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National Energy System Operator Limited Framework Document

Introduction and background	5
1. Purpose of document	5
Amendments to and interpretation of this document	5
Geographic scope	6
2. Classification	6
3. Operational independence	6
Functions, duties and objectives	8
4. Functions, duties and objectives	8
Governance and accountability	10
5. Governance and accountability	10
Role of the department	11
6. The responsible Minister	11
Shareholder appointments	11
Other Shareholder reserved matters	12
National Security	12
7. The Principal Accounting Officer (PAO)	12
PAO's specific accountabilities and responsibilities	12
8. The role of the Shareholder Representative team	13
9. The role of the policy sponsorship team	14
10. Resolution of disputes	14
11. Freedom of Information requests	15
12. Reporting on legal risk and litigation	15
Role of the regulator	16
13. Ofgem	16
14. CMA	16
NESO governance structure	17
15. The Chief Executive	17
Responsibilities of NESO's Chief Executive as the Accountable Person	17

	Responsibilities for accounting to Parliament.....	17
	Responsibilities to the Shareholder	18
	Responsibilities to the Board.....	18
16.	The Board.....	19
	Role of the Board	19
	Composition of the Board and appointments.....	19
	Board committees.....	20
17.	The Chair's role and responsibilities	20
18.	Individual board members' responsibilities.....	22
	Management and financial framework.....	23
19.	HM Treasury guidance.....	23
20.	Delegated authorities.....	23
21.	Banking, loans and working capital.....	23
22.	Charging and dividends	24
23.	Risk management.....	24
24.	Counter fraud and theft	24
	Remuneration and staff.....	25
25.	Status of NESO's employees	25
26.	Pay controls	25
27.	Broad responsibilities regarding staff	25
28.	Remuneration criteria	26
	Business plans, management information and audit	28
29.	Business plans.....	28
30.	Annual report and accounts	28
31.	Reporting performance to the Shareholder	29
32.	Information provided to the Shareholder	29
33.	Audit.....	30
	Reviews and winding up arrangements	31
34.	Review of public corporation's status	31
35.	Arrangements in the event that the public corporation is wound up	31
	Annex A: Guidance	33
36.	Corporate governance.....	33
37.	Financial management and reporting	33

38.	Management of risk	33
39.	Commercial management	34
40.	Public appointments	34
41.	Staff and remuneration	34
42.	General	34
	Annex B - UKGI Shareholder Representative Role	36

Introduction and background

1. Purpose of document

- 1.1. This framework document (the “framework document”) has been agreed between the Department for Energy Security & Net Zero (the ‘Department’ or ‘DESNZ’) and National Energy System Operator Limited (“NESO”) in accordance with HM Treasury’s handbook Managing Public Money¹ (“MPM”) (as updated from time to time) and has been approved by HM Treasury. NESO is the company that has been designated by the Secretary of State as the Independent System Operator and Planner (“ISOP”) pursuant to section 162 of the Energy Act 2023. NESO is wholly owned by the Secretary of State.
- 1.2. The framework document sets out the broad governance framework within which NESO, as ISOP, and the Department operate. It sets out:
 - NESO’s core responsibilities
 - the governance and accountability framework that applies between the roles of the Department (Secretary of State as both ‘Shareholder’ and ‘Policy Sponsor’), NESO, and UK Government Investments (‘UKGI’) (who will perform the Shareholder Representative function (the ‘Shareholder Representative’) on behalf of the Secretary of State).
 - how the day-to-day relationship works in practice, including in relation to governance and financial matters, developing the framework established in the Articles of Association of NESO (the “Articles”), the Shareholder reserved matters and delegated authorities.
- 1.3. The framework document is not legally binding and so does not convey any legal powers or responsibilities or establish any legal obligations or liabilities but all parties agree to operate within its terms. It is signed by the Department, UKGI and NESO.
- 1.4. The framework document should be interpreted in the light of NESO’s Articles and its legal and regulatory requirements (in particular the Companies Act 2006, NESO’s licences and the Energy Act 2023). If there is any inconsistency between this document and such obligations or requirements, those obligations or requirements shall prevail over this document.
- 1.5. Copies of the framework document and any subsequent amendments have been placed in the Libraries of both Houses of Parliament and made available to members of the public on NESO’s website and gov.uk.

