrands” (projects, processes, policy or operations). Proposals for each workstrand are submitted on standard proforma, which set out the objectives, justification, priority, performance indicators and resources required (staff units, consultancy, other costs). Justifications are based on a

“traffic light” system in which for each of four filters (legal, improved value for money for customers, consistency, and impact on Ofgem), each workstrand is categorised either green (must do, or benefits outweigh costs), amber (neutral), or red (cannot do, or costs outweigh benefits). Proposals are also assigned high, medium, or low priority. Ofwat has a similar system wherein business cases, covering the costs and benefits of each proposal, are approved by senior management before expenditure is incurred. Ofel undertakes cost benefit analysis for its market and policy reviews.

- 2.11 All the regulators have satisfactory procedures for planning, resourcing, and monitoring work programmes. ORR’s system, recently introduced, is particularly interesting. Each Directorate produces a plan which sets out its key objectives, and for each of these the “key means of delivery” (i.e. workstreams or work programmes) and “supporting means” (i.e. workstrands). The plans also quantify the staff resources and agreed consultancy costs, identify the lead accountability, and set out performance indicators (normally, deadlines for deliverables). On a quarterly basis, Directors prepare a report on progress against each of the key objectives and main issues arising (such as resource constraints). These reports, in summary form, are submitted for discussion at the Directors’ meeting. Quarterly progress reports are supplemented by weekly reviews of key issues at meetings of senior managers chaired by the Regulator.
- 2.12 At each regulator, the corporate planning process is carried out in conjunction with the budgeting round. It is perhaps most closely integrated at Ofgem where Directors have to “bid” for resources – and, to this extent, there is zero-level budgeting. At the other regulators, priorities are decided and then budgets allocated.
- 2.13 None of the regulators publish much detail on their cost structure and the cost of individual activities. None are committed to a cost reduction programme, although Ofgem is aiming for a 3.1 % reduction in its recurrent budget (taking out NETA and merger costs) for 2001/02.

Comments:

Publication of a medium term strategy (3-5 years) with indicative budgets would be welcomed by stakeholders, and should be considered by Ofgem and Ofwat (Ofwat already has 3 year Divisional plans and ORR is preparing a plan for 2001-04).

Consultation with stakeholders on plans and priorities by means of circulation of documents could be supplemented by face to face round-table discussions. This would be particularly productive if convened at an earlier stage in the process before priorities are decided internally. Ofwat’s stakeholder workshop is a good model.

Ofgem’s “bottom-up” procedure for setting priorities is good, and other regulators may consider adopting it. However, a key facet of this is value for money and this

needs to be assessed with some degree of thoroughness before significant expenditure is incurred. Across the regulators, to a greater or lesser degree, there is a tendency to rely on the *post-hoc* value for money reviews/audits of the type conducted by NAO rather than the *ex ante* type normally to be found in a business case.

Although there is consultation on business plans, in the end the regulators decide their own priorities. This is worrying to stakeholders, who would like to see more information and a more interactive form of consultation.

The corporate planning process needs to be fully integrated with the budgeting process. Ofgem has now achieved this, and the other regulators are working towards this objective. Ofgem's procedures may serve as a good model.

The regulators should consider publishing more information on their cost structure, the cost of individual workstrands, and their plans (if any) to reduce costs.

There are corporate planning functions and corporate planning guidelines at Ofgem and ORR. This has paid off in the professional procedures they now adopt. Ofwat and Ofel may wish to consider following suit.

PROJECT MANAGEMENT

2.14 Project management concerns the way in which projects are initiated, planned, resourced, controlled, managed, monitored and closed.

2.15 In order to assess the regulators' project management procedures we have conducted audits of a small sample of projects. The results are reported in Annex J. We have evaluated the procedures against 11 criteria, grading them from 1 ("weak/needs development") to 4 ("good/excellent"). The overall scores come out as follows:

Ofgem	3.4
Ofel	3.4
ORR	2.7
Ofwat	2.5

2.16 These scores should not be interpreted as implying that ORR and Ofwat are producing poor quality work, rather that Ofgem and Ofel have the more structured approach to project management. They have also been compiled on the basis of only a small sample of projects.

2.17 Ofgem's new procedures, set up in December 1999, are particularly impressive. A Project Support Office, with a staff of two, has been created. A standard manual has been published based on PRINCE 2 but specific to Ofgem. A two-day training course has been designed, and which has delivered training to some 80 Project Managers since January 2000. The project management manual and project materials such as

PIDs (project initiation documents) and quarterly reports are published on the intranet. Quarterly reports of the 20 or so big projects form part of the corporate planning process, in that they are summarised for review by the Management Committee. The business case for projects is justified using the same “traffic light” methodology as in corporate planning.

- 2.18 Oftel also has a standard project management guideline, currently being revised, and a structured approach. Like the other regulators, however, their approach is not based on a recognised project management tool such as PRINCE 2 nor is there project support or internal training (although an induction course is planned for the launch of the revised guidelines). At Ofwat and ORR, there is no standard approach to project delivery although Ofwat is beginning to use structured PIDs.

Comments:

Projects constitute the largest part of what the regulators do. Their deliverables are highly visible and the basis of the regulators’ credibility. They also absorb most of the budget. It follows, then, that project management is fundamental to both the performance and perception of the regulators.

Although the regulators do consult each other on project management, their procedures are quite dissimilar. Only Ofgem uses a standard project management methodology, and it was surprising to find that neither Ofwat nor ORR has a project management manual. This is not to say that the quality of their work is poor, but that their performance will be enhanced by introduction of a structured project management approach. Ofgem’s approach is very good, and could usefully be studied by Ofwat and ORR.

Oftel uses in-house procedures which serve their purposes, and project management training and project management support is being developed.

PERFORMANCE MANAGEMENT

- 2.19 Performance management is concerned with the way in which the organisation selects performance indicators, sets targets, and monitors its progress against these targets.
- 2.20 The regulators have, for many years, published information on their performance in the Annual Reports albeit in a rather selective fashion – focusing on the handling of customer complaints. Business plans were put out to consultation for the first time for 2000/01 (Ofwat in 1998), and there will be an analysis of performance against the objectives of these plans in the 2000/01 Annual Reports (Ofwat in 2000). The process is therefore more transparent, but it is left to the regulators what to put into these documents and (with some exceptions) what targets to set for themselves.

- 2.21 All the regulators have procedures for tracking and reporting progress against projects, as well as specific targets for dealing with consumer enquiries. At Oftel, the targets for casework and for the customer complaints unit are a feature of its Public Service Agreement. There are also performance targets for the support functions, but apart from Oftel this information is not published or indeed very accessible internally. Ofwat carries out annual performance reviews of each Division and for the Customer Service Committees as well as an annual survey of staff satisfaction with the support functions. Oftel will replace its Public Service Agreement with a SDA in 2001 which will contain performance targets for both core business and support functions, although these are largely qualitative.

Comments:

Although there is consultation on the annual business plans, it is up to the regulators what to put in them and what targets for delivery or performance to set. It is therefore difficult to determine whether the outputs represent good, bad or indifferent performance. The plans do not prioritise or cost projects, nor are they linked in a transparent way to the annual budget. One suggestion is to subject the objectives and performance targets to an independent review.

The operational plans and Annual Reports contain very little quantitative information by which to assess the efficiency with which the regulators carry out their core business. We would have liked to see more on the performance of projects (meeting deadlines, hitting budgets).

It was quite difficult to obtain from the regulators their information on activity levels and performance in their support functions. Ofgem and ORR, for example, produced none at all in their IRs even though some is published in their Annual Reports. The impression is that performance is not being treated very seriously. This information, which is said to exist, should be regularly collated and reported. It should also be published.

The regulators do not, on a systematic basis, capture the views of their stakeholders on aspects of their performance (Ofwat did commission a MORI survey in 2000 of external views of its 1999 price review). This would not be too difficult to implement (the Competition Commission does it, for example), and would provide comfort to stakeholders that their opinions count. Oftel is an exception to this in that it obtains feedback from *inter alia* casework satisfaction questionnaires.

Internal reviews of the support functions should be carried out on a formal basis, as Ofwat is doing. This should involve collection and analysis of activity level and performance data as well as customer satisfaction returns. This would complement SLAs which are in place for some functions in some regulators.

HUMAN RESOURCES MANAGEMENT

- 2.22 Human resources management is concerned with the recruitment, induction, training, remuneration, and motivation of staff.
- 2.23 The key HR issue for the regulators is recruitment and retention of staff. Staff turnover was 24 % at Ofgem in 1999/00, 34 % at Oftel, 19% at ORR (28% at Holborn HQ), and 25 % at Ofwat (higher than normal following the completion of the 1999 Price Review). At Ofgem, staff turnover has been inflated by the merger and relocation of staff from Birmingham. At Oftel, turnover is particularly high among project managers and case officers (grades 6 and 7) – it was 48 % in 1999. It is estimated that the average length of employment at Oftel is 2.2 years. No breakdown of staff turnover was provided, but it is believed to be higher further up the organisation where the individuals are presumably more marketable. There is some movement of staff between regulators, but the main exit is towards industry where the remuneration packages are significantly more attractive.
- 2.24 Some degree of staff turnover is healthy, but a reasonable target would be to keep senior staff for 5 years. The current levels of turnover increase the cost of training and recruitment (ORR incurred “hard” recruitment costs of £ 200k in 1999/00 and employs three staff solely to manage recruitment). Oftel believes that at least a year is likely to be needed for most new compliance case officers to complete basic training and achieve a reasonable level of expertise in handling a typical range of cases. The learning curve in regulatory policy is similarly steep. Oftel’s recruitment and training costs are therefore high, accounting for 5 % of total expenditure. High staff turnover also increases the dependency upon consultants, which is compounded by under-resourcing. Ofgem, for example, is about 84 % of full strength at the moment. It also means that the return on investment in staff appraisal and development, for which all the regulators have good procedures, is poor.
- 2.25 All the regulators are tackling the problem of high staff turnover, but there are differences in approach. Ofwat has graduate recruitment and graduate training schemes. Oftel is considering a specific graduate recruitment and fast-tracking scheme in conjunction with other regulators. ORR has just introduced a new pay and grading scheme which is designed to remove anomalies and reward staff for good performance. Under the new system, individual pay awards are linked to their annual appraisal. Staff receive an overall assessment between Box 1 and Box 5, and pay awards are currently 8 % for Box 1, 6 % for Box 2 and 4 % for Box 3. A Pay Group meets quarterly to decide changes to pay in three areas – job growth (one Band to another or one Level to another), market forces, and individual contribution. There is

also a provision for bonuses but no fast-track system of promotion. Other initiatives to improve the package available to recruits include flexi-time. Ofwat also uses a box-scoring system for pay awards based on external benchmarking – their “outstanding” staff are receiving 10 % in the current pay round.

- 2.26 Ofgem has a slightly different approach. “Broad banding” will be introduced so that individuals can continue to move up the pay scale without having to achieve promotion. A new performance related pay and bonus system has been introduced – the bonus being limited to 10 % of staff and 10 % of salary. At the same time, procedures have been tightened to remove under-performing employees. Ofgem also has a commitment to introducing fast-stream graduate recruitment. Of tel has a very similar approach. More radical change is still being considered by Ofgem. A project has been initiated to develop a reward strategy, which is expected to report in January 2001. DTI has commissioned consultants to advise on pay and banding for Of tel in both the short term (within existing constraints) and in the context of a future OFCOM or similar body.
- 2.27 Of tel is successfully recruiting young lawyers on secondment from private sector law firms at discounted rates. This gives the lawyers valuable experience, and enables Of tel to fill resource gaps and obtain talented individuals at relatively low cost. They are, however, working as generalists rather than lawyers and the secondments last only one year. Such an approach might be worth considering for other disciplines such as economics (using the consultancies) and finance (using the accountancy practices) provided conflict of interest issues can be resolved. Ofgem has also recruited staff at various levels via secondment, including legal counsel.
- 2.28 Each of the regulators has a training function. Both Of tel (re-accredited in November 2000) and Ofwat have Investors in People, and Ofgem and ORR are hoping to obtain accreditation in 2001 (ORR is to be re-assessed in March 2001). All the regulators carry out annual staff appraisals (twice-yearly at Ofgem with provision for mid-year reviews at Of tel and ORR), and this provides the information from which the training plan is drawn up. Ofwat has a rigorous approach to this process. The Directors and managers take the appraisal system seriously, which seems to have general buy-in from the staff. Training is provided for both appraisees and appraisors. ORR has a similar approach. A competency framework has been introduced to evaluate training and development needs. Line managers are responsible for producing personal development plans for staff which are then consolidated by Directors. This enables the organisation to relate training more closely to ORR’s business needs and provides a framework for monitoring the effectiveness of training programmes. The training plan covers 18 topics, most of which can be delivered in-house.

- 2.29 In some HR activities, the regulators are fairly similar. Annual staff satisfaction surveys are carried out at all (eg Ofgem's 1999 survey by Towers Perrin), except ORR which is planning to start these in 2001 (and a major staff survey was carried out in 1999). Job descriptions or role profiles are given to all staff. Staff exit interviews are carried out at all regulators. There are mechanisms for staff consultation. Turnover and staff absenteeism figures are collected and reported to the Board (only turnover in the case of ORR). On some aspects, however, there are significant differences. Only Ofwat has a fully competencies-based HR database, Ofel has something rather less sophisticated, and Ofgem is planning to introduce such a system in 2001. Ofel and Ofwat have forward resource plans, but Ofgem and ORR will not have these in place until 2001.
- 2.30 Only ORR has a SLA for the HR function, although Ofgem is planning to introduce one by April 2001. Ofwat collects activity-level data and sets performance targets, but Ofel has no information of this type.

Comments:

Regulation is a knowledge-intensive business which requires high calibre and dedicated staff to produce top quality work which has credibility in the industry. They recognise that they will never be in a position to pay "top dollar" so staff turnover will always be relatively high in a buoyant marketplace. However, steps are being taken to improve the package available to staff, including pay, training and working practices. These, in our view, do not go far enough. There is a limit to how far other aspects of the package can compensate for significant salary differentials.

Although there is natural movement of staff between the regulators, we think the regulators could also cooperate through job exchange in order to retain experienced individuals within the system (although Ofwat's location perhaps limits the benefits it might obtain from such a scheme).

Although the regulators do share HR experience they have taken different approaches to remuneration. ORR's new package is interesting, and merits study by the other regulators. It will be interesting to see what Ofgem's reward strategy recommends.

Graduate recruitment and secondment schemes are good ways of obtaining talented individuals at relatively low cost. Ofel and Ofwat's initiatives in this area merit consideration by the others.

The regulators all have, to varying degrees, moved away from the hierarchical structures and multiple staff grades common to government bodies. This trend should continue. Their structures should be more rectangular in shape with fewer grades and overall a higher calibre of staff. In a situation where the performance and outward credibility of the regulators is determined by quite a small number of senior managers and professionals it would seem to make sense to pay them

competitive salaries. This could be funded or part-funded by reducing numbers in the lower grades. Ultimately, the regulators could migrate towards a shape more akin to a private sector consultancy (which they resemble in many respects) than a government agency.

Assessment of the effectiveness and efficiency of the HR functions needs to be more structured. Only ORR has a SLA. They should all be producing business plans, conducting stakeholder surveys, and monitoring performance against targets. This information should be made public.

FINANCIAL MANAGEMENT

- 2.31 Financial management is concerned with the preparation of statutory and management accounts, control of expenditure, payment of invoices, collection of revenue, setting of budgets, and monitoring of performance against budgets.
- 2.32 All the regulators produce statutory accounts as well as management accounts on a monthly basis. There are budget reviews every quarter and detailed reviews at six months. Each of the regulators has an Audit Committee. Ofgem was the first government department to have its Resource Accounts for 1999/00 certified by NAO, and its colour-coded management accounts provide very solid, detailed and well presented information. This is a good model for the other regulators.
- 2.33 Although the activities of the finance function are common across the board and the regulators do share experience, there are some important differences in approach. Ofgem comes closest to zero-level budgeting in that policy activities undergo a formal assessment process before they are approved and added to the budget. The other regulators build their budgets bottom-up but without the justifications required by Ofgem. Ofgem is intending to introduce activity based costing in 2001, Ofwat has a version of activity based costing in that overheads are apportioned on a simple staff numbers basis to policy teams, but it is not being considered at either ORR or Oftel.
- 2.34 The regulators collect activity-level statistics and set performance targets for their finance functions, but only ORR has a SLA. Ofgem is planning to introduce a SLA before the end of the 2001/01 financial year. Oftel, in contrast, appears to limit performance measurement to the government-wide target on payment of invoices. With the exception of Ofwat, none of the regulators routinely carries out stakeholder surveys to obtain customer feedback on their efficiency.
- 2.35 At Ofgem, the budgeting process is now fully integrated with corporate planning and this is planned at ORR and Oftel. Ofwat already takes an integrated approach and is the only regulator to produce three-year budgets. It also publishes a financial

management strategy and a Business Plan for finance and services (covering finance, procurement, and estate). None of the regulators publishes very much detail on its costs in their Annual Reports.

- 2.36 None of the regulators, in our view, are getting close enough to measuring the true cost of their projects. Ofgem allocates direct costs (staff costs, agency costs, consultancy costs, travel and subsistence) to projects but not overheads. These direct costs are reported to management and budget holders monthly. However, when allocating staff costs they assign them on the basis of the budgeted rather than actual time. Thus, if staff are switched off or onto projects this information is not captured by the system. ORR used to collect staff costs centrally, but is now allocating them along with consultancy costs to budget managers. The costs of overheads are not apportioned to policy activities, except at Ofwat and only on a relatively crude basis. The costs of staff borrowed from other departments or senior management time are also collected elsewhere.
- 2.37 Another observation is that there is little incentive for the regulators to beat their budgets, in fact quite the opposite since cost overruns (e.g. NETA) can be recovered from licence holders. In addition, the regulators are not setting themselves financial targets – for example, the proportion of expenditure in support functions, the proportion of spending directly related to projects. Oftel has a target to reduce the unit cost of customer representation of 3 % and achieved 7 % in 1999/00. However, only Ofgem has signalled an intention to reduce its budget (excluding NETA and the merger) for 2001/02. Ofwat did undershoot its budget in 1999/00 by £0.5 million largely from efficiency savings in support costs.

Comments:

In the interests of transparency, the regulators should publish more information in their Business Plans and Annual Reports on the cost of their support functions and policy activities. They should also be setting themselves financial targets.

The regulators would benefit from obtaining a more accurate indication of the cost of their policy activities. Activity based costing (a simplified version of which is operated by Ofwat) is one possible solution, and Ofgem is working towards this. We do not see great benefits arising from apportioning overheads to projects on the basis of inter-departmental charging, but we think that the regulators should be assigning staff costs on the basis of actual rather than budgeted or estimated time. This will become more of an issue as staff flexibility increases, as all the regulators believe it should to respond more effectively to rapidly changing market conditions. Such an approach suggests timesheeting of staff which is already in place at Ofwat.

Budget holders, either project managers or departmental heads, are expected to manage their budget diligently. Their performance in this regard will be picked up

in their staff appraisal. However, there is no incentive to release staff onto other work when they are underutilised, as there would be in a professional services practice. In the absence of timesheeting, switching staff out of a projected activity will not impact upon the budget. We would like to see budget holders provided with such information and assessed not only by the quality of their work (as measured by peer review, stakeholder reaction, and impact) but also by their efficiency (as measured by cost). This may in turn focus more attention in the planning process on what is realistic. Again, this would require a better way to monitor the costs of projects as well as timesheeting of staff.

PROCUREMENT

- 2.38 Procurement concerns the purchasing of equipment, supplies and services. It is an important function for the regulators, particularly for those with a big spend on consultants (Ofgem and ORR).
- 2.39 All the regulators have a procurement manual, with the usual procedures governing authorities and restrictions on single tender actions, contract extensions, and long term contracts. Although there is a forum for sharing best practice in procurement across government to which the regulators have access, there are differences in approach.
- 2.40 At Ofgem, routine purchasing has recently been devolved to the Directorates so that the Central Purchasing Section can focus on the more difficult and costly procurements. For routine purchases, there are call-off contracts negotiated by central purchasing and staff place orders directly by computer. At ORR, procurement is completely decentralised to IT, Facilities, and the Directorates with the Finance Department responsible only for compliance with procedures and payment of suppliers' invoices. Ofwat and Ofgem are now using the Government Procurement Card for low value items such as rail tickets and stationery, and this is currently undergoing a trial at Oftel. Outsourced services contracts undergo periodic value for money reviews. Framework Contracts are used to obtain better value for money.
- 2.41 Procurement of consultancy services is a particularly important issue. Ofgem is attempting to control the spend firstly by controlling the need and secondly by changing its procurement procedures. The new purchasing guidelines are clear that Ofgem should use in-house resources where it is practicable to do so, and that any proposal to use consultants must be supported by a valid business case. Procurement of consultants for work exceeding £ 10k cannot commence without financial authority from a DDG or (in the case of a single tender) by the Management Committee. In order to encourage more thoughtful use of consultants, no contracts can be extended beyond 18 months without full review and all contracts are subject to post-assignment

evaluation. Expenditure on consultants is now routinely reported to the Management Committee in the management accounts. ORR has a similar set of procedures.

- 2.42 Ofgem has also set itself a target of 95 % by value of consultancy contracts to be competitively tendered, against a recent performance of about 50 %. New procedures have been introduced to facilitate this. Specifically, single tenders and contract extensions have to be approved by the Management Committee. Interestingly, 96% by value of the consultancy contracts operating in Ofwat in 1999/00 were procured by competitive tender.
- 2.43 Interestingly, only Ofwat carried out formal value for money post-implementation reviews of consultancy projects although this will become part of the procedure for closing projects at Ofgem.

Comments:

The key issue is procurement of consultants. Although there is limited choice of consultants in some areas, the selection process should be competitive as much as possible. Innovative ways of reducing cost such as volume discounts on framework contracts and employing consultants on secondment should be considered (e.g. lawyers at Ofel, ORR had two economists on secondment for twelve months for the periodic review). Value for money reviews of consultancy projects, post-implementation, should be routine.

The regulators are too small to obtain much in the way of volume discounts for consumables, so they should all be part of a wider government scheme such as the Government Procurement Card. Likewise, there may be an opportunity to work together to procure non-specialist consultancy. We see a growing use of S-CAT (a catalogue based procurement facility established by CCTA which provides a simplified means of procuring IT and management consultancy and specialist services from a variety of service providers) by various government bodies, and a similar arrangement encompassing all the regulators should ensure efficiency savings.

IT

- 2.44 IT concerns the design, procurement, installation, maintenance and development of both IS and communications hardware and software. It also covers IT training. IT is of increasing importance to the regulators because of the growth in monitoring requirements and the application of complex financial models.
- 2.45 Each of the regulators has an IT function, managed by IT professionals. Knowledge and experience is shared between the regulators. All staff who need to have access to computers, and IT training is available. Software is standardised. All staff have their

own e-mail address – in the case of ORR, just recently (November 2000). Oftel, Ofwat and ORR have access to the Government Secure Intranet whereas Ofgem will have this by 2001.