Amendments to and interpretation of this document

- 1.6. Any amendment, update or replacement of any provision of this document shall be agreed by the parties, from time to time, in writing and must be consistent with the Articles (as may be amended, updated or replaced from this date) and NESO’s obligations pursuant to law and its licences.

¹https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1000670/MPM_Spring_21_with_annexes_080721.pdf

- 1.7. This framework document should be reviewed regularly and updated at least every 3 years unless there are exceptional reasons that render this inappropriate that have been agreed with HM Treasury and the Principal Accounting Officer of the Department. UKGI will lead shorter-term light-touch reviews to ensure the continued relevance of the framework document provisions, given the newly formed relationship and evolving roles and responsibilities of NESO.
- 1.8. References to (including extracts and summaries of) a statute or statutory provision include and shall be read as a reference to that statute or provision as from time to time modified, re-enacted or consolidated whether before or after the date of this document, and any subordinate legislation made from time to time under that statute or statutory provision which is in force at the date of this document.
- 1.9. References to a license or license or to license conditions shall be read as a reference to that license, those licenses or those conditions as modified from time to time.
- 1.10. References to NESO in this document shall also be taken to include any subsidiaries, joint ventures or associate undertakings of NESO over which it exercises effective control.

Geographic scope

- 1.11. This framework document applies to NESO in England, Scotland and Wales and any operations conducted elsewhere unless stated otherwise.
- 1.12. Given its role, NESO will have important relationships with the Scottish Government, Welsh Parliament or their Devolved Administrations. However this framework document is not intended to affect those relationships.

2. Classification

- 2.1. NESO has been given the indicative classification of a public non-financial corporation by HM Treasury Classifications team. A confirmation of NESO's classification will be provided by the Office for National Statistics at a later date.
- 2.2. NESO is a private company limited by shares incorporated in England and Wales whose registered office address is St Catherines Lodge, Bearwood Road, Sindlesham, Berkshire RG41 5BN. NESO is governed by the requirements of and the obligations created by the Companies Act 2006 and successor legislation, in addition to the framework of sectoral energy regulation that applies to it by virtue of its designation as the ISOP and the conditions of its licences.
- 2.3. NESO is wholly owned by the Secretary of State.

3. Operational independence

- 3.1. The Department is committed to ensuring that NESO will have the operational independence it needs to manage and organise itself to effectively deliver its roles and objectives. This will allow NESO to take its place as an expert independent body at the centre of the energy system, trusted by both industry and government, able to act effectively and nimbly, and to retain and attract critical talent. This operational independence will be driven by clear, transparent and predictable governance relationships and accountability, effective and

proportionate regulation, strong NESO leadership, and conscious positioning of NESO within the broader strategic context of the sector, for example in the Strategy and Policy Statement (SPS).

- 3.2. Where the Secretary of State deems it necessary to exercise their power as Shareholder to direct or instruct NESO in relation to its operations, the Secretary of State shall follow the procedure set out in the Articles of Association. Any such direction or instruction shall only be issued only with the express approval of the Secretary of State, Permanent Secretary or relevant Minister of State.
- 3.3. Notwithstanding this, the Department and NESO are committed to ensuring that any reservations or concerns the Department has are, where possible, resolved without the use of formal powers. Therefore, before issuing any direction or instruction, the Shareholder will seek to first raise any reservations or concerns with NESO and NESO commits to consider any reservations or concerns the Department or Shareholder has and to engage with the relevant teams to discuss them.
- 3.4. While the NESO Board of Directors retains operational control, it is accountable to the Shareholder for the corporate performance of NESO, in line with general law and the processes set out in this document and Articles.
- 3.5. The Gas and Electricity Markets Authority, supported by the Office of Gas and Electricity Markets (together Ofgem) regulates NESO's performance across its statutory duties and functions and compliance with its obligations set out in legislation and its licences. Ofgem also approves NESO's regulatory business plan. It is in the spirit of this agreement that the Department recognises Ofgem's independent role and will endeavour to ensure efficiency between processes under this framework document and Ofgem processes.