- 2.46 There are differences between the regulators in the way in which the IT function is managed. None of the regulators has a SLA for IT, but they should be in place at Ofgem and ORR by 2001. Although all the regulators collect information on activity levels (e.g. calls to the help desk), only Oftel and Ofwat have put in place performance targets. Ofgem and ORR are planning to introduce performance targets in 2001 along with their SLAs. Stakeholder surveys are carried out routinely at Oftel and Ofwat (at Ofwat, there are quarterly customer feedback surveys), but not at Ofgem or ORR (who are planning to introduce them).
- 2.47 Ofwat has produced an IT strategy (published 2000) covering the period 2001-2004, which has been put out to consultation. Oftel also has an IT strategy which sets out IS objectives and a detailed framework for delivery. Ofgem has recently agreed an IT/IS strategy for the next two years. Ofwat has an IT plan, updated annually.
- 2.48 Ofgem intends to reduce resources in the IT function once the relocation to Millbank is complete and the systems have bedded down. ORR should also be able to introduce savings now that the “big wins” of the intranet, GSI, and its document management system have just about been made.

Comments:

Information systems are critical to the regulators, especially in view of the way in which regulation is moving towards regular performance monitoring. For this reason, IT is not the first place to look for cost savings. The regulators are reasonably well equipped, but their systems will require continual development and investment. The efficiency of the IT function, however, needs to be assessed on a regular basis and we would suggest setting up SLAs. This will require setting up performance targets and a process for capturing customer feedback. Ofgem and ORR are already planning to do this.

RESOURCE ALLOCATION

- 2.49 Resource allocation concerns the deployment of staff in order to maximise their productivity and to meet changing priorities.
- 2.50 The regulators all determine their resource plans through the budgeting process and the production of business plans. As the year proceeds, and priorities shift, resources are switched as required. All the regulators have moved away from silo structures, and staff are expected to work across departments and move around with the work.

There have been, in addition, organisational restructuring to re-balance workloads across departments – ORR being a current example of this.

- 2.51 None of the regulators, with the exception of Ofgem, has a formal system of resource allocation. This system, just introduced, requires Project Managers to forecast the commitments of each member of staff to each project or process for (at present) two months ahead. The information is assembled for each Directorate, reviewed and adjusted if necessary by Directors, and then passed to the Resource Management Group for action. The Project Support Office manages the system. The system depends essentially on individuals taking an objective and honest position on the availability or otherwise of staff. Arguably, in the absence of a profit driver, Project Managers have a vested interest in retaining (to ease the workload) rather than releasing (to reduce pressure on the budget) staff who will be tempted to exaggerate their commitment to projects. Staff commitment returns could possibly be challenged with cross-reference to PIDs in which resourcing is forecast, but it is too early to assess the effectiveness of this system.
- 2.52 None of the regulators, with the exception of Ofwat, use timesheets for work recording, and views on the introduction of such a system are generally hostile. Ofwat uses the time records as the basis for detailed activity analysis. One of the objections to timesheeting is that timesheets are historical, but actually they can and do incorporate forecasts of commitments (up to 4 weeks normally). Another objection is that timesheets will simply pick up what is already known from the budget, but they can have a wider application. At the moment, the regulators consider the cost of an activity to be the budget for the group responsible for it, but there are other costs such as the time of staff located outside the activity who contribute towards it (e.g. senior management, support services, and other departments or workstreams) which can be captured by timesheets.

Comments:

The regulators allocate resources on a day to day basis by internal consultation. Ofgem has introduced a reporting system in an attempt to be more systematic. It will be interesting to see if it is effective. It is clear though that staff will not be allowed to remain in their silos if they are underutilised, and that they can expect to be switched around where their skills and experience allow. That said, there is little incentive for managers to be more efficient in their use of staff resources and without this there is no point in measuring productivity. It is also the case that where resources are switched or borrowed at short notice their costs remain with their home department. This means that there is no measure of the true cost of projects. A system of activity based costing (being introduced by Ofgem for 2001/02, but not by the others) and timesheets, as introduced by Ofwat, would therefore be helpful.

QUALITY ASSURANCE

- 2.53 Quality assurance concerns the procedures for managing the production of deliverables before issue to consumers. It should cover work allocation, work programme, review of deliverables, recording and tracking of data, and control of documents and correspondence. QA systems may be accredited to ISO 9001.
- 2.54 All the regulators have rigorous procedures for review, both technical and legal, of their publications since these determine their credibility in the marketplace. Quality control is carried out mostly by means of peer review, but there is a quality function in both Ofwat (in IS Development) and Oftel (in the Compliance Management Group). There is in addition some external control of deliverables, such as auditing of Ofwat's financial models by Deloitte & Touche. With the exception of Oftel, however, none of the regulators has a formal quality policy or a quality manual. None of the regulators have an accredited QA system.
- 2.55 All the regulators are working on standardisation of procedures and report formats. Ofgem, for example, has agreed a house style and produced "best practice" guides for document writing and consultation. Similarly, Ofwat produced a style guide in 1998 although it only appears to cover only externally circulated documents and correspondence. ORR has a house style, and its "blue documents" for example are produced to a common standard. However, there appears to be no sharing of best practice between the regulators on this or other QA issues.

Comments:

It is clear that the regulators take quality very seriously, and for that reason documents released to the public domain undergo a thorough review process. There are elements of quality assurance in their processes, particularly at Oftel, but these are in-house procedures which have not been subjected to independent assessment. The regulators might consider going for ISO9001, particularly now that the new standard (ISO9001:2000) addresses customer satisfaction as well as quality assurance of products. At the very least, the regulators should have a quality policy and manual setting out procedures for checking calculations and software, document control, data storage and retrieval, and review of deliverables (Ofgem, Ofwat, and ORR). It will give greater clarity to the purpose and maintenance of the audit trail and thereby reduce the risk for maladministration of big projects. This will be particularly important where a large proportion of the work is being carried out by third parties.

We would also suggest that the regulators appoint quality managers to implement procedures and ensure compliance with them (Ofgem and ORR). To ensure commitment to quality, this function should report directly to a Board director.

Discussion between the regulators on quality matters should also be encouraged.

COMMUNICATIONS

- 2.56 Communications covers PR and library/information functions. It covers both internal communications to staff and external communications to media and stakeholders.
- 2.57 All of the regulators have web-sites of varying quality. The weakest, in our judgement, is that of Ofwat. It was developed in 1996 and has changed little since. Each of the regulators recognise that web-site development is important. Ofgem has already launched a new website and is putting in place a programme to develop this and extend the services it offers over the course of 2001. Oftel has engaged consultants to upgrade its web-site. Ofwat has established a Web Development Group and will shortly be tendering to outsource the design of a new web-site. All the regulators use their web-sites to distribute publicly available documents, and this has reduced the number of enquiries as well as publication costs. All documents can be accessed via the web-sites, except at Ofwat (where specialised manuals can only be purchased). A clear strategy needs to be developed where publications are charged, in terms of pricing and collection of money.
- 2.58 All of the regulators, with the exception of ORR, has an intranet. ORR was a late developer in this respect, since its intranet will be launched early in 2001. The intranets are used for dissemination of best practice, document management, in-house briefing and training, and storage of house style templates, and this is the intention at ORR. In a context where there is high staff turnover and a large percentage of work carried out by third parties, the intranet will be an essential tool in developing and maintaining the “corporate memory”. With this objective in mind, Ofgem has recently commissioned consultants to develop its intranet, which will be re-launched in January 2001.
- 2.59 Given the amount of information being collected and processed by the regulators, the need for storage and retrieval of data and documents, and the requirement for standardisation in processes and dissemination of best practice, it is important for the regulators to have a clear and coherent knowledge management strategy. Ofgem has such a strategy (and is a key management priority for 2001/02), and one is planned by Oftel for 2001. Ofwat and ORR, at the moment, do not have formal knowledge management strategies. In the case of ORR, however, the development of the intranet and the MAPS system for capturing knowledge is a start in this direction.

- 2.60 There is a Regulatory PR group which has representatives from the utility regulators plus Ofreg and Postcomm. No similar group exists for librarian and information managers, although there is some contact with other government librarians. There is no forum for the discussion of best practice in knowledge management, although Ofgem has plans to initiate one.
- 2.61 Internal communications are facilitated by in-house magazines, with the exception of ORR where there are plans to revive the staff newsletter. There are also seminars as well as staff “listening” sessions (eg Ofwat’s six-monthly office meetings and weekly Team Leader meetings). Ofgem is planning to improve its HR database to improve awareness of the skills and experience available across the organisation. Intranets will be used more to update staff and to ensure the correct templates, guidelines and procedures are being used.
- 2.62 Communicating with stakeholders is another key task, and this requires the maintenance of an accurate and comprehensive contacts database. In using the regulators’ contact lists for the stakeholder survey we encountered some problems, particularly for Ofgem and Oftel. This is never going to be perfect because the stakeholders themselves sometimes fail to advise the regulators of changes in circumstances. However, Ofgem is planning to tackle this by entering the contacts database onto its intranet and enabling staff to update records as required, by contacting stakeholders inviting them to revise their details if necessary, and by posting points of contact on the web-site to this information is transparent. This approach may serve as good model for the other regulators. Ofgem has also established a code of practice for consultation.
- 2.63 Monitoring the efficiency of the library and PR functions is carried by means of media feedback. At Ofwat, for example, the External Relations department undertakes a monthly media evaluation. It is less systematic at other regulators. There are also internal customer satisfaction surveys, with the exception of ORR where they are planning to conduct such surveys in the future. Statistics are collected on levels of activity in the library and PR functions. Performance targets are in place at Oftel and Ofwat, and they are planned at Ofgem and ORR for 2001. There are, however, no SLAs at any of the regulators.

Comments:

The further development of web-sites and intranets are very important for the regulators, and there should be an exchange of information and experience to identify good practice.

Maintenance of an up to date, comprehensive, and accurate database of contacts is

another critical function. Ofgem's approach to this problem may be interesting for the other regulators.

It is important that the regulators maintain an efficient information service, and feedback from media and other consumers should be routinely collected and acted upon. Ofwat's approach to this issue appears to be the most systematic.

The regulators collect information on the activity levels of their libraries and PR departments, but some had difficulty in retrieving the information for us. There are said to be performance targets, but it was not easy to establish what they are except those which are published in the Annual Reports. The impression is that performance of the function is not a management priority. The introduction of SLAs, which none of the regulators presently have, may help in this regard.

FACILITIES MANAGEMENT

- 2.64 Facilities management concerns the maintenance of property and other fixed assets, work space planning and relocation, health & safety, and working environment. The function usually has responsibility for FM contracts with external suppliers. It may also manage reception and post, as well as the payment of rents, service charges and utilities, and sometimes procurement of equipment.
- 2.65 All the regulators have facilities/estates functions. Some FM services, such as cleaning, are outsourced. This also applies to some business services, such as reprographics (in peak times) in the case of Ofwat. Other services, such as print production in the case of Ofgem and advertisement placing in the case of ORR, have remained or returned in-house for cost reasons. Both ORR and Ofel have single offices, so their estate costs are relatively low. Ofwat, on the other hand, looks after its head office plus 8 for the Customer Service Committees. At the time of this study, Ofgem had four offices in London, together with Leicester, Glasgow and the regional offices – but with the move to Millbank in November 2000 and the closure of NETA there is one London office while the regional offices have now been transferred to Energywatch. There should therefore be some economies in FM costs from 2001. Likewise, since ORR is losing 25 % of its staff to the SRA one might expect to see some savings in FM costs if not, in the short term, accommodation.
- 2.66 ORR is the only regulator which has a SLA in place for its FM function (published April 2000). In accordance with this, it collects information on activity levels and sets performance targets. It does not routinely collect end-user views on its activities, but obtains feedback on an ad hoc basis. Ofgem is planning to introduce a SLA as well as stakeholder surveys. Its FM function already collects activity level data. Ofel and Ofwat do not have performance targets for their FM functions or collect activity level

data, although Ofwat does pick up customer comment on a quarterly basis and from its Annual Finance & Service Questionnaire.

Comments:

FM is a relatively small cost for the regulators, and is not a priority for efficiency savings. However, there should be cost reductions at Ofgem and to a lesser extent ORR from 2001 onwards. FM should have performance targets, and it is sensible to crystallise these in a simple SLA. ORR has already done this, and Ofgem is planning to do this in 2001. These can serve as models for Ofwat and Oftel.

GENERAL OBSERVATIONS

- 2.67 Our general impression is that the regulators are professionally run organisations. There is comprehensive set of working practices and procedures in place. It is clear that the regulators are concerned about efficiency and are committed to continual improvement in performance. We encountered many instances where systems and procedures have been, are being, or will be revised to make them more effective in serving business needs or more efficient. To this extent, the regulators are moving in the right direction. There are examples of good practice at each of the regulators, and the most notable are set out in Table 2.1. Given this, and the differences in approach to common problems, we would expect the regulators to review the existing arrangements for inter-regulator co-operation to ensure the cross-fertilisation takes place more effectively. We would also like to see the regulators working together to explore how best to pass on examples of good practice to other regulators.
- 2.68 There are other areas, however, where we feel that the regulator should consider making changes to their procedures. The most significant of these may be summarised as follows:
- Oftel and Ofwat to add non-executive Directors to their Boards
 - Ofgem and Ofwat to publish a medium-term regulatory plan (at least three years), all regulators to produce forward-looking expenditure plans
 - All the regulators to publish more information on the business case (including value for money) for each of their priority workstreams, the costs of these activities, and their performance indicators
 - Post-implementation value for money reviews to take place for major consultancy projects at Ofgem, Oftel, and ORR
 - Structured project management procedures to be implemented at Ofwat and ORR
 - Performance indicators for policy activities and support functions to be published on a systematic and non-selective basis

Table 2.1: Examples of Good Practice at the Regulators

	Feature
Ofgem	Procedures for setting priorities for the corporate plan Integration of the budgeting round with the corporate planning process Project management manual, training, and procedures Format, presentation and content of the monthly management accounts “zero-level” type budgeting Use of intranet and web-site to maintain contacts database
Oftel	Structures to develop “joined-up thinking” and facilitate cross-working Medium-term vision of the regulatory agenda Quality manual and policy Cost reduction target for customer representation Seconded arrangements with private sector law firms IiP accreditation and training & development programme Casework satisfaction questionnaire
Ofwat	Stakeholder workshop on business plan Integration of the budgeting round with the corporate planning process Annual performance reviews of support functions Graduate recruitment and training schemes Three year budget and divisional plans IiP accreditation and training needs analysis Post-implementation value for money reviews of consultancy projects Monthly media evaluation
ORR	2001-2004 Operational Plan in preparation Procedures planning and monitoring work programmes and activities New pay scheme Training needs analysis SLAs for finance, HR and estates

- Stakeholder views on the performance and efficiency of the regulators to be collected annually, and the results to be published in the Annual Reports
- Annual performance reviews of the support functions to be carried out at Ofgem, Oftel and ORR. Activity-level and performance data to be routinely collected, collated, and published
- All regulators to consider introducing simple SLAs for their support functions where these are not already in place
- All regulators to consider moving towards a more rectangular structure with a high proportion of high grade staff and a lower proportion of lower grade staff. Remuneration of senior staff to be determined by market rate and personal performance

- All regulators to have financial targets covering *inter alia* the cost of support functions/total operating cost and the cost of routine policy activities
- All regulators to introduce activity based costing or similar to obtain a better picture of the cost of their activities. We would also like to see timesheeting of staff and incentivisation of project/programme managers to beat their budgets
- All regulators to reduce procurement overheads and obtain volume discounts by using government-wide purchasing schemes as much as possible, and also to share experience and best practice
- Ofgem, Ofwat and ORR to introduce quality policies and quality manuals, and to give a senior manager or Director responsibility for quality assurance. Accreditation might be considered later
- Ofwat and ORR to further develop their knowledge management strategies. Ofgem and Oftel could serve as models for this.

3. STAKEHOLDER VIEWS

- 3.1 Invitations were sent to 299 stakeholders of the utility regulators to participate in an opinion survey. The stakeholders included regulated industries, customer and environmental lobby groups, and representatives of the financial institutions. In addition, about 100 invitations were sent to stakeholders of Ofreg and CAA with the intention of using these as comparators. However, since these invitations generated only three responses this idea was dropped.
- 3.2 A total of 83 responses were received relating to the utility regulators, about half of which referred to Ofgem. Some 59 of the responses came from regulated companies. An analysis of responses is presented for the regulators as a whole and specifically for Ofgem and Ofwat where the returns merited deeper evaluation. Follow-up interviews were held with key industry stakeholders of the regulators, and the main findings are also set out in this section. A copy of the questionnaire is attached as Annex F. A list of the industry stakeholders we consulted is provided in Annex G.

SURVEY RESPONSES

- 3.3 Table 3.1 sets out the average scores to each of the 29 questions put to stakeholders as well as an average score across all questions. Table 3.2 puts the responses for each regulator into rank order. Table 3.3 summarises the data into strengths and weaknesses as perceived by stakeholders. It is important to recognise that stakeholder responses may not be entirely objective and that the response rate may be higher for stakeholders with adverse opinions. However, our conversations with key stakeholders suggested that their comments are intended to be constructive and to this extent we have some confidence that the responses to the questionnaire are honest and unbiased. They also appear to be consistent with some of the results from the analysis of IRs.
- 3.4 It is essential to note that any comparisons between the regulators using the figures in Tables 3.1 and 3.2 will be skewed by the small sample size for ORR's (7) and Oftel's (8) stakeholders. Only a minority of responses for ORR were from regulated companies. As such companies are likely to be harsher to the regulator in certain areas, this may have the effect of giving the ORR figures an upward bias. The reverse may be true of Oftel, for which all responses were from regulated companies. Overall, less weight should be placed on the ORR and Oftel figures.

3.5 Among the notable features of the stakeholder survey are that:

- value for money is thought to be reasonable, except for Ofgem and to a lesser extent Ofwat. Views of the regulators' overall efficiency, quality and fulfilment of duties was also somewhat disappointing, with the exception of ORR;
- the amount of consultation with industry is considered to be about right but the effectiveness of consultation is seen as poor;
- the volume of data requested from industry is considered too high, less so in the case of ORR. All the regulators handle confidential information well;
- the volume of publications produced by the regulators is thought to be about right except for Ofgem where it is too high. With the exception of Ofgem, the regulators' annual reports and forward plans are seen to be good quality;
- the use of consultants is seen as about right except at Ofgem and ORR where it is thought to be too high, whilst their expertise is generally considered to be average;
- value for money is thought to be reasonable, except for Ofgem;
- ease of access to the regulators is considered satisfactory, but the transparency, thoroughness and consistency of decision-making is below average except at ORR;
- determination of priorities is regarded as a weakness, except at Ofwat;
- the quality of, and turnaround time for, enquiries is considered average;
- The regulators' press offices are all considered to be effective. Ofwat's and ORR's libraries are seen to provide a good service, while Oftel's and Ofgem's libraries are thought to be below average;
- All the regulators, with the exception of Ofwat, are thought to provide good internet services;
- Staff expertise is considered to be below average except at ORR and (for economics) at Oftel;
- All the regulators are seen to be too slow in their decision making, especially Oftel.

3.6 A summary of views on each of the 13 themes explored in the questionnaire is set out in Annex I. As would be expected, the regulated companies that responded to the survey were on the whole harsher towards the regulators than the non-company respondents (e.g. consumer groups). Broadly speaking, company respondents were harsher in regard to regulatory activities, whereas non-company respondents were

tougher on the regulator's support functions. There were, however, some interesting exceptions:

- in terms of the level of consultation, companies often complained that it was too high resulting in a heavy regulatory burden. On the other hand, non-company respondents complain that the level is too low as they feel they do not have a strong enough say in regulatory policy;
- in terms of the speed of decision making, companies generally complained that prolonged decisions increase their regulatory uncertainty. Conversely, non-company respondents sometimes complained that decisions were made too quickly and consequently the consultation process suffers.

3.7 A detailed analysis of responses to each question for Ofgem is also set out in Annex I. It is important to recognise that the survey was carried out before Ofgem went out to consultation on its 2001/02 budget which shows expenditure falling substantially. The main features are:

- stakeholders consider the amount of data requests and number of publications to be too high and complain of a lack of transparency in the use of the data;
- Ofgem is thought to be too dependent upon consultants, but on the other hand Ofgem is lacking in expertise particularly in the electricity sector;
- The quality of outputs could be improved if the volume of work was reduced and if there was greater focus in the work programme;
- It is perceived that insufficient weight is given to stakeholder views obtained through consultation unless they conform with Ofgem policy;
- The introduction of a publicly available Operational Plan is seen as an improvement, but stakeholders want to see performance against the plan published in the future;
- The Press Office is considered to be efficient and effective;
- Overall, efficiency and quality of service is viewed as less than satisfactory . There are serious concerns about the expertise of staff and the increasing as opposed to decreasing burden of regulation;
- Value for money was considered to be poor by 78 % of respondents, a response probably not unrelated to the recent very significant rise in licence fees (mainly for one-off projects such as NETA and the merger);
- There is real concern that no benefits appear to be feeding through from the merger of Offer and Ofgas;

- Ofgem is considered to have made good use of online resources for providing external information.

3.8 An analysis of responses for Ofwat indicate that:

- Ofwat's annual reports and forward plans are viewed favourably, providing a timely and comprehensive disruption of future plans. Of the two, there is seen to be more scope for improving forward plans;
- Ofwat is considered to identify key issues and prioritise it's work well;
- Stakeholders consider the amount of data requests to be too high, with a lack of transparency in the use of data;
- Ofwat's internal expertise is considered to be below average, although it is thought to use consultants well;
- While Ofwat is thought to use consultation appropriately, as with Ofgem, it is perceived that insufficient weight is given to stakeholder views during the consultation process and that the regulator lacks thoroughness in it's decision-making process;
- Overall, efficiency is viewed as satisfactory;
- Value for money is considered to be poor.

Table 3.1: Average Scores to Stakeholder Questionnaire

Question	Ofgem	Ofwat	Oftel	ORR
1. Reply to enquiry speed	2.75	2.67	3.00	2.86
2. Reply to enquiry quality	2.84	2.76	3.00	3.29
3. Library	2.75	3.47	2.63	3.67
4. Press Office	3.59	3.16	3.13	3.43
5. Press notices	2.95	3.15	3.25	3.57
6. Annual reports and forward plans	2.95	3.65	3.50	3.43
7. Volume of other publications (1 = too little, 3 = about right, 5 = too much)	4.14	3.40	3.13	3.14
8. Quality of other publications	2.93	3.37	3.38	3.29
9. Internet services	3.84	2.72	3.63	3.83
10. Use of consultancies (1 = too little, 3 = about right, 5 = too much)	4.29	3.16	2.38	3.83
11. Expertise of consultants	3.00	3.00	2.75	3.00
12. General expertise	2.48	2.75	2.50	3.43
13. Technical expertise	2.65	2.95	2.88	3.14
14. Economic expertise	2.65	2.55	3.75	3.43
15. Data requests (1 = too little, 3 = about right, 5 = too much)	4.10	4.00	3.50	3.00
16. Transparency	2.26	2.40	3.00	3.67
17. Confidential information	4.08	3.60	3.63	4.33
18. Consultation (1 = too little, 3 = about right, 5 = too much)	2.90	2.71	2.88	2.86
19. Consultation effectiveness	2.12	2.05	2.38	2.83
20. Ease of access	3.16	3.33	3.13	3.43
21. Speed of decision-making (1= too slow, 3= about right, 5=too fast)	2.73	2.71	1.75	2.86
22. Thoroughness	2.67	2.67	2.63	3.71
23. Consistency	2.84	2.81	2.63	3.29
24. Key issues	2.98	3.38	2.88	4.00
25. Priorities	2.46	3.16	2.75	2.86
26. Fulfilment of duties	2.84	3.05	2.88	3.29
27. Overall impression of efficiency	2.32	2.90	2.75	3.14
28. Overall impression of quality	2.45	2.95	2.75	3.43
29. Value for money	1.66	2.60	2.88	3.00
Average Score	2.80	2.96	3.18	3.39

Note: average score (1-5) excludes questions 7, 10, 15, 18 and 21 where optimum score is 3 rather than 5. For all other questions, 1 = very poor and 5 = very good.

Table 3.2: Rank Order of Responses to Stakeholder Questionnaire

Question	Ofgem	Ofwat	Oftel	ORR
1. Reply to enquiry speed	16	24	12	27
2. Reply to enquiry quality	12	21	12	19
3. Library	16	7	24	9
4. Press Office	5	11	10	12
5. Press notices	9	13	9	11
6. Annual reports and forward plans	10	5	7	12
7. Volume of other publications (1 = too little, 3 = about right, 5 = too much)	18	4	1	2
8. Quality of other publications	11	9	8	19
9. Internet services	4	23	5	7
10. Use of consultancies (1 = too little, 3 = about right, 5 = too much)	25	1	4	18
11. Expertise of consultants	7	15	19	25
12. General expertise	22	22	27	12
13. Technical expertise	20	18	15	23
14. Economic expertise	21	27	19	12
15. Data requests (1 = too little, 3 = about right, 5 = too much)	15	15	3	1
16. Transparency	27	28	12	9
17. Confidential information	3	6	5	5
18. Consultation (1 = too little, 3 = about right, 5 = too much)	1	2	1	2
19. Consultation effectiveness	28	29	29	29
20. Ease of access	6	10	10	12
21. Speed of decision-making (1= too slow, 3= about right, 5=too fast)	2	2	27	2
22. Thoroughness	19	24	24	8
23. Consistency	12	20	24	19
24. Key issues	8	8	15	6
25. Priorities	23	11	19	27
26. Fulfilment of duties	14	14	15	19
27. Overall impression of efficiency	26	19	19	23
28. Overall impression of quality	24	17	19	12
29. Value for money	29	26	15	25

Note: for the functions where 1= too little and 5= too much, a rank is given by its closeness to 3.

Table 3.3: Stakeholders' Views of Each Regulator's Strengths and Weaknesses

Ofgem	Ofwat	Ofel	ORR
Strengths: Press Office, speed of decision-making, Internet services, confidential information, level of consultation.	Strengths: Annual reports and forward plans, Volume of publications, use of consultancies, level of consultation, speed of decision-making	Strengths: Use of consultancies, volume of publications, internet services, data requests, level of consultation.	Strengths: Volume of publications, data requests, confidential information, level of consultation, speed of decision-making.
Weaknesses: Use of consultancies (too high), transparency, prioritisation, value for money, consultation effectiveness, overall impression of efficiency	Weaknesses: Reply to enquiry speed, economic expertise, consultation effectiveness, value for money, transparency, thoroughness	Weaknesses: Library, general expertise, consultation effectiveness, thoroughness, speed of decision-making, consistency.	Weaknesses: Reply to enquiry speed, expertise of consultants, consultation effectiveness, prioritisation, value for money

INDUSTRY STAKEHOLDERS

- 3.9 This section reports on our discussions with some key regulated companies. During our conversations, the companies made a point of giving credit where they felt credit was due. They noted that the regulators are very thorough and acknowledge that their work is generally of good quality. They are complimentary of the people in senior management positions. They accept that the regulators have an important, difficult, and necessary function and they recognise that they have delivered real benefits to consumers. That said, the stakeholders had a number of criticisms which are summarised under the following headings.

Regulatory Strategy

- 3.10 While publication of and consultation on annual business plans is welcomed, companies want to see a medium term (3-5 year) strategy from the regulators. This, they argue, requires a debate on the purpose of regulation and the level of regulation that is desirable. Such a strategy, it is contended, will make the regulatory process more transparent and the regulators more accountable. It will also provide greater predictability for them and their shareholders. Specifically, what they want to see is a strategy for withdrawal of regulation from competitive areas which can be policed by OFT using Competition Act powers.

Setting Priorities

- 3.11 The industry stakeholders were consistent in their view that the regulators tend to be overly ambitious, spreading resources over too many initiatives, rather than concentrating on the key priorities. This results, they argue, in muddle and delays in decision-making. The focus has to be on what consumers want and are prepared to pay for. In the case of Ofgem, for example, companies questioned why metering and the development of an energy cost index were receiving attention while NETA was being delayed. Priorities should be determined by cost-benefit analysis, a process which should be visible to both industry and the public. This will become more important as the “big wins” are made. In the absence of this, the suspicion will persist that the regulators are generating work simply to keep their offices busy. The lack of focus means also that industry is burdened with too intrusive information gathering exercises, the purpose and value of which are sometimes unclear. One company in the energy sector has commented that his regulatory costs (regulatory staff and external advisors) are on average (not including price reviews and other one-off projects) three times his licence fee, in total £ 4.5 million/pa.

Expertise

- 3.12 There is a view among the companies we consulted that the regulators have insufficient strength in economics/finance as well as sector knowledge (electricity at Ofgem is the prime example). Companies would like to see less hierarchical and flatter regulators, with fewer people but more in senior posts – in other words, they want “more from less”. In their view, there is merit in setting up regulators more like consultancies with empowered project teams coming together and breaking up as required, rather than the silo structure usually found in the Civil Service. There is recognition, however, that the regulators are moving in this direction (particularly Oftel) and that re-organisations have been made or are being planned to facilitate “joined-up thinking” on regulatory matters.

Use of Consultants

- 3.13 Companies would like to see less use of consultants, not only because consultants are an expensive resource which licence-payers have to fund but because of their effect on the ability of the regulators to motivate and retain their staff. There is acknowledgement that some tasks are more cost-effective to outsource and efforts are being made to reduce the need for consultants, but there persists a suspicion that the regulators can improve their management of consultants to obtain better performance and value for money. There were also some adverse comments on the quality and

consistency of consultants' work which were not picked up or rectified by the regulators.

Cost Reduction

- 3.14 There is concern also that the regulators are producing no cost reductions nor signalling any intention to make budget cuts. Companies want to see the regulators' accounts published in more detail, commitments to cost reductions in the medium term strategy, and the remit of the NAO to be expanded to cover the regulators' planning of work programmes and setting of priorities. There is a perception that the regulators can charge what they want to recover their costs, and thus there is no incentive to be efficient. There would of course be difficulties in expanding the role of the NAO in this way since its remit is to carry out *post-hoc* audits not *ex-ante* reviews. There is also a potential conflict of interest in asking NAO to carry out reviews of proposals that it may subsequently be required to audit.
- 3.15 Not all stakeholders want to see costs reduced, however. Small players in the industry, passenger and environmental groups are less concerned about cost and more concerned about regulatory effectiveness but the desire for more transparency and accountability in relation to costs appears to be universal.

Consultation

- 3.16 The consultation process is considered flawed, firstly because there are too many too unfocused consultation documents, secondly because deadlines are too short, and thirdly because criticism is ignored. Companies want to see a more effective consultation process and the burden reduced. One suggestion is to consult at a very early stage of the process before much work has been done and cost incurred. Another is to establish Steering Groups, as used by Ofgem for example, so that the consultation is carried out face to face and in real time.

Commonality of Approach

- 3.17 Finally, companies consider that there are many areas where regulators could and should work together. They are surprised that whereas regulators do consult each other, each takes a different view on issues of common concern (cost of capital, for instance) and has different approaches to managing the business (consultation and project management, for example). Some stakeholders see mileage in merging the regulators while maintaining industry-specific sections under a single umbrella.

3.18 The key suggestions emerging from our discussions with regulated companies can be summarised as follows:

- Regulators should publish a medium-term strategy on which stakeholders can comment, setting out key regulatory priorities, proposed work programmes, and budgets;
- Regulators should provide more detail on the business case for proposed interventions;
- Regulators need to develop improved processes for setting priorities, in particular the value for money of policy initiatives, and to be more effective in justifying their prioritisation to stakeholders;
- Regulators should be released from public sector pay restrictions and increase salaries to competitive levels, while reducing the number of lower grade staff;
- Regulators should enter into informal discussions with industry before going out to consultation on policy initiatives. Stakeholders should have a say on the development of regulatory priorities before they are published in the annual Business Plans. This may help to reduce the scope and cost of consultation further down the line;
- Regulators must improve project management skills so that the volume of consultation material is reduced, its quality improved, and deadlines stretched to allow industry to put forward a comprehensive and thoughtful response;
- Regulators should publish their accounts in detail, including the cost of key policy initiatives, and present targets for cost reduction against which performance can be assessed.

4. COST EFFICIENCY

- 4.1 This section focuses on the cost of regulation. There are two sub-sections. In the first, we look at the rising cost of regulation. In the second, we report on the results of the benchmarking survey in which we make comparisons between the utility regulators and some regulators (both UK and overseas) as well as other UK agencies in terms of the cost of support services and management procedures. Some of the outputs from the Information Request are set out in Annex K.

THE COST OF REGULATION

Increasing Costs and Staff Numbers

- 4.2 Table 4.1 sets out information on the operating costs (in nominal terms) and staffing levels of the utility regulators. Overall, the cost of regulation has doubled from £ 50 million (not including capex) in 1996/97 to about £ 100 million in 2000/01. In real terms, this is a 84% increase or 16.5%/pa.
- 4.3 The biggest increase in cost has been incurred by Ofgem, although a large part of this is due to one-off projects - the merger of Offer and Ofgas and NETA. These account for nearly 50 % of total costs of Ofgem in 2000/01. Stripping these out, Ofgem's total costs have increased from £ 10.1 million in 1990/91 to £ 36.8 million in 2000/01 – an average annual increase in real terms of 10.5 %/pa. Costs have risen by this order at ORR, much of it in the past two years and associated with the review of rail access charges just published. In contrast, costs at Ofwat have stabilised - since 1997/98 total costs have increased by only 2.9 %/pa (about zero in real terms). Oftel is somewhere between Ofwat on the one hand and Ofgem/ORR on the other. Cost increases have been erratic, but average out at about 7 %/pa in real terms since 1990/91.

Table 4.1: Regulators' Operating Costs and Staffing Levels

	Ofgem		Of tel		Of wat		ORR	
	Costs (£ mill)	Staff (no.)	Costs (£ mill)	Staff (no.)	Costs (£ mill)	Staff (no.)	Costs (£ mill)	Staff (no.)
1984-85			N/a	69				
1985-86	N/a	19	N/a	102				
1986-87	N/a	21	N/a	116				
1987-88	N/a	28	N/a	112				
1988-89	N/a	28	N/a	117				
1989-90	N/a	c 188	N/a	121				
1990-91	10.1	c 228	5.4	140	4.0	112		
1991-92	9.9	c 249	6.1	148	5.3	132		
1992-93	10.5	269	6.9	152	5.7	140	N/a	N/a
1993-94	12.8	287	8.0	144	8.1	156	N/a	N/a
1994-95	13.5	301	8.9	156	9.1	179	N/a	N/a
1995-96	19.2	343	9.3	161	8.9	194	N/a	N/a
1996-97	24.2	360	9.1	160	9.3	190	7.3	N/a
1997-98	29.7	386	10.5	170	10.4	209	7.8	130
1998-99	38.0	439	10.4	189	9.7	234	8.2	142
1999-00	48.5	521	11.7	208	10.9	226	12.6	160
2000-01 (budget)	62.8	555	13.9	212	10.9	227	13.8	165

Sources:

- (1) for Ofgem, published Appropriation Accounts and Annual Reports up to 1995/96, and thereafter Ofgem Information Request return. Before the merger in 1999, figures have been created by amalgamating those for Offer and Ofgas from 1989/90 when Offer started up
- (2) for Of tel, published Appropriation Accounts and Annual Reports up to 1996/97 and thereafter Of tel Information Request return
- (3) for Of wat, published Appropriation Accounts, Annual Reports and Information Request
- (4) for ORR, Information Request

Notes:

- (1) running costs do not include capital expenditure
- (2) there are some discrepancies between the figures reported in the Annual Reports and Appropriation Accounts and the regulator's Information Request returns
- (3) Ofgem and ORR staff numbers include those working on consumer issues, and which have now been transferred to other organisations (SRA in the case of ORR and Energywatch in the case of Ofgem).

Components

- 4.4 As Table 4.2 demonstrates, the observed increases in operating costs are strongly linked to increases in staffing levels (the correlation is over 0.9 for all regulators). Another factor is staff costs. Table 4.3 sets out information on the increase in operating costs with payroll over the past four to five years, breaking down payroll into its components of staff numbers and staff costs. The results are interesting. At

Ofwat and Ofgem, payroll growth has exceeded the growth in operating costs. At ORR, payroll has made a significant contribution to rising operating costs. At Ofgem and Ofel, annual increases in average staff costs have been relatively modest and less the increases in staff numbers. In contrast, at Ofwat and ORR the increases in average salaries have exceeded increases in staff numbers. Growth in payroll is higher than the growth in staff numbers, even though salary increases are modest. This is due to the fact that staff numbers in lower grades are being reduced, while more people are being recruited into the more senior grades.

Table 4.2: Increases in Staff Levels and Operating Costs

	Average % increase in operating costs/pa (real terms)	Average % increase in staff numbers/pa
Ofgem	+10.5	+9.3
Ofel	+6.8	+4.2
Ofwat	+7.4	+7.3
ORR	+14.4	+8.3

Sources: as Table 4.1

Note: figure for Ofgem excludes NETA and merger costs

- 4.5 The regulators differ to some degree in their staff structure and salaries. They have similar proportions of senior management, but Ofgem and Ofwat appear to have relatively more staff in “support” grades although inter-regulator comparisons can be affected by definitional differences (see Table K.4). Salaries are fairly similar across the regulators in all grades, except senior management where they are relatively high for ORR and relatively low for Ofwat (see Table K.6). To the extent we can judge from the data provided in the IRs, none of the regulators has a problem with absenteeism and overtime costs are quite modest (0.5 % of staff costs at Ofwat, for example).
- 4.6 The other main cost driver is consultancy. Table 4.4 provides a breakdown of the main cost items in 2000/01. Consultancy costs are relatively modest in comparison to payroll at both Ofel and Ofwat, but very significant at Ofgem and ORR. The Ofgem result is distorted by the NETA project which accounts for about 60 % of the consultancy budget. Putting the NETA project to one side, consultancy accounts for about 25 % of Ofgem’s budget in 2000/01. The high consultancy costs at ORR is related to the periodic review of rail access charges which has just been published. As Table 4.5 makes clear, consultancy costs are “peaky”. They rise to fill resource holes for periodic events such as price reviews, and to this extent it is an efficient approach to variable workload. However, there is an underlying “baseload” of work which might arguably be more cost-effective to place in-house if sufficient staff of the right calibre can be recruited. Ofgem has calculated that senior staff, on a fully-costed

basis, cost about £400/day compared to £1,000+ for consultancy (assuming capabilities are roughly similar). For this reason, a case has to be made when bidding for consultancy resources during their corporate planning process.

- 4.7 Another key cost is accommodation. Taking into account service charges and utilities as well as rent, this accounts for about 12 % of total costs at both Ofgem and Ofwat in 2000/01, 9 % at Oftel, and 8 % at ORR. Floor space per staff member is not particularly generous at any of the regulators. ORR absorbed a big increase in accommodation costs in 1999/00, linked to the re-negotiation of its lease. Ofgem will absorb an increase in accommodation costs in 2000/01, as a result of its re-location to Millbank.

Planned Cost Reductions

- 4.8 None of the regulators, with the exception of Ofgem, has signalled an intention to reduce costs in 2001/02. Ofwat's costs have become fairly stable so this is less of an issue for them. ORR does not expect the conclusion of the price review to allow cost reductions to be made. Although consultancy costs will fall, there will be an increase in staff to implement and monitor the review and there may be additional costs arising from the Competition Act. This, in our view, is surprising given the amount of consultancy which the price review generated. Ofgem is seeking a 3.1 % reduction in recurrent expenditure not including NETA or the merger.
- 4.9 Both Ofgem and ORR will lose staff as the result of the transfer of staff. Ofgem will transfer its regional staff (129) to Energywatch and ORR will lose its consumer protection functions and the regional passengers committee network (presently 43) to the SRA. This will not lead automatically to a reduction of licence fees. Indeed, industry is expecting the formation and operation of Energywatch to lead to an increase in licence fees.
- 4.10 Ofgem has indicated to us that it expects to make further staff reductions in support functions once the move to Millbank has been completed. Finance has already reduced from 25 to 15. The staff complement is about 555, of which 35 are related to the NETA and merger and 129 in the regional offices. This leaves a core of 391 which Ofgem is hoping to reduce to about 334 with efficiency savings. In practice, Ofgem had an actual headcount (excluding NETA, merger and the regions) in August 2000 of 330 with the difference offset to some degree by agency staff and also consultants.
- 4.11 We note that Ofgem's move to Millbank will not deliver much in the way of cost savings. A 10% reduction in support costs, for example, might generate savings of £

0.7 million/pa, but London accommodation costs will increase from £ 1.9 million/pa to £ 2.2 million/pa (provided Ofgem can sub-let 4 of the 8 floors it has leased and excluding the subsidised staff canteen at Millbank) although the total floorspace will be significantly reduced.

Summary

- 4.12 All the regulators have increased their costs significantly since start-up. The most significant increases have been those of Ofgem (even allowing for NETA and merger costs) and ORR. At Ofwat, in contrast, cost increases have been more or less zero in real terms in the past few years. There is a strong link between operating costs and payroll. Both staff numbers and salaries have been increasing, but the balance between these two varies between the regulators.
- 4.13 Another important cost component is consultancy. This tends to be variable, peaking for specific regulatory activities, but it also a constant feature of the cost structure. It will be uneconomic for the regulators to bring all the specialist advice they need in-house and inefficient to size their organisations around peak workloads. However, consultancy is an expensive resource and it should not be used merely to undertake baseload work and fill resource gaps.
- 4.14 Apart from Ofgem, none of the regulators expects to deliver cost reductions in 2001/02. Ofgem can make headcount reductions in some of its support functions, but they will have to be very large to make a significant difference since accommodation costs are increasing as a result of relocation. It may be optimistic to expect to see much reduction in operating expenditure as a result of the merger and move to Millbank. Cost reductions will probably depend more upon the scope of the business plan.

BENCHMARKING RESULTS

- 4.15 To further assess the cost efficiency and management processes of the utility regulators, we invited 23 other regulators and UK executive agencies to participate in a benchmarking survey. They are mostly of comparable size and have broadly similar activities to the utility regulators. We received 15 replies, seven from regulators and eight from agencies. Of the seven replies from regulators, three were from Australia (iPart, ACA and ACCC) and one from Ireland (ODTR). For definitions of the figures and ratios used in the survey see the questionnaire in Annex H.

Table 4.3: Comparison of Operating Cost with Payroll Trends

	Average annual increase in operating costs (%) (nominal terms)	Average annual increase in payroll (%) (nominal terms)	Average annual increase in staff numbers (%)	Average annual increase in staff costs/head (%)
Ofgem	+11	+14	+11	+3
Oftel	+10	+9	+7	+2
Ofwat	+3	+11	+3	+8
ORR	+21	+18	+8	+10

Sources: as Table 4.1

Notes: Ofgem figures are for 1996/97 to 2000/01 and exclude NETA and merger costs; Oftel, Ofwat, and ORR figures are from 1997/98 to 2000/01

Table 4.4: Breakdown of Total Costs, 2000/01 (%)

	Ofgem	Oftel	Ofwat	ORR
Payroll	29	52	58	48
Consultancy	37	10	7	21
Accommodation	11	8	11	8
Capital	8	4	3	3
Other costs	15	26	21	20
Total costs	100	100	100	100

Sources: Information Requests

Notes: calculations for ORR discount the expenditure of the RUCC network; figures for Ofgem include NETA and merger costs

Table 4.5: Consultancy Costs as a Percentage of Total Costs

	1996/97	1997/98	1998/99	1999/00	2000/01
Ofgem	27	24	28	50	37
Oftel	N/a	9	4	8	10
Ofwat	N/a	15	16	8	7
ORR	14	8	10	21	21

Sources: Information Requests

Notes: calculations for ORR discount the expenditure of the RUCC network

- 4.16 It is important to apply caution in the interpretation of results. Organisations have different ways of managing their businesses and allocating costs, and differences in benchmark ratios may be the result of these factors rather than the level of efficiency. Our objective therefore was to search for significant patterns in the data, where the differences in ratios are more likely to reflect fundamental differences in management efficiency.

Cost Efficiency

- 4.17 Table 4.6 sets out the survey results relating to the costs of support functions, personnel indicators, floor space provision, and computer equipment provision. The results are presented in anonymised format with the exception of those for the utility regulators.
- 4.18 A summary of the key results is presented in Table 4.7. They indicate that:
- The utility regulators are broadly similar to the comparators in terms of floor space provision, average staff costs, and absenteeism;
 - The utility regulators score better than the comparators in the provision of computers;
 - Staff turnover is significantly higher at the utility regulators, which reflects the observations we made in Section 2;
 - Support costs and accommodation costs are relatively high at the utility regulators in comparison to total costs. The same applies to staff in support functions.
- 4.19 The most interesting result is the difference between the utility regulators and the comparators in terms of support costs (this difference is statistically significant). This is especially true of ORR. The fact that ORR is the smallest of the regulators, in terms of staff numbers, may partly explain their result. Across the four regulators, support costs in 1999/00 are estimated at £16.1 million compared to a total expenditure of £72.6 million (excluding NETA and the merger for Ofgem) – an average of 22% (this is budgeted to fall to around 19-20% in 2000/01). Accommodation contributes another 11% of costs, so altogether an average 33% of cost is overhead. This is roughly double the figure for the comparators.

Table 4.6: Benchmarking Survey Results (Cost Efficiency)

	Utility regulators				UK executive agencies								Other regulators						
	Ofgem	Ofel	Ofwat	ORR	1	2	3	4	5	6	7	8	1	2	3	4	5	6	7
Total expenditure (£ millions)	34.5	13.5	11.1	13.6	12.0	18.5	6.1	18.0	58.8	182.5	45.1	15.6	1.8	1.0	30.8	2.5	25.6	15.1	19.5
Staff numbers	491	208	226	160	325	364	72	460	550	2,118	838	273	25	9	428	35	382	100	423
Floor space/person (sq.m)	26	13	22	15		27	14		18	13	24	14	27	18			27	25	
Accommodation costs/person (£'000s)	8.6	7.0	5.5	7.7	2.2	6.9	8.9	1.3	5.1	0.8		0.7	3.1			2.3	2.8	7.9	2.6
Accommodation costs/total costs (%)	12	11	12	9	6	14	10	3	5	1		1	4			3	4	5	6
Desk tops + lap tops per person (no.)	1.6	1.5	1.6	1.6	0.5	1.4	2.1	1.2	1.8	0.5	0.9	2.0	1.8	1.1		1.2	1.2	1.2	1.5
Support costs/total costs (%)	20	20	23	31	12	15		24	8	3	21	9	5	6	13	11	10	9	22
Support staff/total staff (%)	18	19	23	19	8	16		12	25	5	16	14	18	10	13	15	11	13	20
Average staff costs/head (£ '000s)	32	33	29	33	22	32	20	14	24	22	27	23	30	66	30	40	25	40	23
Staff turnover (%)	24	34	25	19	21	15	22	8	10	7	8	19	20	0	10	23	33	15	12
Absenteeism (%)	4	2.2	4	7.6	8.7	3	3	5	4	6	3.5	10	11	0.5	4	2.2	2.5	1	3.7

Notes:

- (1) Data refers to 1999/00
- (2) UK executive agencies are Meat Hygiene Service, Radio Communications Agency, Driver & Vehicle Testing Agency (Northern Ireland), UK Hydrographic Agency, Marine Laboratory, Water Service, NHS Pensions Agency, and Central Office of Information
- (3) Other regulators are iPart (Gas and electricity regulator for New South Wales, Australia), ACCC (Australian Competition and Communication Commission), ACA (Australian Communications Authority), ODTR (Irish telecommunications regulator), OFT, CAA (economic regulation section only), and Ofreg
- (4) "support" refers to HR, finance, IT, communications, estates/facilities and quality assurance
- (5) Ofgem floorspace/person covers main London offices (not NETA), Glasgow and Leicester. Accommodation costs/person (pre the move too Millbank) includes all offices and staff except NETA and the merger. Other Ofgem figures exclude NETA and merger
- (6) Ofel accommodation costs exclude service charges, utilities and Council tax
- (7) ORR floorspace/person and accommodation costs/person include RPC staff to be transferred to SRA

Table 4.7: Summary of the Benchmarking Cost Efficiency Results

	Utility regulators	Comparators
Floor space/person (sq.m)	19	21
Accommodation costs/person (£)	7,200	3,850
Accommodation costs/ total costs (%)	10.8	5.2
Computers/person	1.6	1.3
Support costs/all costs (%)	23.5	12.0
Support staff/all staff (%)	19.8	14.0
Average staff costs (£)	31,750	29,200
Staff turnover (%)	24.5	14.9
Absenteeism (%)	4.5	4.5

Note: arithmetic not weighted averages

Management of the Support Functions

4.20 Table 4.8 sets out the results of the benchmarking survey for the management of the support functions. We were interested in whether the support functions have SLAs or other means to monitor performance and how communications are managed.

4.21 The main results may be summarised as follows:

- Only ORR and Oftel (for IT) among the utility regulators has SLAs for some of its support functions. Some of the comparators have SLAs, and these are quite common for the IT function;
- None of the organisations in the survey use stakeholder surveys very much to assess the efficiency and performance of their support functions;
- The utility regulators generally collect activity level statistics and performance indicators for their support functions, and in this respect they are broadly similar if not a little better than the comparators;
- The utility regulators are relatively strong in their use of the web-sites and intranets, but relatively weak in QA. Only Oftel among the utility regulators has a structured approach to QA, whereas some comparators have accredited schemes.

Table 4.8: Benchmarking Survey Results (Management Processes)

	Utility regulators				UK executive agencies								Other regulators						
	Ofgem	Ofwat	Ofwat	ORR	1	2	3	4	5	6	7	8	1	2	3	4	5	6	7
HR SLA	X	X	X	✓	X	✓	X	X	X	X	X	✓	X	X	✓	X	X	X	X
HR activity levels	✓	X	✓	X	✓	✓	X	✓	✓	✓	X	✓	X	X	X	X	X	✓	✓
HR performance targets	✓	X	✓	X	✓	✓	X	✓	X	✓	X	✓	X	X	✓	X	X	✓	✓
HR stakeholder surveys	X	X	✓	X	✓	✓	✓	✓	X	✓	X	X	X	X	✓	X	X	X	✓
Finance SLA	X	X	X	✓	X	✓	X	X	X		X	X	X	✓	✓	X	X	X	X
Finance activity levels	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	X	X	X	✓	X	X	✓	✓
Finance performance targets	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	X	✓	✓	X	X	✓	✓
Finance stakeholder surveys	X	X	✓	X	✓	✓	X	✓	X	X	X	X	X	X	X	X	X	X	✓
Communications SLA	X	X	X	X	X		✓	X	X		X	✓	X	✓	X	X	X	X	X
Communications activity levels	✓	✓	✓	X	X		✓	✓	X		X	✓	X	✓	✓	✓	✓	✓	X
Communications performance targets	✓	✓	✓	X	X		✓	✓	X		X	✓	X	✓	✓	X	X	✓	X
Communications stakeholder surveys	✓	✓	✓	X	✓		X	✓	✓		X	✓	X	✓	✓	X	X	X	✓
Web-site	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Web-site for documents	✓	✓	✓	✓	✓	X	✓		✓		X	✓	✓	✓	✓	✓	✓	✓	✓
Intranet	✓	✓	✓	X	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	X	X	X	✓
Intranet for knowledge management	✓	✓	✓	X	✓	✓	✓	✓	✓		X	✓	✓	✓	✓	X	X	X	✓
IT SLA	X	✓	X	X	✓	✓	✓		✓	X	✓	✓	X	X	✓	✓	✓	✓	✓
IT activity levels	✓	✓	✓	✓	✓	✓	✓		✓	X	✓	✓	X	✓	✓	✓	✓	✓	✓
IT performance targets	X	✓	✓	X	✓	✓	✓		✓	X	✓	✓	X	✓	✓	✓	✓	✓	✓
IT stakeholder surveys	X	X	✓	X	✓	✓			X	X	✓	✓	X	✓	X	X	X	X	✓
Estates SLA	X	X	X	✓	X	✓	✓		✓		X	✓	X	X		X	X		X
Estates activity levels	✓	X	✓	✓	X	✓	✓		✓		X	✓	X	X		X	X		X
Estates performance targets	X	X	✓	✓	X	✓	✓		✓		✓	✓	X	X		X	X		X
Estates stakeholder surveys	X	X	✓	X	X	✓	✓		X		x	✓	X	X		X	X		X
QM function	X	✓	✓	X	X	✓	✓	✓	X		✓	✓	X	✓	X	X	X	X	X
QA policy	X	✓	X	X	X	✓	✓	✓	X	X	✓	✓	X	✓	X	✓	✓	X	X
QA manual	X	✓	X	X	X	✓	✓	X	X		✓	✓	X	X	X	X	X	X	X
QA accreditation	X	x	X	x	X	✓	✓	x	X		✓	✓	X	x	X	x	x	X	X

5. PRINCIPAL FINDINGS AND RECOMMENDATIONS

- 5.1 This section sets out the principal findings emerging from our work as well as our recommendations. Our observations are grouped into three areas – costs, outward perceptions, and internal processes.

PRINCIPAL FINDINGS

Costs

- 5.2 The costs of regulation have been rising steadily. The operating costs of the four utility regulators have doubled from about £ 50 million in 1996/97 to roughly £ 100 million in 2000/01, an increase of 84% in real terms. Between 1990/91 and 2000/01, the average annual increase in operating costs in real terms has been 16.6 %, 6.8 % and 7.4 % at Ofgem, Oftel and Ofwat respectively. At ORR, between 1996/97 and 2000/01 the increase has been 14.4 %/pa. Only Ofwat has bucked the general trend since its cost increases in the past three years have been about zero in real terms. Ofgem's costs have in the past two years been distorted by the merger between Ofgas and Offer and the one-off NETA project - together, these account for nearly 50 % of Ofgem's total expenditure in 2000/01. Discounting these, however, the average increase in Ofgem's costs since 1990/91 has still been 10.5 %/pa in real terms.
- 5.3 There is little mileage in comparing the total expenditure or annual increases between regulators. The regulators have broadly similar duties but sector-specific issues to deal with, so their regulatory costs (as opposed to their support costs) are not comparable. Moreover, the complexity of and extent of competition within each sector is quite different. Arguably, Ofgem (given the number of licensees, its coverage of generation, distribution and supply, and limited competition in some areas) and Oftel (given the fast pace of technological development) have the more difficult remits. Conversely, ORR has the most focused role since it regulates only one company (albeit a massive monopoly) with well understood and slow moving technology. Moreover, it is important to remember that the regulators have acquired additional responsibilities from new legislation (e.g. EU Directives, Utilities Act, Competition Act).
- 5.4 It is also essential to recognise that the cost of regulation is small in comparison to the benefits to the consumer which have come about through increased competition (and regulation where competition is not possible). The opening of the domestic gas

market provides a clear example of this. The cost of regulation is also quite modest in comparison to the turnover of the industries which are regulated. It is less than 0.2 % for all the regulators. This does not mean, however, that the regulators could not be more efficient.

- 5.5 Payroll accounts for around 50 % of total costs at all the regulators (discounting NETA and the merger in the case of Ofgem). Increases in payroll are strongly linked to the increase in operating costs at all the regulators. Another key cost component is consultancy. These costs are relatively modest in comparison to total costs at Ofwat and Oftel, but very significant at Ofgem and ORR. They are also “peaky”. They rise to fill resource holes for periodic events such as price reviews, and to this extent using consultants is an efficient approach to variable workload. However, there is an underlying “baseload” of work that might arguably be more cost-effective to place in-house. The other costs of the regulators, of which the two most significant are accommodation and capital, are more or less fixed. The main opportunities for “give” are therefore in payroll and the consultancy budget.
- 5.6 Across the regulators, support functions (HR, IT, finance, procurement, communications, quality and estates) accounted for about 22 % of total costs in 1999/00. This is nearly double the figure for our comparator group of UK executive agencies and other regulators. There are also wide differences between the regulators, from Oftel and Ofgem (20% in 1999/00) to ORR (31%). Support functions account for about 20 % of staff across the utility regulators, compared to an average of 14 % for the comparator group. Accommodation adds on average another 11 % or so of costs, so overall support functions and accommodation accounted for 33 % of expenditure. The equivalent figure for our comparator group was 17 %. On the face of it, this analysis suggests that too much money is going into non-regulatory activities and some economies might be achievable in overheads. There is probably not too much that can be done about accommodation costs, short of moving outside London (for Ofgem, Oftel and ORR) or taking up lower quality premises. But there may be opportunities for cost reduction in the support services. Forecasts for 2000/01 suggest that support costs are already moving in the right direction – they will fall both in absolute terms and as a percentage of total costs (to 19-20 %), if budgets are achieved.
- 5.7 None of the regulators, with the exception of Ofgem, has set a quantified cost reduction target for 2001/02. Ofgem is looking for a saving of 3.1 % on recurrent expenditure (excluding merger and NETA), most of which they plan to obtain from savings in the support functions once the relocation to Millbank is complete and bedded-in.

Outward Perceptions

- 5.8 The views of the stakeholders we consulted and who responded to our survey have been mixed, but there is a general acceptance that the regulators are thorough and their work (particularly the routine work such as price reviews) is usually of good quality. They are complimentary of the people in senior management positions. That said, there are concerns about the way they go about their business.
- 5.9 Regulated companies are clear that they want to see the regulators commit themselves to a medium-term strategy. This, they argue, will make the regulatory process more transparent. Linked to this, they are keen to participate in the process by which regulators decide upon and then focus on the key issues. They want to see more details in operational plans, specifically a business case for each proposed activity supported by a serious cost-benefit analysis. Companies are particularly concerned about the burden placed upon them by what they consider to be “fishing trips” – requests for information which largely remains unused. They would like to see consultation used not just to invite reaction to proposals but also to shape the activities of the regulators before resources are committed to projects.
- 5.10 The key company stakeholders we consulted are quite consistent in their view that the regulators need strengthening in economics/finance and some technical areas. They would prefer to see the regulators with fewer people but more depth in senior management, and they recognise that this will require them to pay competitive salaries. Stakeholders are also clear in wanting the regulators to reduce their dependence upon consultants, and to improve their management of consultants so that the quality of their outputs is more consistent. They would like to see budgets switched from consultants to salaries so that the right people can be recruited and retained. They are particularly keen to see the capability and the corporate memory of the regulators strengthened.
- 5.11 Companies are also concerned about the rising cost of regulation. Some do not understand why so many people are needed to discharge the duties of the regulators. There is of course a difference in perspective on this point between incumbents/dominant players (who fund the largest part of the costs and want them reduced) and new entrants (who pay relatively little and want the regulators to be more active to facilitate competition). However, neither party wants an inefficient regulator and for that reason they would all like to see greater transparency in budgets

and some independent oversight of the process of setting priorities and costing up work programmes.

Internal Processes

- 5.12 Our general impression is that the regulators are professionally run organisations. It is clear that they are concerned about efficiency and are committed to continual improvement in performance. We encountered many examples where systems and procedures have been or will be revised to make them more effective in serving business needs or more efficient. To this extent, the regulators are moving in the right direction. In terms of the management of their support functions, the regulators are with some exceptions broadly similar to the comparators we used in the benchmarking survey.
- 5.13 One area of weakness in our view is financial accountability. The regulators do not publish much information on their costs, nor do they produce indicative medium-term budgets. We have encountered only one or two financial targets for routine activities. With the exception of HM Treasury, there is also no independent assessment of budgets. The regulators put their proposals to consultation with little or no prioritisation and cost information. They do not have to publish a business case to justify their expenditure on each activity. This reduces the value of the consultation on their expenditure which is an important part of the process leading to the Treasury's decision on the regulators' final budgets.
- 5.14 Another concern is that whereas the regulators do put their proposals out to consultation there is no routine stakeholder assessment of their performance. It would facilitate such an assessment if the regulators provided more information on their performance indicators.
- 5.15 A third area of weakness, in our view, is the management of support functions. There are differences between the regulators of course and some examples of good practice, but as a rule it does not appear that the cost efficiency of the support functions is receiving the attention it merits even though they account for a significant proportion of expenditure. We would have liked to have seen financial targets set for these functions, some simple SLAs/SDAs in place for all of them, and routine collection and publication of performance indicators. Inputs (costs and resources) could be linked to outputs (activity levels and results).
- 5.16 A final concern is the structure of the regulators. In our view, there are too many people in lower grade positions and not enough in at the top. This is why the average

staff cost is relatively low, no higher than comparators which do not have the same demand for top lawyers, economists, and technical specialists. Although all the regulators have taken steps to improve their recruitment and remuneration policies, it remains difficult to attract and retain good people. For this reason, staff turnover is too high and the regulators remain dependent to a greater or lesser degree on consultants.

RECOMMENDATIONS

- 5.17 We have separated our recommendations into two sections concerned with costs and procedures. Recommendations have also been categorised as “priority” (where we believe that the regulators should definitely implement them within twelve months), “desirable” (where we believe that there are significant benefits to be realised from implementation), and “for consideration” (where we would expect the regulators to look into the practicalities as well as the costs and benefits of implementation). We have also set out the basis for and evidence underlying the recommendations.

Costs

- 5.18 The circulation of draft business plans and publication of non-confidential responses from stakeholders is a welcome improvement in transparency. In our view, however, stakeholders are provided with insufficient information on which to base their submissions. This is clearly one of the major concerns of the regulated companies (see paras 3.13-3.14). For this reason, we recommend that:
1. **Priority.** The regulators should continue to publish draft business plans, but these should contain more cost information (see paras 2.8-2.13 and 3.11). All major projects and work programmes (eg. costing over £ 250k) should be costed, and there should be a breakdown of total expenditure between policy and support activities. The regulators should also indicate what they would choose not to do or do less of with a lower level of funding (eg. 5 % or 10 %). *Benefit = improved transparency and accountability.*
 2. **Priority.** The regulators should publish annually a medium-term strategy setting out the regulatory agenda for the next 3-5 years (see paras 2.8-2.13 and 3.10). This should include indicative budgets as well as the priorities for the regulator, the main work programmes, and a rough timetable. *Benefit = provide stakeholders with information on which to base their strategies.*
 3. **Desirable.** The regulators should publish more information on their expenditure in the Annual Reports (see para 2.13 and 2.35). In particular we would like to see a fairly detailed breakdown of expenditure by category, a separation of costs between policy and support activities, and a costing of major projects completed in the year under review. *Benefit = improved transparency and accountability.*

4. **Desirable.** Since the support functions account for a significant proportion of the regulators' expenditure we would like to see their costs as a proportion of total expenditure falling. In our experience, we would have expected the proportion to be around 15 % and all the regulators are above this but especially ORR. At the very least, we would expect to see any proposed support cost increases supported by evidence of rising activity levels (see paras 4.19 and 2.21). For this reason, the regulators should agree on a consistent basis (to render comparisons meaningful) a number of activity indicators for their support functions that can be monitored and related to expenditure. Ideally we would like to see unit costs (activity levels per £ expenditure) falling, and we would therefore recommend that the regulators collect and publish this information. *Benefit = justification for any increased spend on non-regulatory activities or evidence of improved cost efficiency.*
 5. **Desirable.** We would like to see the regulators collect and publish information on the cost of regulatory activities which have a predicable scope and duration where it is practicable to do so. This will require calculation of historic costs where these are unknown and the setting up of financial benchmarks such as total cost and total man-hours. *Benefit = evidence of improved cost efficiency.*
 6. **Desirable.** Since consultants account for such a large percentage of the regulators' expenditure, we would expect the regulators to carry out post-implementation value for money reviews of major projects (eg. above £ 250k). This will supplement the procedures which are already in place for justifying use of consultants before they are commissioned and for procuring them by competitive tender (see para 2.43). We are particularly keen that these reviews should consider the success of knowledge transfer from consultants to the regulator. *Benefit = lessons learnt about procurement and management of consultants, as well as identification of opportunities for cost reduction.*
 7. **For consideration.** We would like to see better calculation of the cost of regulatory activities, and this will in our view require some form of project costing or activity based costing which in turn will involve timesheeting of staff (see paras 2.36-2.37, 2.51-2.52). We recognise that Ofwat already has a form of activity costing and timesheets and that Ofgem is planning to introduce activity based costing. We would also like to see project managers incentivised to control costs on projects. Since staff is the biggest cost on most projects, this also suggests timesheeting. We do not expect this to lead to any material increase in administration costs since timesheets can be completed electronically, circulated via the intranet, and processed by computer. *Benefit = more transparency in the cost of activities and a tool to capture staff costs moving between projects and to incentivise project managers to control costs.*
- 5.19 We have considered the proposal put forward by some regulated companies as well as academics that the regulators should be subject to a RPI-x cap on their expenditure. The main difficulty with this is that the business of regulation is not entirely predictable. The regulators have to comply with EU Directives and Acts of Parliament which may impose new responsibilities upon them or change the direction

of their work. They also have to respond to changing technology and market conditions. For these reasons, arbitrary cost reductions may compromise their ability to be an effective regulator. Arguably, a RPI-x formula could be imposed upon the routine regulatory activities and support functions. But we can see difficulties in agreeing exactly which activities are not sensitive to exogenous factors and therefore which could be subjected to cost reduction targets. For these reasons, we would prefer to see more transparency in the process of budgeting such that activities are costed, their costs made public, and business cases developed for each major project proposed by the regulator. We think that this case by case analysis of the regulators' "shopping lists" will be a fairer and more sensible way of auditing their expenditure.

- 5.20 One of our main concerns has been the cost of support functions, and it has been suggested that merging the sectoral regulators would generate significant savings. Under this scenario, the super-regulator would have four policy divisions with a single spine providing business support services. If the cost of support services was reduced from an average 22 % to say 14 % of total costs, the annual savings would be in the order of £ 6 million (see para 4.19). This is probably in itself not enough to justify the relocation and restructuring expenses. Moreover, it may not be possible to obtain much saving from merging of the external relations functions which will continue to be sector specific.
- 5.21 A merger may have other benefits in cross-fertilisation between the policy teams, identification and dissemination of best practice, and staff career development. But the one model we have for amalgamation of regulators (Ofgem) is not encouraging if one is looking for cost savings (see paras 4.7 and 4.10). For these reasons, we do not recommend a super-regulator.

Procedures

- 5.22 Based on the submissions of stakeholders, we have concluded that the consultation process needs to be modified. Our recommendations in this regard are:
8. **Priority.** The consultation on the annual business plans as well as the major projects/programmes they contain should start earlier, before the regulator has finalised a view on priorities and the way in which subjects will be taken forward (see para 3.16). Without compromising the independence of the regulators, we would like to see stakeholder workshops (as at Ofwat and Ofgem) at which ideas can be discussed openly well before consultation documents are produced. *Benefit = possible improvements in effectiveness (stronger focus on the right issues and key priorities) and efficiency (better targetting of resources for both regulator and regulated).*

9. **Priority.** Stakeholders need more information to provide sensible input into discussions on the regulators' proposals (see para 3.10). For this reason, we would like to see the regulators produce an "impact assessment" (costs to the regulated companies and benefits to consumers) when consulting on major projects and programmes in addition to estimates of costs for the regulators. *Benefit = makes possible an assessment of value for money.*
- 5.23 In our discussions with the regulators and analysis of their IRs we have encountered very little information on performance or activity levels (see paras 2.20-2.21). Although data is being collected, it does not appear to be systematically collated or processed. Our view is that the regulators should be publishing this information routinely so that an assessment can be made on an on-going basis of their efficiency. Our recommendations in this regard are:
10. **Priority.** The regulators should publish in their Annual Reports their performance on major projects and programmes by comparing actual against estimated completion dates, duration, costs, and impact. *Benefit = greater accountability.*
11. **Desirable.** The regulators should publish performance indicators and activity level data for their support functions in their Annual Reports. As far as is practicable, the indicators and measures should be consistent between regulators. *Benefit = greater accountability.*
12. **For consideration.** The regulators might commission an independent annual satisfaction survey of their performance similar to the one conducted for this report. The results of such a survey should be published in the Annual Report. It would be desirable for the survey to have a common format across the regulators. *Benefit = greater accountability, but at cost of commissioning the survey.*
- 5.24 We have noted that one of the major problems faced by the regulators is high staff turnover (see paras 2.23-2.26). This is largely a function of salaries, but is exacerbated by the fact that the pool of expertise is very small and thus both the regulators and the industries they regulate are seeking to recruit the same specialists. Such a high staff turnover imposes a cost in terms of recruitment and training, undermines knowledge retention, and quite possibly increases dependence upon consultants. It is clear that the quality and credibility of the regulators' work depends on a small group of key individuals. We therefore agree with the stakeholders that the regulators should have a bigger cadre of senior professionals, but with fewer staff supporting them. To keep the top people at the regulators and attract more of them will require a radical overhaul of the remuneration strategy. Up to now, salary increases have been on average quite modest. For this reason, we recommend that:
13. **Priority.** The regulators be allowed to pay competitive salaries to individuals down to project manager level whose skills are marketable to regulated

companies, the City and consultancy practices. In return, however, we would expect the numbers of staff overall to be reduced. *Benefits: better staff retention, more credibility with regulated companies, better quality work, improvements in staff development and morale, maintenance of the corporate memory, possible reduction in the volume of consultancy.*

5.25 With regard to internal management processes, the main recommendations are:

14. **Desirable.** Ofwat and ORR to improve their project management procedures (see paras 2.15-2.18). This does not necessarily mean adopting a standard methodology such as PRINCE 2, but it involves developing a more structured and documented approach for which training is provided and is supported on the intranet. Ofgem's version of PRINCE 2 is worth consideration. *Benefit = improved monitoring and control of projects, better audit trail.*
15. **Desirable.** All the regulators to collect and analyse activity level data and performance indicators for their support functions (see para 2.21). We would suggest that simple SLAs are set up (ORR's model is worth considering) which incorporate performance indicators. The regulators should also consider annual performance reviews of the support functions like those carried out by Ofwat. *Benefit = improved evaluation of the value provided by and efficiency of the support functions.*
16. **Desirable.** ORR and Ofwat to further develop their knowledge management strategies (see paras 2.58-2.59). *Benefit = more efficient control and archiving of data, dissemination of procedures and information, assistance in staff induction and training.*
17. **For consideration.** Ofgem, ORR and Ofwat to put in place a stronger QA system (see paras 2.54-2.55). This will help to focus staff on the quality of their outputs, reduce any inefficiencies in work practices, and provide a stronger audit trail in the event of any challenge to their decisions. *Benefit = improved monitoring and control of projects, better audit trail.*
18. **For consideration.** We have noted that whereas the regulators do consult each other at various levels and on a wide range of topics, their approach to running their businesses is markedly different in many areas. We recognise that the regulators have to deal with issues which are specific to their sectors, and this is reflected in their set-up, but there are also many aspects of business management in both policy and support which are common to all (from cost of capital to quality assurance). We would have expected therefore to encounter more examples where one regulator's approach has been borrowed or developed by another. For this reason, we suggest that the regulators review their procedures for inter-regulator consultation and consider in particular how the outputs from these meetings can be disseminated and taken forward. We would also suggest that the regulators review the examples of good practice set out in Table 2.1, and which are not already covered by the other recommendations in this report, with a view to identifying those which can be more widely applied. *Benefit = more*

value-added from inter-regulator consultation and savings in resources in developing new systems and procedures.

19. **For consideration.** Ofwat and Oftel to consider appointing non-executive Directors to their Boards.
- 5.26 We believe that the regulators should be able to implement our recommendations within their existing budgets. Some of the recommendations should lead to cost reduction. Lower staff turnover, for example, will reduce recruitment and training costs. Some should result in enhanced effectiveness through, for example, less re-work. We would also expect budgets to be linked more closely to the activity levels, and a reduced burden on regulated companies.

ANNEX A - TERMS OF REFERENCE

ANNEX A – TERMS OF REFERENCE

Background

The Regulators

1. There are four statutory utility regulators in Great Britain: the Office of Gas and Electricity Markets (OFGEM), the Office of the Rail Regulator (ORR), the Office of Telecommunications (OFTEL) and the Office of Water Services (OFWAT). Their functions are set out in legislation, but generally their duties involve protecting the interests of consumers, ensuring that businesses subject to price regulation are able to finance their activities, and facilitating or promoting competition in their industries where this is practicable. The Regulators are appointed by Ministers and their offices are non-Ministerial Government Departments, but in terms of the policies which the Regulators implement, they act independently of Ministers. The Utilities Bill currently before Parliament will formally establish OFGEM and amend the duties of its current constituent bodies (which regulate gas and electricity) so as to give greater emphasis to promoting the interests of consumers.

2. The Regulators are funded by fees paid by the licence holders in their industries. With one small exception for part of OFTEL's expenditure, the Regulators are therefore not funded through general taxation, although they are all subject to control of gross spending and the use of receipts through Estimates presented to Parliament. In addition they are subject to the public expenditure control arrangements set by the Government of the day for Ministerial and non-Ministerial Departments. In particular, the gross expenditure and running costs of the Regulators are set by HM Treasury each year, and changes to them require Treasury consent.

The new financial regime for the Regulators

3. The Treasury has recently agreed with the Regulators a new financial regime, designed to improve scrutiny of the key elements of the Regulators' finances, especially the budget-setting process and the Regulators' overall efficiency. At the same time, the new regime will give some extra freedom for the Regulators to increase fee income in-year without reference to Ministers and should in due course remove them from detailed Treasury scrutiny of their running costs. In future, all of the Regulators will consult interested parties (licence holders, consumer groups etc) in the late Autumn on a draft budget and work programme for the following year. The responses received will be carefully considered by the Regulators, and also by the Treasury, in setting the Regulators' budgets. The Treasury and the Regulators believe that this will lead to better informed decisions on priorities and spending levels than was the case previously, when there was no public consultation to inform decisions on budgets.

4. Consulting on the Regulators' draft corporate plans should lead to more effective scrutiny and better informed decisions on final budget levels. However, a more detailed scrutiny would be needed in order to form a proper, independent

assessment of the efficiency of the Regulators= organisations. Such a review is the subject of this Invitation to Tender.

General scope of the review

5. The review is intended quite explicitly as an efficiency review. Its purpose is to give the Treasury, the regulators themselves and their industries reassurance that each Regulator is efficiently run, to identify any shortcomings and to encourage the spread of good practice. The review will be confined to the efficiency with which resources are used by each Regulator to discharge the objectives/work programme which they have set themselves. The review will not question the policies being followed by a Regulator, as this could be seen as undermining the Regulator=s independence, which Ministers wish to avoid. The openness in prioritisation of budgets noted above should ensure that the Regulators set their objectives and work programmes in a way that is fair to both the industries and consumers.

6. The successful tenderer will review the efficiency with which the utility Regulators carry out their activities and will make recommendations on best practice. The successful tenderer will produce a report to the Treasury, which will also be made available to the Regulators and to the National Audit Office. The Government does not plan to publish the report, but bidders should assume that there will be requests for copies to be made available and that the Government will accede to such requests.

Detailed specification

7. The review is expected to have four elements (although see Annex 2 for guidance on how we would like bids to be priced):

- (a) the Regulators= procedures for appraising proposed areas of work, so that resources are focussed on topics which can best achieve their objectives. This is likely to include consideration of some or all of the following: financial/business/management plans and the setting of objectives; bidding for resources/business cases for individual projects; prioritisation of objectives (e.g. through strategic reviews);
- (b) project and programme management and evaluation (ie. how is an individual project or programme managed by each of the Regulators, so that costs are successfully controlled, progress is monitored against objectives, changes are made if circumstances warrant it, etc.). We envisage this element of the project comprising a comparison of the Regulators= systems and also a check on how those systems have worked in practice, based on a project in each office of a comparable complexity and magnitude.
- (c) the relative cost of the Regulators= common functions, comprising an overall comparison of overheads (overhead:other cost ratios, operational:support staff ratios and floor space per employee), and specific comparisons of the relative costs of public registers/library facilities, press offices, IT/IS support

costs, Personnel and accounting/finance functions, and use of consultants versus in-house staff;

- (d) a methodology for benchmarking efficiency in the following areas: personnel management, finance, office services/estate management, procurement, IT systems operation and maintenance, external relations/press office, legal advice. The purpose of this work would be to provide an independent framework which could be used by the Regulators and Treasury in future to carry out specific reviews in some or all of the specified areas.

8. For elements (a) and (c), we would expect the successful bidder to focus on whether there are differences in performance between the Regulators which are due to inefficiency or exceptional efficiency and to make recommendations aimed at improving performance or bringing all the Regulators to the standard of the best.

External benchmarking

9. Besides benchmarking the Regulators against one another, we would also like their performance to be compared against an external body which is widely recognised as being efficient. We do not have any particular organisation in mind, but for a meaningful comparison, we would envisage the comparator also being in the public sector. A comparison with a suitable overseas organisation would be acceptable, if a bidder already had the necessary background knowledge or if relevant academic or other studies are available. Bidders should note that costs of overseas visits will not be reimbursed. It may be necessary to use different benchmarks for different sets of comparisons.

Other relevant information

10. Each Regulator works with a different industry, so there will be differences in their staffing levels, internal procedures, number of regulated bodies etc. which reflect these different circumstances and do not imply that one Regulator is less efficient than another. In the case of OFGEM, it will be particularly important to take account of the merger of OFFER and OFGAS, its predecessor bodies. It will be important that any conclusions take account of different circumstances to identify genuine cases of best practice and areas for improvement.

11. The review will be based on document scrutiny, interviews and workshops. The successful tenderers will have direct contact with the Principal Establishment and Finance Officers (PEFOs) of the Regulators, who will facilitate access to all relevant documents and members of staff and will ensure that any basic factual information necessary for the study is provided as quickly as possible.

Timetable etc

Project supervision

12. The successful tenderers will be appointed by and accountable to HM Treasury. However, the Regulators= PEFOs will be closely involved in the appointment

process and in finalising the exact terms of reference of the successful tenderers. We expect to make the appointment in August.

Length of contract

13. The successful tenderers will be required to produce a report of their findings, analysis and recommendations within four months of appointment (unless there are significant delays in one or more of the Regulators providing information, which we do not expect). Before finalising the contract with the successful bidder, we will also want to agree arrangements for an interim report giving provisional conclusions on at least two of the elements of the study. There will be an option in the contract to extend it for a further three months if required.

14. Within this timetable, the successful tenderers should allow a period of four weeks following completion of the final draft of their report for HM Treasury and each Regulator to review the report to ensure factual accuracy and also to have an opportunity to query points where they disagree with the draft=s analysis or recommendations.

15. Once comments from HM Treasury and the Regulators on the final draft have been addressed, the successful tenderers will produce 30 copies of their final report setting out their findings, analysis and recommendation. The successful tenderers should also be available for a period of up to a month from the submission of their final report for follow-up meetings with the Treasury and/or the Regulators.

Note: it was decided subsequently that part (d) of the specification would not be carried out.

ANNEX B - INTERVIEWEES

ANNEX B – INTERVIEWEES**Ofgem**

Callum McCarthy	Director General
John Neilson	Deputy Director General (Customers & Supply)
Gill Whittington	Chief Operating Officer
Roy Field	Director – Finance
Jack Wheale	Director – Human Resources
Joanna Whittington	Director – Europe/Information & Incentives
Stephen Smith	Director – Trading Arrangements
Pam Barrett	Director – Metering & Business Transactions
Sarah Harrison	Director – Public Affairs
Cath Martindale	Manager – Corporate Planning
Mark Baldock	Manager – Project Support
Curtis Juman	Chief Accountant

Oftel

David Edmunds	Director General
Ros Badger	Deputy Director of Resources
Chris Kenny	Director of Regulatory Policy
Alan Bell	Director of Strategy & Forecasting
Peter Walker	Director of Technology
Geoff Delamere	Head of Customer Markets
Bernie Head	Head of Consumer Representation Service
Duncan Stroud	Director of Communications
Keith Long	Director of Compliance
John Kemp	Casework Programme Manager
Mohinder Mahi	Quality Control Manager
Elaine Axby	Director, Mobile Policy
David Smith	Director of Business Support
Paul Heseltine	Head of Finance & Accounts
Peter Silverman	Office Manager
Laura Dawson	Deputy Director IS Services
Anne Cameron	Head of Research & Intelligence
Anne Lambert	Director of Operations

Ofwat

Philip Fletcher	Director General
Roger Dunshea	Director of Operations
Graham Laborde	Head of Finance & Services
Liz Davidson	Head of Human Resources
Carl Poulton	Information Systems Development Manager
Roy Wardle	Head of Consumer Representation Division
Teresa Evans	Consumer Representation Division
Nigel Milne	Head of IT Services
Audrey Mason	Quality Assurance
Julia Havard	Head of External Relations
Jane Fisher	Library & Information Services Manager

Office of the Rail Regulator

Keith Webb	Director – Strategy, Planning & Communications
Melanie Leech	Director – Operator Regulation
Michael Beswick	Director – Network Regulation
Paul Plummer	Director – Economics & Finance
Sally Barrett- Williams	Director – Legal Services
Delbert Sandiford	Head of Resources
Rod Arnold	Deputy Director – Strategy, Planning & Communications
Sue Daniels	Head of Communications
Peter Price	Acting Head of IT

ANNEX C - INFORMATION REQUEST

**External Efficiency
Review of
Utility Regulators**

Information Request

SECTION 1 - INTRODUCTION

WS Atkins has been appointed by HM Treasury to undertake an efficiency review of the utility Regulators. The review is not concerned with policy matters, nor is it intended to cover the effectiveness of the Regulators in carrying out their statutory duties. It is focused on internal procedures, cost efficiency, and outputs. We are particularly interested in how resources, costs and performance have changed over time, and for that reason we have requested time series data.

This Information Request covers the four Regulators which have different organisation structures and ways of operating their businesses. Since we want to make comparisons between the Regulators, it is important that as far as possible the information is presented to us on a consistent basis. However, we recognise that there will be some areas where the information is either unavailable or available in a different format. In such circumstances, we would ask that an explanatory note is provided. In the specific case of OFGEM, it will be necessary to present the information for both OFFER and OFGAS prior to the merger.

The Information Request is structured as follows:

- Section 2 – Request for Documents;
- Section 3 – Policies and Procedures;
- Section 4 – Assets and Contracts;
- Section 5 – Cost Structure;
- Section 6 – Human Resources;
- Section 7 – Output Measures and Performance Indicators.

The tables in this document are reproduced in an Excel spreadsheet which we are using to collect the numerical data.

Questions 4.1, 4.2, 5.1, 5.2, 6.4, 6.5, 7.1, 7.2, and 7.3 request information for the years 1997/98, 1998/99, 1999/2000. We recognise that there will be difficulties in assembling and interpreting historic data, but we would be interested in data before 1997/98 if it is possible to provide it. Space has been provided on the bottom of each relevant sheet of the spreadsheet for this purpose.

We ask that the response to the Information Request and the spreadsheet be returned to us by September 25th. Please e-mail the spreadsheet to the following addresses:

pawellings@wsatkins.co.uk
amsutton@wsatkins.co.uk
alan_horncastle@oxera.co.uk

Please e-mail the Information Request to the following addresses:

pawellings@wsatkins.co.uk
amsutton@wsatkins.co.uk

In addition please e-mail, as soon as possible:

A list of companies subject to regulation, together with a contact name at each with telephone number and e-mail address.

A contact name with telephone number and e-mail address at each consumer representative body with which you cooperate and/or run.

A contact name with telephone number and e-mail address at the most important stakeholders not covered in 1 and 2 (e.g. City, lobby groups etc).

The name and contact details of the person in your organisation who is best placed to discuss each theme listed in Section 3 - we would anticipate around 5 people, at most, from each Regulator to cover all 19 themes.

If you have any questions about the Information Request please telephone either:

Alan Sutton	01372 726140 x2753
	0402 104360 (mobile)
Paul Wellings	0191 2291594
	0410 174493 (mobile)

Many thanks for your cooperation.

SECTION 2 – REQUEST FOR DOCUMENTATION

Please post to the following address, the documents listed below:

Alan Sutton
WS Atkins
Woodcote Grove
Ashley Road
Epsom
Surrey KT18 5BW

- 2.1 Annual Report & Accounts for 1995/96, 1996/97, 1997/98, 1998/99, and 1999/2000.
- 2.2 Current Business Plan.
- 2.3 NAO or any similar audit reports.
- 2.4 Any customer satisfaction surveys.
- 2.5 Internal documents/papers relating to:
 - 2.2.1 IT strategy;
 - 2.2.2 Resourcing strategy;
 - 2.2.3 Reward strategy;
 - 2.2.4 Performance measurement/management strategy;
 - 2.2.5 Procurement and outsourcing strategy;
 - 2.2.6 Staff development strategy;
 - 2.2.7 Project planning/programme management strategy and guidelines;
 - 2.2.8 Quality assurance strategy.
- 2.6 Any other reports on your performance.

SECTION 3 - POLICIES AND PROCEDURES

We plan to carry out a series of interviews with the Regulators to discuss the way in which you manage your businesses. The following is a list of the areas we plan to cover. Please assemble, in time for the interview, any material and information you believe we should review in understanding your approach to each topic.

- 3.1 Business planning;
- 3.2 Programme management;
- 3.3 Project planning;
- 3.4 Project evaluation;
- 3.5 Budgeting;
- 3.6 Staff appraisal;
- 3.7 Performance management;
- 3.8 Procurement;
- 3.9 Quality assurance;
- 3.10 IT;
- 3.11 External communications;
- 3.12 Internal communications;
- 3.13 Training and staff development;
- 3.14 Consultation with stakeholders;
- 3.15 Reporting results;
- 3.16 Collection, archiving and control of information from licence-holders;
- 3.17 Handling customer complaints;
- 3.18 Handling enquiries;
- 3.19 Asset management.

As part of the formal response to this Information Request it would be helpful if you could produce a list of the activities undertaken by each of the support functions.

SECTION 4 - ASSETS AND CONTRACTS**4.1 Premises**

Please complete the following table for:

- current position (30 September 2000)
- 31 March 2000
- 31 March 1999
- 31 March 1998

Site	1	2	3	4
Office name or address				
Office location (city)				
Floorspace (sq.metres)				
Annual rent (£)				
Annual service charge (£)				
Other charges (£)				
Lease period (number of years)				
Lease expiring (year)				

Explanatory notes:_____

Note: Please include all sites including those solely occupied by consumer council staff

4.2 Office Equipment

Please complete the following table for:

- current position (30 September 2000)
- 31 March 2000
- 31 March 1999
- 31 March 1998

Site	1	2	3	4	Total
<u>Desk top computers</u>					
-number					
-book value (£)					
<u>Lap top computers</u>					
-number					
-book value (£)					
Printers					
-number					
-book value (£)					
Photocopiers					
-number					
-book value (£)					
Fax Machines					
-number					
-book value (£)					
Servers					
-number					
-book value (£)					
Mobile Phones					
-number					
-book value (£)					

Explanatory notes: _____

4.3 Communications

Describe your internet facilities:_____

Describe your intranet facilities:_____

4.4 Outsourced contracts

Currently, what functions have you outsourced (e.g. IT support, legal services)?
Provide a list as follows:

- Scope of services;
- Supplier;
- Value;
- Duration.

Please could you make available copies of the contracts during the relevant interview.

SECTION 5 - COST STRUCTURE

5.1 Breakdown by Cost Category

	97/98 (actuals)	98/99 (actuals)	99/00 (actuals)	00/01 (budget)
OPERATING COSTS:				
Total staff cost (excluding Consumer Council Staff)				
Consumer Council staff cost				
-Rent				
-Service charges				
-Utilities				
<ul style="list-style-type: none"> • Telephone • Gas • Electricity • Water & sewerage 				
-Council tax				
-Depreciation				
-Consultancy services				
-Other professional services				
<ul style="list-style-type: none"> • Legal • Property • PR • Accountancy • Other 				
-office consumables				

	97/98 (actuals)	98/99 (actuals)	99/00 (actuals)	00/01 (budget)
IT/IS consumables				
-Estate				
-Advertising				
-Publications (purchase of)				
Publications (production of)				
Post/Courier				
IT/IS support				
Entertainment/ Subsistence				
Travel				
Other purchases/services				
Total Operating Cost				
CAPITAL COSTS:				
-IT/IS equipment				
-office equipment				
-office refurbishment				
-vehicles				
-other				
Total Capital Cost				
Total Cost				

Explanatory notes: _____

Notes: Please enter figures in current year prices – do not adjust for inflation

Staff costs include basic salary, overtime (if any), National Insurance and pension contributions

5.2 Breakdown by Function

Provide a breakdown of costs by department for 1997/98, 1998/99, 1999/00 and 2000/01 (budget). In addition, for the current position (September 2000) please estimate, if possible, the floor space (sq.m.) per department.

Function	Operating costs	Capital costs	Floorspace (sq.m.)
Directors/senior management			
Operations (core business)			
Consumer Council			
Strategy & Planning			
Personnel			
Finance/Accounting			
IT/IS			
Corporate Affairs			
Press Office/PR			
Legal			
QA			
Customer Complaints			
Library/public registers			
Procurement			
Post/Courier			
Security			
Estate			
Office Services			
Other:			
Totals			

Explanatory notes: _____

Notes: Senior Management is defined as equivalent to Civil Service grade 5 and above.

Please disaggregate your own numbers in this format, if possible.

Please enter figures in current year prices – do not adjust for inflation

5.3 Cost Drivers

Please suggest key drivers of operating and capital costs in each function e.g. for personnel: average number of employees in post, number of recruits etc.

Function	Key Drivers of Operating and Capital Costs
Directors/senior management	
Operations (core business)	
Consumer Council	
Strategy & Planning	
Personnel	
Finance/Accounting	
IT/IS	
Corporate Affairs	
Press Office/PR	
Legal	
QA	
Customer Complaints	
Library/public registers	
Procurement	
Post/Courier	
Security	
Estate	
Office Services:	
Other	

SECTION 6 - HUMAN RESOURCES

6.1 Organigram

Provide an organigram, marked up with the names of key individuals (including department heads) and numbers of FTEs per department (as defined in 5.2).

6.2 Senior Managers

Provide the names, functions, and responsibilities of the Management Board, Directors and Senior Managers.

Name	Function	Responsibilities
1.		
2.		
3.		
4.		

6.3 Breakdown of Staff

Provide a breakdown of staffing by site for:

- current position (30 September 2000);
- 31 March 2000;
- 31 March 1999;
- 31 March 1998.

Site	1	2	3	4
Senior Management/Directors				
-FTEs				
-staff costs (£)				
Professional staff				
-FTEs				
-staff costs (£)				
Technical staff				
-FTEs				
-staff costs (£)				
Support staff				
-FTEs				
-staff costs (£)				

Explanatory notes: _____

Notes: Senior Management is defined as equivalent to Civil Service grade 5 and above.

Professional Staff is defined as equivalent to Civil Service grades 6 down to EO.

Support Staff is defined as equivalent to Civil Service grades AO and AA.

Please enter figures in current year prices – do not adjust for inflation.

Staff costs include basic salary, overtime (if any), National Insurance and pension contributions.

6.4 Breakdown of Staffing by Department

Provide a breakdown of staffing by department for 1997/98, 1998/99, 1999/00 and 2000/01 (budget).

Function	Management/ Directors (no.)	Professional Staff (no.)	Technical Staff (no.)	Support staff (no.)	Number of FTEs	Number of Agency Staff /Secondees	Staff cost (£)
Directors/ senior management							
Operations (Core Business)							
Consumer Council							
Strategy & Planning							
Personnel							
Finance/ Accounting							
IT/IS							
Corporate Affairs							
Press Office/PR							
Legal							
QA							
Customer Complaints							
Library/ Public Registers							
Procurement							
Post/Courier							
Security							
Estate							
Office Services							
Other: - -							
Totals							

Explanatory notes: _____

Notes: Please enter figures in current year prices – do not adjust for inflation.

Staff costs include basic salary, overtime (if any), National Insurance and pension contributions.

6.5 Staff Analysis by Year

Please provide the following information:

	97/98	98/99	99/00
Number of staff beginning of year			
Number of staff recruited			
Number of staff leaving due to:			
–retirement			
–dismissal			
–resignation			
–illness/death			
Number of staff end of year			
Part-time staff as % of total staff			
Overtime as % of total labour cost			
Total number of days sick			

Explanatory notes: _____

6.6 Staff Projections

Please provide, if possible, a projection of staff numbers and costs for 2001/02 and 2002/03 in accordance, as far as possible, with the breakdown set out in 6.4. Please enter figures in current prices.

SECTION 7 – OUTPUT MEASURES AND PERFORMANCE INDICATORS

- 7.1 Please explain how you measure **outputs** – what are the metrics, which departments are covered? For each department which has output measures please provide the data as far back as possible (to 1992/93 if this is practicable) and up to 1999/2000.

e.g. number of enquiries to the press office;
 number of press briefings;
 number of visitors to the web site.

- 7.2 Please explain how you measure and monitor **performance** - what are the metrics, which departments are covered? For each department which has performance measures please provide the data as far back as possible (to 1992/93 if this is practicable) and up to 1999/2000.

e.g. customer satisfaction with level of service.

- 7.3 For the years 1997/98, 1998/99, 1999/200, provide data on:

- Performance on Charter Standards (e.g. speed of response to complaints, speed of response to enquiries);
- Number of consultancy projects;
- Value of consultancy projects;
- Number of visits to web-site;
- Number of appeals lodged with MMC/ Competition Commission by regulated companies plus name of company and comparison between opex and capex proposed by Regulator and that proposed by MMC/Competition Commission.

ANNEX D - DOCUMENT REVIEW

ANNEX D – DOCUMENT REVIEW

Ofgem

1. Annual Report, 1999
2. Internal Plan and Budget, 2000/01
3. Resource Accounts, 1999/00
4. Operational Planning/Resource Budget 2000-2001, undated
5. Planning Guidance for 2001/02, 2000
6. Information and Incentives Project: Project Scoping Document, October 1999
7. Information and Incentives Project: Project Initiation Document, December 1999
8. Project Management Manual, August 2000
9. 2000/01 Finance Review, August 2000
10. The Use of Service Contracts (including Consultants) in Ofgem, April 2000
11. Review of Regulatory Accounts: Project Initiation Document, June 2000
12. IT Progress Report, October 2000
13. Report on Services for Electricity Customers 1999/00, September 2000
14. CEA Complaint Statistics, August 2000
15. A Review of the Development of Competition in the Industrial and Commercial Gas Supply Market, August 2000
16. NAO, Giving Customers a Choice – The Introduction of Competition into the Domestic Gas Market, May 1999
17. NAO, The Year 2000 Problem in the Utilities: Update Report, November 1999
20. NAO, How the Utility Regulators are Addressing the Year 2000 Problem in the Utilities, February 1999
18. NAO, Improving Energy Efficiency by a Charge on Customers, July 1998
19. NAO, The Regulation of Gas Tariffs: The Gas Cost Index, March 1996

Oftel

1. Annual Reports, 1996/97; 1997/98; 1998/99; 1999/00
2. Management Plans, 1999; 2000
3. NAO, Countering Anti-Competitive Behaviour in the Telecommunications Industry, April 1998
4. Towards Better Telecoms for Consumers, June 1997; March 1998; February 1999; May 2000
5. The Pay System – A Guide to Working with the System, undated
6. Finance Manual, undated

7. Staff Development Strategy: Training and Development Programme
8. Performance Appraisal in Oftel
9. Improving our Consultative Documents
10. Consultancy: Policy and Procedures for the Appointment of External Management and other Advisory Consultants
11. Stakeholder discussion document (web site: printed 11/9/00)
12. Strategy statement: Achieving the best deal for telecoms consumers (web site: printed 11/9/00)
13. Finance Manual
14. IT strategy
15. Published Public Service Agreement (PSA) targets for 1999/00, 2000/01 and 2001/02
16. Draft Service Delivery Agreement
17. Telephone list
18. "Communications Regulation in the UK", a paper issued by the DG of OFTEL
19. Letter to Nicholas Argyris, DG for Information Society, European Commission on "Sixth Report on the Implementation of the Telecommunications Regulatory Package"
20. Lists of stakeholders and their e-mail addresses
21. Competition Bulletin
22. Consumer Complaints made to OFTEL

Ofwat

1. Water Industry Act 1991
2. Ofwat Divisional Plans 2000-2001 up to 2003
3. Ofwat Forward Programme 2000 - 01
4. Ofwat Resource Accounts 1999-2000
5. Ofwat Direct General's Annual Report 1999-2000
6. Protecting the interest of water customers
7. New books received 22 July - 8 August 2000
8. Press releases received in the library
9. Library satisfaction survey
10. Library Statistics Enquiries 2000-2001
11. Time to regulate the rising price of regulation
12. Library Desk instructions (including cardholder procedure guide)
13. More library procedures
14. Even more library procedures

15. Library budget 2000/2001
16. Library budget 1999/2000
17. Library budget 1998/1999
18. Library budget 1997/1998
19. Dear MD and Dear RD letters
20. Companies regulated by Ofwat
21. Selected bibliography
22. Publications list
23. Ofwat library questionnaire
24. External relations strategy for competition
25. Some draft external relations plans
26. Parliamentary strategy
27. Draft review of external relations strategy
28. The 1999 periodic review - external relations strategy
29. PR Desk Aids
30. Handling parliamentary questions
31. Guidelines for RD/MD letters
32. Conference invitations
33. Priced publications
34. Public correspondence 1998/1999
35. Customer Charter - response times 97/98
36. Customer Charter - response times 99/00
37. Correspondence log 1999
38. Correspondence log 2000
39. Web site hits
40. Web hits publications & letters
41. Press releases, interviews, press calls
42. External relations Division
43. Methods of publicity for the external relations department
44. Ofwat House Style
45. Recovery of Ofwat costs
46. Electronic Commerce Programme - PID
47. Government Procurement Card Project
48. GPC Spend 1999/2000

49. Consultancy contracts awarded 1/4/99 - 31/3/2000
50. Government Procurement Card Project - copy 2
51. Procurement Guide
52. List of procurement/ finance/ estate/ management documents from Ofwat
53. IIS & IT Strategy
54. Plan for Information Systems Development
55. Ofwat Forward Programme 2000-01
56. Divisional Plans 2000/1 up to 2003
57. Review of the 1999 Periodic Review - MD letter
58. Review of the 1999 Periodic Review - special E(P) meeting
59. Water & Sewerage Bills 2000-01
60. Regulatory Directors
61. Stakeholders & key staff
62. Financial Management Strategy
63. Finance Branch - working recording analysis
64. Finance - organogram
65. Finance & Services Business Plan 2000/01
66. Facilities Management Plan 1999
67. Facilities Management Plan 2000
68. Premises Analysis
69. Estate Review
70. Cost centre reports
71. output costing report April - June 2000
72. output costing report 1999/2000
73. Desk instructions
74. Hardcat Procedures
75. Management of Budgets
76. Resource Accounts 1999-2000
77. service User Opinion
78. Employee opinion survey
79. Review of the Financial Model
80. Meeting note on financial model
81. Review of Financial Model
82. Meeting note on financial model

83. Review of Financial Model - validation and audit checks
84. Special TLG meeting - financial model
85. Review of the Financial Model - Option to retain current system including enhancements
86. Review of the Financial Model - approach to data transfer
87. Paper for special E (P) meeting 15 May 2000
88. Review of the Financial Model - approach to data transfer (copy 2)
89. Review of the Financial Model - The inclusion of policy team models
90. Executive (issues) meeting - review of the financial model (agenda)
91. Executive (issues) meeting - review of the financial model meeting note
92. Paper for special E(P) Meeting 6 March 2000
93. Relationship between Ofwat Tariff Basket Model and
94. Review of the Financial Model
95. Terms of Reference for a review of the Ofwat Financial Model
96. Approval of Companies charge schemes 2001-2002
97. Tariff Structure and Charges
98. Approval of Companies charge schemes 2001-2002 (copy 2)
99. Tariff Structure and Charges 2000/01
100. Approval of companies schemes in 2001-2002 conclusion on the consultation
101. Approval of Companies charge schemes in 2000/01
102. Approval of Companies charge schemes in 2000/01 (seemed misnamed really 2001/02)
103. The Ofwat National Customer Council and the ten regional Customer Service Committees
104. Representing Water Customers
105. Personal Review in Ofwat
106. Pay Chapter 3.1 of Staff Handbook
107. IIP - Portfolio of Evidence
108. Career Management & development Chapter 1& 2 of Staff handbook
109. Human Resources Tables
110. Divisional Headcount
111. Civil Service Reform - Questionnaire
112. Organogram & senior job descriptions
113. Benchmarking jobs
114. Communications Survey
115. Departmental Action Plans for Civil Service reform and Modernising Government

116. CSC Meeting Notes Wessex 9 May 2000
117. CSC Meeting Notes Wessex 11 July 2000
118. CSC Agenda - Wessex
119. External Relations Organogram
120. Number of calls to help desk
121. IT response times
122. The Water Industry in England & Wales
123. The Work of the Ds of Telecomms, gas, water and electricity
124. Water Industry – Regulating the Quality of Services to Customers CPA
125. Work of Oftel, Ofgas, Ofwat, Offer – minutes to CPA
126. Ofwat Director General’s Annual Report 1996
127. Ofwat Director General’s Annual Report 1997
128. Ofwat Director General’s Annual Report 1998
129. External Relations Organigram
130. Learning Points from 1999-2000 Divisional Reviews
131. CSC Annual Performance Review Minutes
132. 1999/2000 Divisional Performance Review Meeting Note
133. Resource Issues and Uncertainties
134. Financial Summary, 1999-2000
135. Financial performance and expenditure of the water companies in England and Wales
136. Levels of service for the water industry in England & Wales
137. IR Response re office equipment
138. IR Response Table 5.3 Cost Drivers
139. Staff turnover in press office
140. Ofwat Forward Programme 2001-02
141. Ofwat Finance and Services Business Plan 2000-2001
142. ISU Activities Completed April 99 - March 2000
143. ISU Systems Development and Quality Assurance
144. Operations Human Resources
145. Ofwat Staff Development Group ToR
146. Ofwat Audit Committee ToR
147. Remuneration Committee ToR
148. Management Board ToR
149. Regulatory Policy Committee ToR

Office of the Rail Regulator

1. Annual Report, 1997-1998
2. Annual Report, 1998-1999
3. Annual Report, 1999-2000
4. Operational Plan 2000-2001, June 2000
5. The Periodic Review of Railtrack's Access Charges: Timetable, Process and Issues, August 1999
6. The Periodic Review of Railtrack's Access Charges: The Regulator's Conclusions on the Financial Framework, December 1998
7. The Periodic Review of Railtrack's Access Charges: the Framework and Timetable and Further Consultation on Financial Issues, July 1998
8. The Periodic Review of Railtrack's Access Charges: a Proposed Framework and Key Issues: A Consultation Document, December 1997
9. The Periodic Review of Railtrack's Access Charges: a Proposed Framework and Key Issues: A Consultation Document, December 1997
10. Railtrack, 2000 Network Management Statement for Great Britain, March 2000
11. Operational Planning: Monitoring and Reporting on Progress against Objectives, undated
12. Implementation Plan for the Reorganisation of the ORR, undated
13. Procurement Policy and Guidance, December 1999
14. ORR and CSL Group Limited, Information Systems Services Supply Agreement, September 1997
15. ORR Staff Appraisal Guidance Notes, undated
16. Project Genesis: Implementation Invitation to Tender, undated
17. Agreement of Pay and Related Matters in the Office of the Rail Regulator, 1998/99
18. Guidance on Insurance against Third Party Liability, January 1999
19. Department of Transport, Network Licence granted to Railtrack plc, October 1999
20. Resources Division's Standards of Service, September 2000

ANNEX E – PROFORMA FOR PROJECT MANAGEMENT AUDITS

ANNEX E – PROFORMA FOR PROJECT MANAGEMENT AUDITS

<i>Project Start-up</i>	How are projects initiated? Are there clear definitions of the project objectives and key deliverables?
<i>Organisation</i>	Are there clear roles and responsibilities for the team? Is there a clear reporting structure in place? Has there been an agreed commitment to the work from senior management?
<i>Risk Management</i>	Have any potential risks to the project been identified ? How are risks managed?
<i>Change Management</i>	How are any changes to the original project objectives and deliverables managed?
<i>Planning and Work Allocation</i>	How are projects planned? How are the individual pieces of work allocated to teams/team members?
<i>Reporting Cycles</i>	What controls are in place to record progress and communicate project status?
<i>Communication</i>	Are there clear communication channels between: the project management team and the team members? the project and the stakeholders?
<i>Closing the Project</i>	Is there a clear and unambiguous end to the project ?
<i>Project Environment</i>	Does the organisation offer project support in the form of: project management templates? project management guidance, documents, and manuals? promoted project management processes and procedures? other management training such as leadership skills
<i>Filing</i>	What filing structures are in place?
<i>Learning Environment</i>	Can the organisation demonstrate the ability for learning lessons and building best practice from projects?

ANNEX F - STAKEHOLDER SURVEY QUESTIONNAIRE

ANNEX F – STAKEHOLDER SURVEY QUESTIONNAIRE

ADDRESSEE
JOB TITLE
COMPANY
ADDRESS 1
ADDRESS 2
CITY
COUNTY
POSTCODE

DATE

Dear TITLE LASTNAME

HM Treasury Project: External Efficiency Review of Utility Regulators

The HM Treasury has recently commissioned WS Atkins to undertake the study *External Efficiency Review of Utility Regulators*. This efficiency review is aimed at:

- examining the way in which the regulators define, plan and prioritise proposed areas of work in order that they can develop programmes and projects;
- evaluating the management of programmes and projects from inception to post-project review, including audits of current programmes and projects;
- examining the cost efficiency of common support functions undertaken by some of the UK regulators, such as overheads, accounting/finance, personnel, library, IT/IS, use of consultancy services, and press-office functions.

The government does not plan to publish the report, although it will be made available to the regulators and to the National Audit Office.

As part of this study, our associates, OXERA, are seeking the views of the regulator's main stakeholders—consumer groups, regulated companies, environmental groups and city representatives—concerning their perception of their regulator's performance in a number of areas. The questionnaire is designed to examine the quality of service provided by the UK regulatory bodies, which will be used in conjunction with information on regulators' cost efficiency to provide a more balanced picture of the regulators' performance, rather than to focus purely on cost efficiency.

In order to collate the views of stakeholders, we are using the OXERA Internet-based survey service, *Benchmark Online*, as well as telephoning a sample of stakeholders for more detailed information. If you would like to take part in this survey and provide your views about the regulator in your industry, please go to the web site www.oxera.co.uk/benchmark. In the Live Surveys section, you will find a survey entitled 'Regulators Stakeholder Survey'. From here, you will be requested to input your user name and password. Your unique user name and password for this questionnaire are (please note that they are case-sensitive):

- user name = USERNAME
- password = PASSWORD

A confidentiality statement will appear; please read this. If you are happy to continue, please do so, and the questionnaire will then appear. In order to ensure confidentiality, it is not possible to complete half the questionnaire, save it and return to complete it later. We therefore recommend that the questionnaire is printed off first, in order for the respondent to find out what information is required and collate any information that is not to hand (most questions, however, should be answerable immediately). Then, when ready, fill in the questionnaire in one sitting on line—it is anticipated that it should take no more than 10–15 minutes to complete the questionnaire on line, once you have compiled your response.

Please answer all questions as objectively as possible, and if you do not use the relevant regulatory service, please ask a colleague who does for their opinion. *All information input is treated as strictly confidential, and will be taken off line as soon as it is received*, where it will be collated with all the other responses. Also, the results from this survey will only be presented in an anonymous format.

At the end of the questionnaire, you will be asked if you would consent to being contacted by telephone to discuss your views. If you agree to this, you may be telephoned at a later date to discuss in more detail your perceptions of your regulator; it is anticipated that such a discussion will take no more than 15 minutes.

The deadline for completing the questionnaire is October 20th.

If you have any questions please contact Paul Wellings of WS Atkins on 0191 2291594 or 1410 174493, or Alan Horncastle of OXERA on 01865 253015 or email benchmark@oxera.co.uk.

Yours sincerely



Paul Wellings
Managing Consultant
WS Atkins Management Consultants

Please take your time in completing this questionnaire and consult relevant colleagues, to ensure that your response is an objective 'organisation-wide', rather than the opinion of an individual. Answers should relate to the past 12 months, although if any response is based on events previous to that, please give details in the comment boxes.

Please answer as many questions as you can. 5 = very good, 1 = very poor, unless otherwise stated. Also, please include a brief explanation of your rating in each text box, stating on what criteria your decision is based (such as accuracy of data, promptness of response, etc).

Regulator.

Which regulatory body is this response directed at? Please fill in separate questionnaires for any extra bodies you wish to comment on.

<ul style="list-style-type: none"> • OFGEM • OFWAT • ORR • OFTEL 	<ul style="list-style-type: none"> • OFREG • CAA • Other (please specify)
--	--

Industry.

What is your industry (if relevant)?

<ul style="list-style-type: none"> • Electricity Generation • Electricity Distribution/Transmission • Electricity Supply • Gas Transportation • Gas Supply • Other (Please specify) 	<ul style="list-style-type: none"> • Water and Sewerage • Water Only • Communications • Rail Transport • Air Transport
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Reply to enquiry speed (please ask someone in your department who makes regular enquiries to your regulator).

How satisfied were you with the speed of the reply(ies)?

Help text:

If possible, please state in the text box how fast a satisfactory response should be, and how fast the regulator's response actually was.

1	2	3	4	5	Further explanation:

Reply to enquiry quality.

How satisfied were you with the quality of the reply(ies)?

Help text:

Please state what criteria you have used in your judgement (i.e., accuracy of response, did they address key issues, etc).

1	2	3	4	5	Further explanation:

Library (please ask someone in your department who makes regular use of the regulator's library).

How satisfied are you with the performance of your regulator's library services?

Help text:

Possible criteria here could be: coverage of publications, speed of responses, etc.

1	2	3	4	5	Further explanation:

Press office.

How effective is the press office of your regulator?

1	2	3	4	5	Further explanation:

Press notices.

How do you rate the objectivity and clarity of the press notices issued by your regulator?

1	2	3	4	5	Further explanation:

Annual reports and forward plans.

How would you rate the quality of the annual reports and forward plans published by your regulator?

1	2	3	4	5	Further explanation:

Volume of other publications.

How do you rate the number of other publications issued by your regulator? 1 = too few 3 = about right 5 = too many.

1	2	3	4	5	Further explanation:

Quality of other publications.

How satisfied are you with the quality of other publications produced by your regulator?

1	2	3	4	5	Further explanation:

Internet services.

How well do you think your regulator has made use of online resources for providing external information?

1	2	3	4	5	Further explanation:

Use of consultancies.

Do you think your regulator make too much or too little use of external consultants? 1 = too little 3 = about right 5 = too much.

1	2	3	4	5	Further explanation:

Expertise of consultants.

How would you rate the expertise of your regulator's consultants?

1	2	3	4	5	Further explanation:

General expertise.

How satisfied are you with the general expertise of your regulator's staff?

1	2	3	4	5	Further explanation:

Technical expertise.

How satisfied are you with the technical expertise of your regulator's staff?

1	2	3	4	5	Further explanation:

Economic expertise.

How satisfied are you with the economic expertise of your regulator's staff?

1	2	3	4	5	Further explanation:

Data requests.

How do you rate the amount of data your regulator requests from your organisation? 1 = too little, 3 = about right, 5 = too much.

1	2	3	4	5	Further explanation:

Transparency.

To what extent do you feel clear about what data your regulator requires from you, and what that data will be used for?

1	2	3	4	5	Further explanation:

Confidential information.

Does your regulator guard confidential information well?

1	2	3	4	5	Further explanation:

Consultation.

How satisfied are you with the amount of consultation between your organisation and the regulator?

1	2	3	4	5	Further explanation:

Consultation effectiveness.

How satisfied are you with the effectiveness of consultation between your organisation and the regulator? Do you feel your views are fully considered?

1	2	3	4	5	Further explanation:

Ease of access.

How easy do you find it to gain access to your regulator's staff?

1	2	3	4	5	Further explanation:

Speed of decision-making.

How satisfied are you with your regulator's speed of decision-making?

1	2	3	4	5	Further explanation:

Thoroughness.

How satisfied are you that your regulator follows all due process in decision-making?

1	2	3	4	5	Further explanation:

Consistency.

How satisfied are you with your regulator's consistency in decision-making?

1	2	3	4	5	Further explanation:

Key issues.

How do you rate your regulator's ability to identify key issues?

1	2	3	4	5	Further explanation:

Priorities.

How do you rate your regulator's ability to prioritise work streams?

1	2	3	4	5	Further explanation:

Fulfilment of duties.

How well do you feel your regulator has managed to fulfil its duties?

Help text:

Regulator's functions are set out in legislation, but generally their duties involve protecting the interests of consumers, ensuring that businesses subject to price regulation are able to finance their activities, and facilitating or promoting competition in their industries where this is practicable.

1	2	3	4	5	Further explanation:

Overall impression of efficiency.

Given all of your answers above, how do you rate the overall efficiency of your regulator?

1	2	3	4	5	Further explanation:

Overall impression of quality.

Given all of your answers above, how do you rate the overall quality of service of your regulator?

1	2	3	4	5	Further explanation:

Value for money.

To what extent do you feel that your regulator's license fee represents good value for money?

1	2	3	4	5	Further explanation:

Other comments.

If you would like to add any further comments about your regulator, please do so below.

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Further contact.

May we contact you by phone for further brief enquiries?

No	Yes	Please use the following number(s).

ANNEX G - STAKEHOLDER INTERVIEWEES

ANNEX G – STAKEHOLDER INTERVIEWEES

Centrica	Iain Taylor
National Grid	Tim Tutton
National Power	Lawrence Poel
Seeboard	Tony Jackson
British Telecom	Steve Thomas
Railtrack	Steve Gibson
Severn Trent Water	Frank Grimshaw

**ANNEX H– BENCHMARKING QUESTIONNAIRE BENCHMARKING
OF COST EFFICIENCY & SUPPORT FUNCTIONS**

ANNEX H – BENCHMARKING QUESTIONNAIRE BENCHMARKING OF COST EFFICIENCY & SUPPORT FUNCTIONS

Name of organisation:

Questionnaire completed by:

1. Accommodation

1.1 Floorspace of office accommodation at end 1999/00		Sq.m
1.2 Annual rent in 1999/00		£ '000s
1.3 Annual service and other charges in 1999/00		£ '000s

2. Computer Equipment

2.1 Number of desk-top computers now or latest date of inventory		No./date
2.2 Number of lap-top computers now or latest date of inventory		No./date

3. Costs

3.1 Gross recurrent expenditure in 1999/00 (note 1)		£ '000s
3.2 Gross capital expenditure in 1999/00		£ '000s
3.3 Gross total expenditure in 1999/00 (3.1 + 3.2)		£ '000s

4. Staff Costs

4.1 Average number of staff employed in 1999/00 (note 2)		No.
4.2 Staff costs in 1999/00 (note 3)		£ '000s
4.3 Agency staff costs in 1999/00		£ '000s
4.4 Average payroll cost/head (4.2/4.1)		£ '000s

5. Personnel Indicators

5.1 No. of staff leaving in the year 1999/00		No.
5.2 Staff turnover (5.1/4.1)		%
5.3 Total number of days sick in 1999/00		No.
5.4 Total number of days worked by employees in the year (note 4)		No.
5.5 Absenteeism in 1999/00 (5.3/(5.4x4.1))		%

6. Human Resources Function

6.1 Do you have a human resources/personnel department ?		Yes/no
6.2 Total cost of the department in 1999/00 (note 5)		£ '000s
6.3 Average no. of people employed in the department in 1999/00 (note 6)		No.
6.4 Does the HR function have a SLA with the organisation ? (note 7)		Yes/no
6.5 Does the HR function collect and publish activity level data ? (note 8)		Yes/no
6.6 Does the HR function collect and publish performance data ? (note 9)		Yes/no
6.7 Does the HR function carry out "stakeholder" surveys ? (note 10)		Yes/no

7. Finance Function

7.1 Do you have a Finance department ?		Yes/no
7.2 Total cost of the department in 1999/00 (note 5)		£ '000s
7.3 Average no. of people employed in the department in 1999/00 (note 11)		No.
7.4 Does the finance function have a SLA with the organisation ? (note 7)		Yes/no
7.5 Does the finance function collect and publish activity level data ? (note 12)		Yes/no
7.6 Does the finance function collect and publish performance data ? (note 13)		Yes/no
7.7 Does the finance function carry out "stakeholder" surveys ? (note 10)		Yes/no

8. Communications Function

8.1 Do you have a Communications function ?		Yes/no
8.2 Total cost of the department in 1999/00 (note 11)		£ '000s
8.3 Average no. of people employed in the department in 1999/00 (note 14)		No.
8.4 Does Communications have a SLA with the organisation ? (note 7)		Yes/no
8.5 Does Communications collect and publish activity level data ? (note 15)		Yes/no
8.6 Does Communications collect and publish performance data ? (note 16)		Yes/no
8.7 Do you have a web-site ?		Yes/no
8.8 Do you use the web-site to distribute your documents to end-users ?		Yes/no/na
8.9 Do you have an intranet ?		Yes/no
8.10 Is the intranet used for training and knowledge management ? (note 17)		Yes/no/na
8.11 Does Communications carry out "stakeholder" surveys ? (note 10)		Yes/no

9. IT Function

9.1 Do you have a IT function ?		Yes/no
9.2 Total cost of the department in 1999/00 (note 5)		£ '000s
9.3 Average no. of people employed in the department in 1999/00 (note 18)		No.
9.4 Does the IT function have a SLA with the organisation ? (note 7)		Yes/no
9.5 Does the IT function collect and publish activity level data ? (note 19)		Yes/no
9.6 Does the IT function collect and publish performance data ? (note 20)		Yes/no
9.7 Does the IT function carry out "stakeholder" surveys ? (note 10)		Yes/no

10. Estates/Facilities Function

10.1 Do you have an estates/facilities function ?		Yes/no
10.2 Total cost of the department in 1999/00 (note 5)		£ '000s
10.3 Average no. of people employed in the department in 1999/00 (note 21)		No.
10.4 Does the department have a SLA with the organisation ? (note 7)		Yes/no
10.5 Does the department collect and publish activity level data ? (note 22)		Yes/no
10.6 Does the department collect and publish performance data ? (note 23)		Yes/no
10.7 Does the department carry out "stakeholder" surveys ? (note 10)		Yes/no

11. Quality Management

11.1 Do you have a quality management function ?		Yes/no
11.2 Total cost of the department in 1999/00 (note 5)		£ '000s
11.3 Average no. of people employed in the department in 1999/00		No.
11.4 Is there a quality assurance policy ?		Yes/no
11.5 Is there a quality manual ?		Yes/no
11.6 Do you have an accredited quality assurance system (e.g. ISO 9000) ?		Yes/no

12. Explanatory Notes (if any)

Please set out below any comments which will help us to interpret your reply

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Notes

1. Do not include reimbursed VAT or income from government or private sector
2. Staff at 1 April 1999 plus staff at 31 March 2000, divided by 2
3. Includes salaries, overtime, allowances but not agency staff. Seconded staff should be included in Agency staff
4. Excluding leave and public holidays – should be in the range 220-230
5. Include only recurrent costs (staff, consumables, and allocation of accommodation and utility costs if possible)
6. Include all people engaged in personnel functions (recruitment, payroll, training and development, relocation, strategy)
7. Service Level Agreement, setting out deliverables and performance targets
8. For example, number of recruitments carried out; number of people trained
9. For example, staff turnover; absenteeism; training evaluation results
10. Opinion survey issued to departments affected by the work of the function
11. Include purchasing/procurement, management accounts, statutory accounts, budget, payments, invoicing, financial database
12. For example, number of invoices raised; payments settled
13. For example, number of invoices paid within 30 days; turnaround time for management accounts
14. Include library, press office, publications, post/messenger, and reception
15. For example, number of press releases; number of telephone enquiries
16. For example, response time to enquiries
17. Not just for internal e-mail and download of documents, but for training, circulation of best practice guides, policy updates, access to corporate databases and so on
18. Include staff who are engaged solely on maintaining and upgrading hardware, systems and communications for the organisation
19. For example, number of requests for assistance
20. For example, response time to requests; time taken to solve problems
21. Include cleaners, building maintenance, equipment maintenance
22. For example, number of reported faults
23. For example, time taken to resolve faults; availability of equipment

ANNEX I – ANALYSIS OF STAKEHOLDER RESPONSES

ANNEX I – ANALYSIS OF STAKEHOLDER RESPONSES

Table I.1 - General Views on All Regulators

Area	Ofgem	Ofwat	Oftel	ORR
Library	Decline in service since the merger	Helpful and prompt	The need to make an appointment to use OFTEL's library causes frustration. Replies to enquiries general of good quality but of variable promptness.	Generally prompt and efficient.
Press Office	Improvement since the merger; praise the email notification system; questionable objectivity	Adequate; some notices lack clarity; questionable objectivity	Generally good.	Perceived as efficient, but concern over even-handedness.
Annual reports	Introduction of forward plans seen as an improvement; little on actual performance versus plans	Annual reports are fine; forward plans are vague	Annual reports and forward plans are useful.	Generally good.
Publications	Volume of publications is too high; positive comments on style and clarity; appearance that conclusions are fixed from the outset	Volume ok; positive comments on style and clarity; appearance that conclusions are fixed from the outset	Volume and quality of publications are generally good.	While the volume of publications is considered too high, they are generally perceived to be of high quality.
Internet	increasing quality of the website, praise for the email press notification system.	recently improved and generally useful – still difficulties in getting historic documents; not updated quickly enough.	The internet service is good, but could be improved in terms of volume of information and searchability.	Very useful and of high quality.
Consultants	overuse of (in some cases the same) external consultants	Generally OK	Appropriate use of consultants on complex issues, although some cases of misunderstanding the issues.	Overuse of consultants who are not of good quality.
Expertise	merger resulted in the loss of much electricity general and technical expertise; strong grasp of economic theory, but too much focus on theory	Concern about the quality, inexperience and recent high turnover of staff for general and economic expertise; limited practical knowledge of the industry	Concern about high turnover. Knowledge of new technologies should be better.	Mixed views, but concern over turnover and expertise.

Area	Ofgem	Ofwat	Oftel	ORR
Data	concerns about the volume of data requested, and the time-scale given to deliver it; use of data not clear; general satisfaction with handling confidential information	Excessive; unclear as to its use or used for other reasons; confidentiality generally handled OK, with the exception of disclosing confidential information on a CD ROM in 1998	Concerned about both the volume of data requested, and the time scale of the requests.	Complaints about intrusive and ad hoc nature of data requests.
Consultation	Some consider that OFGEM has already formed an answer before the consultation process.	General view that there is little consideration given to other views during the consultation, and that OFWAT has already formed an opinion before the consultation	Generally, the feeling is that OFTEL consults about the right amount, but places more emphasis on certain companies' view than others.	About the right amount. Concerns about short timescale and inclusion of more minor stakeholders.
Decisions	The speed of decisions can vary, depending on the type of project; often sets itself too tight deadlines.	Speed OK, except in some circumstances; not always thorough or consistent, with last-minute changes possibly designed to maintain a priori outcome	Slow to make decisions. High staff turnover can hinder both thoroughness and consistency.	General satisfaction with speed and thoroughness.
Issues/priorities	Over-ambitious and takes too much on at once. Poor management of priorities as a result.	Generally OK	Questions are raised about OFTEL's priorities, especially on issues such as increasing competition (i.e. local loop unbundling)	While identifying key issues as satisfactory, prioritising them is more a problem.
Duties	Successful in driving a huge change in the structure of the markets, but possible too interventionist now in competitive markets	Possible over emphasis on secondary duties and not primary duty of financing functions	By acting too slowly, OFTEL is less able to fulfil its duties of increasing competition and encouraging R & D.	General satisfaction, but concerns expressed about aggressive stance.
Overall	Generally below satisfactory, with specific concerns about the volume and depth of regulation, the loss of expertise, and the lack of apparent gain from the OFFER/OFGAS merger.	Slightly below satisfactory, additional costs to companies in terms of data requests could be reduced	Reasonable performance, but there are significant concerns about the effects of high staff turnover.	Generally satisfied, but note that this is still the first regulatory cycle.

Table I.2 – Detailed Analysis of Ofgem Responses

Question	Score	Comment summary
Reply to enquiry speed	2.75	Many state that response times are highly variable, implying that there are times when the response times are unsatisfactory.
Reply to enquiry quality.	2.84	Some state that responses were too general with not enough detail. Also there are complaints that justification for decisions is not always provided.
Library	2.75	There are comments on the shortness of opening hours (two hours a day), as well as both difficulty in getting through to the library, and poor response times to phone messages. Some notice a decline in service since the merger between OFFER and OFGEM.
Press Office	3.59	There is much praise of the email notification system, although a few complain of some technical problems they have encountered. Many point to an improvement since the merger between OFFER and OFGEM.
Press notices	2.95	Comments state that while the quality and clarity of the press notices is high, there many comments questioning the objectivity. Some do note, however, that is not unexpected or unwarranted.
Annual reports and forward plans.	2.95	Many comments welcome the introduction of Forward Plans as an improvement. Many also note that there is little information on how actual performance compares with plans.
Volume of other publications. (1 = too little, 3 = about right, 5 = too much)	4.14	The feeling is generally that the volume of publications is too high. There are concerns about the workload required to keep track of all the documents. Also, concern is raised that often documents are poorly focused, thus raising the associated workload unnecessarily. Some respondents felt that the high number of publications is due to unnecessarily high levels of regulatory intervention.
Quality of other publications.	2.93	Many positive comments about style and clarity. Questions raised, however, about whether or not in some consultation documents, OFGEM have already made up their mind.
Internet services.	3.84	A large amount of praise for the increasing quality of the website, and the email press notification system.
Use of consultancies. (1 = too little, 3 = about right, 5 = too much)	4.29	There are serious concerns that there is overuse of external consultants at the expense of developing internal expertise.
Expertise of consultants.	3.00	The comments are varied. Some state a concern that OFGEM overuse the same consultants.
General expertise.	2.48	Many comments that the merger between OFFER and OFGAS has resulted in the loss of much electricity expertise. Other general comments on the staff being young and inexperienced, though improving.

Technical expertise.	2.65	There is general concern about the technical knowledge of staff, and the lack of weight placed on technical issues. Again, some comment that the situation has worsened since the merger of OFFER and OFGAS, especially for electricity.
Economic expertise.	2.65	Many respondents note that staff have a strong academic backing and grasp of economic theory. There is a concern that there is too much focus on the theory, and staff would benefit from more practical experience.
Data requests. (1 = too little, 3 = about right, 5 = too much)	4.10	There are many concerns expressed about both the volume of data requested, and the time-scale given to deliver it, as well as the extra resources required to deal with the requests. Other points raised are whether the detail of data requested goes beyond the remit of the regulator, and whether too much focus is placed on inputs rather than outputs.
Transparency.	2.26	Respondents say the data specifications are clear, but question whether all of the data requested is needed. Similarly, others say that it is not clear how the regulator uses the data it collects.
Confidential information.	4.08	Largely the comments expressed satisfaction that OFGEM guards confidential information safely. Only a few complaints about information mishandling.
Consultation. (1 = too little, 3 = about right, 5 = too much)	2.90	There are a wide range of views as to the amount of consultation, some claiming the level is too low to have a proper say, while other claim it is too high and demands to great a workload. Some respondents note that often they feel as though OFGEM has already formed an answer before the consultation process.
Consultation effectiveness	2.12	There is a widespread concern that OFGEM does not place enough weight on submissions to consultations. Specific examples noted are the NETA consultation, and meter unbundling.
Ease of access.	3.16	Generally satisfactory, but seems to vary across departments. There is also frustration expressed about the automated voicemail system.
Speed of decision-making.	2.73	Respondents note that a balance must be struck between fast decisions and thorough ones. They note that speed varies depending on the type of decision made. One more specific worry is that OFGEM sets itself too harsh deadlines, which puts undue pressure on the consultation process.
Thoroughness.	2.67	While there are many responses expressing satisfaction with OFGEM's adherence to due process, there remain many concerns that other's views are not fully taken into account in the consultation process.
Consistency.	2.84	The comments here are varied, although most note that OFGEM does make an effort to be internally consistent. Specific problems are caused by the large volume of material published and the high turnover of staff.

Key issues.	2.98	Many positive comments, but several points raised. First, there is a feeling that often issues are given priority for theoretical, rather than practical reasons. Also, some comments suggest that too many issues are focussed on, meaning that the 'big picture' is lost.
Priorities.	2.46	Many comments question OFGEM's project management. More specifically, some comments point to the large volume and broad focus of consultations as evidence of a need for greater prioritisation of tasks and projects.
Fulfilment of duties.	2.84	There is a general recognition that the gas and electricity markets have undergone a huge change over the past 10 years. There are, however, complaints that the regulator now interferes too much in competitive markets.
Overall impression of efficiency.	2.32	The prognosis of OFGEM's efficiency is below satisfactory. General concerns are raised about the expertise of staff, and the increasing, rather than decreasing, regulatory burden.
Overall impression of quality.	2.45	There is the feeling that the quality of OFGEM's output would improve if the volume of work and projects was reduced.
Value for money.	1.66	There are widespread concerns over the rapidly increasing licence fee, and the fact that there is a lack of effective efficiency incentives for OFGEM. Comments also suggest that some sort of RPI-X system should be used to provide such incentives.
Other comments.		Four main general areas of concern are mentioned in the responses: 1. A general concern about the recent high rises in the licence fee. 2. The high staff turnover and consequent loss of expertise. 3. That there have been few apparent gains from the merger between OFFER and OFGAS, and that some significant areas have suffered as a result. 4. The feeling that industry views are not given due consideration in the consultation process.

ANNEX J – PROJECT AUDIT REPORTS

OFGEM**Meeting: 9th Oct 2000**

Present: Mike Baldock

Projects reviewed:

Transco Price Control Review

Environmental Action Plan

Information and Incentives

Documents received:

Transco Price Control Review PID and Highlight Report

Environmental Action Plan PID and Highlight Report

Information and Incentives PID

Project Management Training slides

Project Management Manual

Background

The Management Committee has been determined to build up OFGEM's central expertise in project management and to develop project management skills throughout OFGEM. They have instigated an organised Project Support Office (PSO) in operation which is based around the best practice project management principles of PRINCE 2 (PRojects IN a Controlled Environment). This includes two full time support staff, a manual, templates, and an Intranet site, which includes the aforementioned and has details of all major projects underway including access to existing project documents. In addition, the PSO has provided a series of 2-day training and awareness sessions for project staff (currently approximately 70 staff have attended).

80% of OFGEM work is project based and to support this the PSO was set up at the end of 1999. In that time the office has built up the first steps towards a good project management and learning environment. The PSO set itself three aims:

1. Establish a project management method
2. Provide training and support
3. Report and monitor progress.

The first two aims have been achieved and the PSO is now concentrating on the mechanisms to be put into place to achieve the third.

Impressions

From a project support perspective, project management processes, procedures and support are well represented but there lies an acknowledged inconsistent area whereby project managers are left to manage the actual work themselves. Two of the Project Initiation Documents (PIDs) reviewed showed different methods of planning and different styles in their presentation. Advice and support on how to plan, allocate and define work have been given to project managers by the support office. The training sessions have covered these subject areas but as yet the support has used no formal control to enable conformity of approach in this area.

The PSO has driven the requirement for a defined and structured start up to the project and this is in good evidence. The next area for the PSO to concentrate on is around the mechanisms for effective progress reports. To this end the PSO is pro-actively helping to produce the first reports for the key projects. Project Managers will be required to provide subsequent reports in the same format.

Below are the results on the key areas covered during the meeting:

They have been rated under the following headings:

• Weak/needs development	0x1 = 0	Overall Score = 3.4
• Under development	1x2 = 2	
• Satisfactory	5x3 = 15	
• Good/excellent	5x4 = 20	

- Start up – Good/excellent

It is clear that major projects (as identified in the Corporate Plan) are required to produce a definition of the work to be undertaken and how that work will be managed. The PSO reports that 60-70% of the 20 main projects produced PIDs before work commenced. Those already underway have also now produced PIDs. These are all available via the Intranet.

- Organisation – Good/excellent

The organisation structure for those projects under the project support wing have clearly defined and agreed roles and responsibilities. In addition, the training sessions have highlighted the key roles whilst staff at all levels have been exposed to the responsibility criteria set for these roles. The PSO have also been present at Project Board meetings to help steer the meetings towards effective decision making based upon timely and relevant progress information.

- Risks – Satisfactory

Identified at the start of the project and recorded in the PID. The risks are managed throughout. There are in some cases active risk logs which have been monitored and updated as evidenced in the highlight reports produced in conjunction with the PSO.

- Change Management – Satisfactory

The projects we have reviewed have displayed a good understanding of change management. In some cases, an issue log has been produced to record and manage change. However, the issue logs reviewed show some confusion over the difference between a risk and an issue. Many of the issues shown in one issue log should in fact have been recorded as risks.

- Plans and work allocation – Satisfactory

Plans, work allocation and the definition of work are left to the project manager's discretion although the PSO will help to produce project plans in a standard format if requested. Guidance through the training sessions on how to plan has been provided. Included in the training sessions is a set of requirements to effectively manage external resources. This is particularly relevant to OFGEM projects where a large number of consultants are involved.

- Reporting cycles – Satisfactory

The reporting methods are clearly defined in the PIDs we have reviewed and the PSO is actively promoting the format of a PRINCE2 highlight report which shows key progress information. At present the highlight reports have been produced by the PSO in an effort to encourage and enable the project managers to effectively report progress. Meetings between the teams and the project managers are not so vigorously pursued by the PSO. Again the management at this level is left somewhat to the project manager's and projects needs. There are approximately 150 staff recorded on a resource database being managed by the PSO. Current resource requirements for projects are recorded via highlight reports and are used to show "pinch points" whereby resource over-allocation may be a problem.

- Communication – Good/excellent

A thorough communication plan has been shown in the PIDs reviewed. This displays good awareness of stakeholders and interested parties and their communication needs as well as the team and senior management communication requirements.

- Close – Under development

Projects under review and using the PSO have not yet reached closure.

- Project Environment – Good/excellent

There is in operation good use of the Intranet to promote the benefits of PIDs which provide the controlled start mechanism for key projects. They also provide the Intranet site with a standard format for future projects to learn from and re-use. A good project management environment is being formulated and is founded on the project PSO's proactive stance in providing a PRINCE 2 based project management manual, templates and support. In addition there are a number of management training courses on offer to project managers.

- Filing – Satisfactory

There is a standard filing structure in place.

- Learning environment – Good/excellent

The Intranet site is providing a forum for learning lessons. Lessons are already being learnt and communicated through the PSO.

Recommendations

The next stage for the PSO will be to concentrate on typical workshops and consultative documents, and typical contract management questions. In addition, the PSO should focus on

the use of Product Descriptions to help define the key deliverables and look at how project managers are planning their projects and allocating work. The use of work packages especially for work allocated to external resources would be extremely relevant.

The PSO will need to monitor project performance and begin to build up a library of typical project information such as common risks, issues and products. The ability to learn lessons from projects will be one of the main benefits the PSO can bring to OFGEM to enable a successful project environment.

The PSO should be commended on its common sense approach to implementing PRINCE2 into OFGEM. A measured introduction of the main principles has been achieved through this approach. This needs to be built upon through the promotion of best practice and a common approach.

The PSO should continue to use the Intranet as their project management information tool as this will provide a very focal point for project management. It should perhaps be enhanced to provide a central repository for all key project management documents and perhaps registration. In addition, the smaller projects should also be included in future project management support.

OFTEL**Meeting: 4th Oct 2000****Present: Confidential****Cases reviewed:****Confidential****Documents received:**

Manual of Procedures for Casework
Assessment of casework quality for above cases
Reports on Casework Quality Monitoring System

Background

The stream of work under consideration at this meeting only covered Casework. Policy projects have not been included. Nevertheless, OfTel recognises that Casework can be approached as a project using the same principles.

There are a number of requirements for successful Casework primarily based around delivery times. The preliminary phase must be completed within 30 working days, the investigation phase within 6 months. To this end OfTel has a manual detailing the steps required by a Case Officer to attain this. The Casework manual has been driven by quality control.

The manual is now being converted to work over the Intranet in an attempt to improve its effectiveness. It is hoped this mechanism will prompt casework teams to follow the guidance offered more rigorously.

Impressions

The one area where we identified a potential weakness is in planning, specifically at the Investigation phase. The Compliance Directorate have recognised this as a weakness and are building up a template case plan to address this. The case plan is part of the manual but needs to be more closely controlled and detailed. There are a number of outline activities for the Investigation phase to be found in the manual and some suggested typical timescales. These should be included in the case plan template and guide the case officer to update with real timescales and indeed, should provide the bedrock for the case plan.

OfTel suffers from a high level of staff turnover. As a result, the casework team have often changed during the casework phases and in some cases the case officer or manager have been replaced. This has led to a delay in the work proceeding, as the new member(s) become acquainted with the work and its status. The manual details specific roles and responsibilities, which should help new case managers or case officers, understand their position on a case. The tasks outlined in the manual give guidance on what work is required during the phase but this needs to be recorded against actual progress so that new staff can quickly understand at what point in the Investigation phase the case is at any given point in time.

Oftel has a very effective quality process in place, which has strong ties with project management. There are 4 clear phases to the Casework, and at the end of each phase authority to proceed from the Casework Manager or a more senior manager is sought. In addition, the phases themselves have been broken down into four key stages with clear activities and deliverables attached to each.

Overall impressions of Oftel show that they have a strong structure in place for Casework. Planning of the Investigation phase requires some improvement, as this is being addressed. Oftel has a satisfactory reporting mechanism in place and a clear organisation structure but it is not clear how progress is effectively monitored. In one instance, an inefficient case officer and case manager hampered the progress of a casework. The reporting mechanisms and controls should have picked this problem up immediately. The case plan and the stage timescales need to be updated with actual figures and reasons for any changes recorded and reported on to case managers and by the case managers at their weekly meetings to senior staff.

Another area of concern is risk management where issues such as staff turnover can be planned. In addition, definition of individual work will help in enabling new staff to pick up work and its status quickly.

Below are the results on the key areas covered during the meeting:

They have been rated under the following headings:

• Weak/needs development	0x1 = 0	Overall Score = 3.4
• Under development	1x2 = 2	
• Satisfactory	5x3 = 15	
• Good/excellent	5x4 = 20	

- Start up – Good/excellent

The manual shows the detailed steps to be undertaken to log and record cases and how to proceed. Quality control is ensured throughout this start up period. The start up phase is followed by a formal decision to proceed to investigation. The activities to achieve this phase of work are listed in the manual. This phase is all about defining whether the case is justifiable. As such this is a good control mechanism which should help to avoid wasted time and effort.

- Organisation – Good/excellent

There are clear lines of responsibilities and defined roles for the Casework team. The manual explains each role clearly and has defined responsibilities for each key management role within the Casework team. The Casework team comprises a Casework officer and manager as well as a Casework Panel, which can offer advice to the Casework officer and provides the key decisions on the Casework progress.

- Risks – Under development

Legal risks are accounted for. Staffing risks are considered by case officers and the casework programme manager. Forward planning to cope with sick absences and staff turnover is a standing agenda item for CMG meetings. However, a more formal system of risk management would be beneficial.

- Change Management – Satisfactory

Issues relating to the work are recorded at regular progress meetings and dealt with by the case officer. Although this covers most of the issues there is a danger that some issues may be missed or left out of matters under consideration at the progress meetings. A central conduit for recording and managing issues would ensure all issues are dealt with and can be collated for lessons learnt.

- Plans and work allocation – Satisfactory

The work is based around the four phases detailed in the manual. How the work is planned during the phases especially during investigation could be improved. Because the teams are usually small and closely situated in the office work has been allocated verbally. This might cause problems as staff leave or are introduced to the team during the casework. The manual has outlined the activities needed to ensure an effective Investigation has taken place. This needs to be incorporated more rigorously into the case plan and at progress meetings.

- Reporting cycles – Good/Excellent

Team meetings are held informally on a daily basis. Meetings between Case Managers and the Casework Panel are held on average twice per month (or more or less frequently as required). The reporting structure is clear.

- Communication – Good/excellent

Communications and correspondence are normally of good quality. Guidance on frequencies is set out in the manual for both internal and external audiences.

- Close – Good/excellent

Casework has a clear and unambiguous closure procedure. The casework officer, manager and quality manager fill in a casework quality assessment form at close. They will rate the project according to defined quality criteria. A customer assessment quality questionnaire is also sent.

- Project Environment – Satisfactory

The manual sets out clear guidelines for the production of Casework at all phases. There are a number of training courses and awareness sessions for new and existing staff to educate them in the use of the manual. There are a number of templates on offer although these are mainly for correspondence purposes. The manual is being developed to work over the Intranet. There is a Casework Management Information System used to register cases and record statistics for use in lessons learnt.

- Filing – Satisfactory

Hard copy files of various qualities primarily recording correspondence and minutes from meetings – electronic copies also.

- Learning environment – Satisfactory

Lessons learnt are recorded through meetings but a recognised lesson learnt forum is not yet available. However, the quarterly Quality Monitoring System Report highlights the issues uncovered through the period's casework. These lessons learnt are formed from the quality assessment documents produced at close. This has ensured that issues in such areas as the planning of the Investigation phase have been identified and addressed. Oftel reports that the Compliance Directorate largely met its targets in 2000.

Recommendations

Oftel can expect its decisions under the Competition Act to be more frequently challenged. Thus case officers will need to be more accountable. The need for adherence to a recognised set of procedures is therefore crucial in recording and ensuring accountability.

In order to achieve continued success the Casework Manual offers a very good set of procedures. Nevertheless, there needs to be a section on how to identify and manage risks within a Case. In addition there needs to be a greater focus on the plan for the Investigation phase and its break up into stages and activities. It would be wise to build up a common set of risks, issues and typical timescales to compliment the lessons learnt forum. The Intranet site could be set up as a casework information centre providing not only guidance through the manual, but also statistical information built up from the Casework Management Information System, common risks issues and lessons learnt.

OFWAT

Meeting: 12th Oct 2000

Present: Sam Okyere, Keith Mason, Dawn Harrison

Projects reviewed:

Approval of Charges Scheme
Review of the Periodic Review
Financial Model

Background

There are a number of projects underway in OFWAT. Those that utilise staff from across separate divisions fall under the most control. This control is co-ordinated by OFWAT staff through the production and management of project plans. Nevertheless, there is no project support office or manual to offer help and guidance to OFWAT projects although key new projects are beginning to formulate a standard approach. The second phase of the Review of the Financial Model, for example, has been initiated through the use of a structured Project Initiation Document (PID).

The Project co-ordinator for those projects crossing divisions will manage the project plan. This will normally be composed using Word or Excel as a table of deliverables and timescales. These plans are updated by the co-ordinator at regular Director meetings, which also involve the individual teams. Dependencies are monitored and progress recorded.

The roles and responsibilities for each team are well defined and managed.

Impressions

From the projects reviewed the management has been of an individual nature, however some clear procedures are in place to ensure key projects have a clearly defined Terms of Reference. This has effectively operated as a precursor to the more fully detailed Project Initiation Document (PID) produced on current projects. In turn this indicates a significant step in providing a project and learning environment, as the PID will provide a template covering the key principles of project management.

The role of the project co-ordinator has been used to produce and monitor plans across divisions. Their role has been to co-ordinate resources and activities across the projects through the use of the plans. Plans, it is assured, are of varying degrees of detail to meet the requirements of the audience, team plans have detailed activities and timescales, project plans have milestone activities and timescales. This has ensured a good degree of planning has been achieved across projects. It must be stressed that this is not always the case and projects, which are division specific, will not have this facility.

Below are the results on the key areas covered during the two meetings:

They have been rated under the following headings:

• Weak/needs development	4x1 = 4	Overall Score = 2.5
• Under development	0x2 = 0	
• Satisfactory	4x3 = 12	
• Good/excellent	3x4 = 12	

- Start up – Good/excellent

A Terms of Reference is needed for most projects before start up can be approved. All of the projects reviewed required a Terms of Reference although this was not evidenced. The Financial Model project has now moved into its second phase and has required a Project Initiation Document to define the project before commitment is made.

- Organisation – Good/excellent

Varying degrees of understood roles and responsibilities were evidenced. Although project team leaders and directors are well informed as to their roles and responsibilities it is felt that individual team members who may not necessarily be involved in the progress meetings are left untouched by the project. Team members may not necessarily be aware of the reporting and responsibility requirements of the team leader or themselves. The Terms of Reference has usually defined the organisation structure very well at a management level and this suffices for project management purposes.

- Risks – Weak/needs development

Some initial risks identified but ongoing risk management not in evidence.

- Change Management – Satisfactory

Particular projects such as the Approval of Charges Scheme have been especially concerned with issues and feedback at each stage of the project. Weekly meetings are arranged to discuss progress and resolve issues. There is a clear line of responsibility for resolving issues. Other projects have regular issue meetings arranged to address any problems, questions and changes to the project. This seems to accommodate most changes. Nevertheless a central and recognised arena for issues to be recorded and decided upon would be more beneficial. There is a danger that issues may be lost between meetings.

- Plans and work allocation – Satisfactory

Key deliverables and dates recorded and managed against. There is a concern that the activities required to produce those key deliverables has not been closely planned and that the deliverables themselves have not been sufficiently defined (quality requirements for instance have not been evidenced). Work internally, has been allocated verbally in some instances due to the small nature of the projects and teams. Nevertheless, there is clear evidence that the key deliverables for where external resources are involved have been well planned, communicated and defined.

- Reporting cycles – Satisfactory

Weekly meetings with verbal plans and instructions issued.

- Communication – Good/excellent

Good stakeholder awareness shown on some projects and clear communication channels opened. The Approval of Charges Scheme project kept its stakeholders fully apprised of progress. The weekly meetings for most projects provide the internal communication channels between teams, divisions and directors.

- Close – Weak/needs development

Some projects have shown a clear and unambiguous close. For those projects which are carried out annually this is often the case. But there is a danger with some internal projects that they drift from one end to another. To avoid this, the Terms of Reference or Project Initiation Document must clearly define the scope of the project.

- Project Environment – Weak/needs development

There are no recognised project management processes and procedures in place at present. The co-ordinator role provides a link between projects but does not provide any guidance or standards to follow. Each project will conduct itself in an individual manner although various functions such as organisation, start up, issues and progress meetings are approached in a reasonably consistent fashion.

- Filing – Satisfactory

Files are held in paper format. The files are separated under various headings but there is not a project management file. Because of timescales and shortage of resources filing is often seen as a low priority and sometimes minutes of meetings may be missing. Electronic copies of some documents are held on the network.

- Learning environment – Weak/needs development

Lessons are being learnt but this is in an inconsistent manner. Those projects, which are set up annually, are learning lessons well. But the lessons are of a specific nature to the project. General lessons that can be used by all projects, such as best use of resources, are not produced so well or are produced in an inconsistent manner.

Recommendations

Projects are generally well managed but are of an individual nature. It is recommended that best practice methods be introduced to enable *all* projects to be managed in a consistent and efficient manner.

The co-ordinator role could be used to provide this best practice advice and guidance as they are best placed to view project/team plans and their progress.

There needs to be an understood process whereby risks can be recorded and managed for projects. Overtime a project library of common risks and issues should be built up to aid project managers and can be used to foster best practice methods.

Although the projects under review exhibited adequate planning there is concern that dependencies are not particularly shown, this is especially pertinent for cross-divisional projects.

Project management manual and templates for certain key documents should be available to OFWAT staff to encourage consistency and understanding.

A central conduit for lessons learnt should be provided. The lesson should be disseminated perhaps through the use of the intranet or via a newsletter to all staff involved in projects or at a minimum to all project managers.

Progress reporting requirements should be defined to enable plans to be monitored against and progress measured in a formal and measurable manner agreed at project start.

ORR**Meetings: 23rd Oct 2000, 31st Oct 2000****Present: Melanie Leach, Paul Plummer and Michael Beswick****Projects reviewed:**

Periodic Review of Railtrack's Access Charges

Transfer of responsibilities to SRA

Documents received:

The Periodic Review of Railtrack's Access Charges: Final Conclusions Volume 1

Background

The Periodic Review of Railtrack's Access Charges has been run as a project and managed by ORR with the involvement of a number of external resources. The project had initially suffered a pause through the re-organisation of senior management in ORR. Since then the commitment to the project has been revisited and approved and a new project manager has taken responsibility for the delivery of the review document.

The Transfer of responsibilities from ORR to SRA has also been managed as a project, but the management of the project has been the responsibility of SRA. As a result the ORR management staff have taken on almost an assurance/liaison role to ensure ORR needs are addressed in the transfer of knowledge and responsibilities. In addition, ORR management has been responsible for communications to ORR staff in order to smooth the cultural change and transition of working practices between the two organisations.

Impressions

The two projects under review demonstrated clear control and accountability of the project deliverables. However, there was no evidenced consistency in their approach to project management. It is unclear how the project plans have been incorporated into the wider Directorate Plans.

Both projects have good lines of communication to stakeholders and clear lines of accountability within the project organisation. The Access Charges project underwent some serious changes to the scope of the project which have been dealt with in an organised manner.

ORR has tended to rely on personal relationships with external resources to build up trust and understanding of their requirements. However, ORR in line with other regulators has a turnover of staff that ensures this approach will bring a high level of risk. The task of collating contractors' inputs and transferring individual knowledge will rely on the continuity of resources and will inevitably bring extra effort and time to a project.

Overall, ORR manage their projects well if not in a consistent manner. This requires that senior management be of a sufficiently high calibre, as they will often be asked to 'jump in'

and deliver results immediately on a project where there has been no formal handover or progress information. To ensure a managed approach to future projects there will need to be a project environment that builds up best practice methods and promotes lessons learnt from previous projects.

There has been some steps taken in this direction recently with the introduction of a Mechanism for the Advancement of Process Systems (MAPS) electronic system. This has been created to capture and record ORR's processes. This system does not include project management processes or procedures at present.

Below are the results on the key areas covered during the two meetings:

They have been rated under the following headings:

• Weak/needs development	2x1 = 2	Overall Score = 2.7
• Under development	1x2 = 2	
• Satisfactory	6x3 = 18	
• Good/excellent	2x4 = 8	

- Start up – Satisfactory

Projects will arise from the Operational Plan for the year. Most work will cut across economic/policy/communications and strategy. This work is often not formalised. There are some dedicated teams for particular aspects of work, which will have formal working procedures in place such as the licence teams.

- Organisation – Good/excellent

The two projects reviewed had a clear project organisation structure. The roles were defined and understood at the start and enabled new ORR staff to recognise and accept their responsibilities in the project quickly and efficiently. For instance, the SRA project manager has been responsible for the project delivery while the ORR management have been responsible for the communications and HR issues which are now more prominent. In the review project, team manager responsibilities were clearly understood by those involved.

- Risks – Weak/needs development

While in some cases risks have been identified there is no formal approach to risk management.

- Change Management – Satisfactory

Changes have been dealt with efficiently with major changes being approved by senior management. The plans have been studied to identify the consequences of the changes and decisions have been drawn from this analysis. However, there is not a central conduit whereby all potential issue can be found. This would help in the accessibility of issue information for lessons learnt.

- Plans and work allocation – Satisfactory

Plans are well thought out but do not adhere to any standard format. It is not clear if the products (deliverables) have been defined and assigned quality criteria. The work has been

often allocated verbally at a lower level and often through implicit understandings when dealing with contractors. Defined work with timescales, quality criteria, required resources and skills and reporting mechanisms have not been evidenced.

- Reporting cycles – Satisfactory

Both projects have regular reporting cycles where issues and progress are assessed. The value of the information presented though is suspect, based on the varying styles of plans and means of work allocation. Reports against deliverables rather than effort is required for effective measures of progress.

- Communication – Good/excellent

Both Projects produced timely communications and allowed for relevant feedback loops. Stakeholder awareness, as expected, is very good.

- Close – Satisfactory

Projects have generally well defined end dates and deliverables. However, there are some grey areas whereby projects can drift into maintenance and on-going work with different resources involved.

- Project Environment – Weak/needs development

There are no project management manuals, guidelines, processes or support services in operation at ORR. Although there are plans recorded in MS Project it has not been evidenced that these follow a standard or that any training and advice has been undertaken to enable effective use of the MS Project software. There are plans underway to address these issues and introduce a structured approach to projects.

- Filing – Satisfactory

There may be a number of different areas where project files are stored. Project managers and contractors may hold their own separate files while each Directorate will hold small project files. All files are paper based.

- Learning environment – Under development

There is little in the way of a lessons learnt forum within ORR at present.

Recommendations

ORR needs to build upon the MAPS system and introduce best practice for projects. A standard approach to planning and documentation would enable the Operational Plan, Directorate Plan and Project Plan to be effectively managed and monitored.

There needs to be a more rigorous approach to work allocation to ensure contractors can be managed without the need for a close relationship. Work needs to be formally defined and quality criteria assigned to key products (deliverables). The reporting and monitoring of work should be agreed between ORR and the contractor and followed. Contractors are often incorporated into the ORR teams and required to follow the teams' reporting structures but it is unclear where the emphasis for progress reporting lies. It is recommended that the

emphasis should be on the products to be delivered rather than the effort taken to deliver them. Quality reviews, therefore, can be planned and produced in a timely manner.

Risk management need to be formalised.

All of the above could be driven by a Project Support function which could provide help with planning, filing, risk and issue management. They can in turn, help to provide information on project performance and lessons learnt.

ANNEX K – SELECTED ANALYSES FROM THE IRs

Table K.1: Cost Breakdown (£ '000s)

	1997/98	1998/99	1999/00	2000/01
OFGEM				
staff costs			12,474	15,372
consultants			6,119	9,096
accommodation			4,245	4,408
other operating costs			10,155	7,357
capital costs			1,479	604
Total Expenditure			34,472	36,837
OFTEL				
staff costs	5,779	6,042	6,760	7,498
consultants	964	497	1,042	1,467
accommodation	1,167	1,256	1,227	1,213
other operating costs	2,586	2,597	2,644	3,723
capital costs	392	809	1,809	632
Total Expenditure	10,888	11,201	13,482	14,533
OFWAT				
staff costs	4,907	5,189	6,110	6,431
consultants	1,532	1,736	913	736
accommodation	1,487	1,342	1,389	1,345
other operating costs	2,433	1,482	2,448	2,388
capital costs	400	269	265	300
Total Expenditure	10,759	10,018	11,125	11,200
ORR				
staff costs	4,099	4,558	5,271	6,818
consultants	701	921	2,879	2,966
accommodation	671	521	1,224	1,138
other operating costs	2,627	2,149	3,148	2,816
capital costs	412	678	1,047	456
Total Expenditure	8,510	8,827	13,569	14,194

note: Ofgem's figures exclude NETA and merger costs

Table K.2: Support Function Costs (£ '000s)

	1997/98	1998/99	1999/00	2000/01
OFGEM				
Finance			1,790	1,088
IT			2,497	1,626
HR			941	1,308
Press Office/Library			893	1,053
Estate/Facilities			340	284
Other Business Support			286	814
Total Support Costs			6,747	6,173
OFTEL				
Finance			173	184
IT			277	291
HR			798	734
Press Office/Library			891	892
Estate/Facilities			276	354
Other Business Support			264	216
Total Support Costs			2,679	2,671
OFWAT				
Finance	191	180	218	264
IT	978	798	823	679
HR	223	336	320	370
Press Office/Library	791	776	949	899
Estate/Facilities				
Other Business Support	131	162	191	465
Total Support Costs	2,314	2,252	2,501	2,677
ORR				
Finance	149	204	228	269
IT	627	581	1,614	862
HR	316	390	636	982
Press Office/Library	689	555	687	832
Estate/Facilities	716	605	968	445
Other Business Support	0	0	0	
Total Support Costs	2,497	2,335	4,133	3,390

note: Ofel's estates and facilities costs are collected into the other support functions

Table K.3: Support Function Staff Numbers

	1997/98	1998/99	1999/00	2000/01
OFGEM				
Finance			32	23
IT			13	12
HR			15	18
Press Office/Library			11	13
Estate/Facilities			9	9
Other Business Support			6	12
Total Support Staff			86	87
OFTEL				
Finance			5	
IT			7	
HR			11	
Press Office/Library			10	
Estate/Facilities			4	
Other Business Support			3	
Total Support Staff			40	
OFWAT				
Finance	7	10.2	6.7	7.7
IT	7	11.7	11.7	11.7
HR	11	9	10	9.7
Press Office/Library	13.7	13.9	14.1	15.4
Estate/Facilities				
Other Business Support	7.7	9.4	8.7	13.4
Total Support Staff	46.4	54.2	51.2	57.9
ORR				
Finance	3	4	5	4
IT	4	6	6	6
HR	4	5	5	6
Press Office/Library	8	7	8	6
Estate/Facilities	3	4	5	6
Other Business Support	2	2	2	2
Total Support Staff	24	28	31	30

note: Ofel's estates and facilities staff are collected into the other support functions

Table K.4: Staff Breakdown by Category

	1997/98	1998/99	1999/00	2000/01
OFGEM				
Senior management			19	22
Professional staff			194	191
Technical staff			41	42
Support staff			87	83
Total Staff			341	338
OFTEL				
Senior management	8.8	11	10	11
Professional staff	122.8	138	158	163
Technical staff				
Support staff	38.5	40	39.5	37.5
Total Staff	170.1	189	207.5	211.5
OFWAT				
Senior management	14	15	14	13
Professional staff	89.4	98.9	109.7	115.4
Technical staff				
Support staff	86.1	105	89.5	92.1
Total Staff	189.6	218.9	213.2	220.5
ORR				
Senior management	8	6	8	10
Professional staff	89	99	112	126
Technical staff				
Support staff	33	37	40	40
Total Staff	130	142	160	176

notes:

1. “support” staff do not refer to staff in support functions; it refers to the grade of staff.
2. Ofgem’s figures refer to “core” Ofgem and the Leicester and Glasgow offices (excluding NETA and merger staff as well as staff in the regional consumer offices).
3. Ofwat has defined “support staff” as employees earning below £ 15,400 pa, but this is not consistent with their figures on average salaries (see Table K.6)

Table K.5: Staff Costs (£ '000s)

	1997/98	1998/99	1999/00	2000/01
OFGEM				
Senior management			1,664	1,970
Professional staff			6,423	6,360
Technical staff			1,440	1,560
Support staff			1,381	1,343
Total Staff			10,909	11,232
OFTTEL				
Senior management	755	817	783	929
Professional staff	4,410	4,579	5,308	5,873
Technical staff				
Support staff	614	646	669	696
Total Staff	5,779	6,042	6,760	7,498
OFWAT				
Senior management	673	751		
Professional staff	2,616	2,711		
Technical staff				
Support staff	1,617	1,726		
Total Staff	4,906	5,188		
ORR				
Senior management		671	1,233	1,465
Professional staff		3,212	3,325	3,777
Technical staff				
Support staff		617	654	758
Total Staff		4,500	5,211	6,001

Note: see Table K.4 for an explanation of Ofgem's figures

Table K.6: Average Staff Costs per Head (£)

	1997/98	1998/99	1999/00	2000/01
OFGEM				
Senior management			87,579	89,545
Professional staff			33,108	33,298
Technical staff			35,122	37,143
Support staff			15,874	16,181
Total Staff			31,991	33,231
OFTTEL				
Senior management	85,795	74,272	78,300	84,455
Professional staff	35,912	33,181	33,595	36,031
Technical staff				
Support staff	15,948	16,150	16,937	18,560
Total Staff	33,974	31,968	32,578	35,452
OFWAT				
Senior management	48,071	50,067		
Professional staff	29,262	27,412		
Technical staff				
Support staff	18,780	16,438		
Total Staff	25,876	23,700		
ORR				
Senior management		111,833	154,125	146,500
Professional staff		32,444	29,688	29,976
Technical staff				
Support staff		16,676	16,350	18,950
Total Staff		31,690	32,569	34,097

Table K.7: Personnel Indicators

	1997/98	1998/99	1999/00	2000/01
OFGEM				
No. staff beginning of year			422	449
No. staff recruited			130	243
No. staff leaving			103	178
No. staff end of year			449	514
Staff turnover (%)			24 %	37 %
No. sick days in the year			4,651	4,299
Absenteeism (%)			4.3 %	3.7 %
OFTEL				
No. staff beginning of year	162	178	186	
No. staff recruited	72	62	90	
No. staff leaving	58	54	67	
No. staff end of year	176	186	209	
Staff turnover (%)	34 %	30 %	34 %	
No. sick days in the year	1,246	1,201	990	
Absenteeism (%)	3.3 %	2.9 %	2.2 %	
OFWAT				
No. staff beginning of year	193	195	227	
No. staff recruited	51	60	51	
No. staff leaving	49	28	56	
No. staff end of year	195	227	222	
Staff turnover (%)	25 %	13 %	25 %	
No. sick days in the year	1,143	2,102	1,940	
Absenteeism (%)	2.7 %	4.3 %	4.1 %	
ORR				
No. staff beginning of year	121	127	136	
No. staff recruited	29	27	37	
No. staff leaving	24	21	27	
No. staff end of year	127	136	154	
Staff turnover (%)	19 %	16 %	19 %	
No. sick days in the year	1,059	1,263	2,701	
Absenteeism (%)	3.7 %	4.0 %	7.6 %	