Functions, duties and objectives

4. Functions, duties and objectives

4.1. NESO's principal functions are established in the Energy Act 2023. A representative list of NESO's initial functions, as set out in that Act are:

- co-ordinating and directing the flow of electricity onto and over transmission systems;
- making and administering arrangements for the provision of services for the purpose of facilitating the co-ordination of the flow of electricity onto and over transmission systems;
- carrying out strategic planning and forecasting in connection with:
 - the development of transmission systems;
 - the provision of services referred to above; and
 - other arrangements relating to the conveyance or supply of electricity;
- carrying out strategic planning and forecasting in connection with:
 - the development of pipe-line systems for the conveyance of gas; and
 - other arrangements relating to the conveyance or supply of gas;
- providing advice, analysis or information to a Minister of the Crown or Ofgem in connection with:
 - any of NESO's functions;
 - any of the net zero, security of supply and efficiency and economy objectives set out in section 163 of the Energy Act 2023 and referred to in 4.3; and
 - the 'particular matters' set out in section 164(1) of the Energy Act 2023; and
- keeping under review developments relating to the energy sector that may be relevant to the carrying out of any of its functions.

4.2. NESO functions may be amended or added to over time.

4.3. In carrying out those functions, NESO should act in the way that it considers is best calculated to promote (1) the net zero objective; (2) the security of supply objective; and (3) the efficiency and economy objective, each as described in section 163 of the Energy Act 2023.

4.4. When carrying out its functions NESO has a further duty to have regard to (1) a number of particular matters set out in section 164 of the Energy Act 2023, and (2) the strategic priorities set out in the SPS.

4.5. Further details of NESO's obligations are set out in its licenses.

4.6. NESOs 'Strategic Objectives,' for the purpose of this Framework Document, are collectively defined as follows:

- Promoting its statutory objectives and complying with its statutory duties as outlined in legislation.
- Complying with its obligations outlined in its licenses and;
- Achieving further objectives as outlined in the corporate and regulatory business plans, (noting that changes in circumstances may justify a

change to such objectives during the period covered by the business plan).

- 4.7. Within this framework, the Department and NESO share the common general objective of ensuring that NESO fully discharges its statutory duties, including its duty in relation to the strategic priorities for energy policy in Great Britain, set out from time to time in the SPS. To achieve this, NESO and the Department will work together in recognition of each other's roles and areas of expertise, providing an effective environment for NESO to achieve its objectives through the promotion of partnership and trust and ensuring that NESO also supports the strategic aims and objectives of the Department and wider government as a whole.

Governance and accountability

5. Governance and accountability

5.1. NESO shall operate corporate governance arrangements that, so far as practicable and in the light of the other provisions of this framework document or as otherwise may be mutually agreed, accord with good corporate governance practice and applicable regulatory requirements and expectations.

5.2. In particular (but without limitation), NESO should:

- comply with the UK Corporate Governance Code² (as amended and updated from time to time) to the extent appropriate to NESO or specify and explain any non-compliance in its annual report, and notify the Shareholder in advance of publication.
- take into account the codes of good practice and comply with the guidance as specified in Annex A of this framework document, as they apply to public corporations unless any derogations have been explicitly sought and agreed.

5.3. NESO should also comply with any requirements relevant to its governance set out in legislation and its licences, including the obligations in Condition B1 of NESO's licences to:

- The licensee must put in place and maintain such systems, processes and other governance arrangements that are necessary to maintain its independence from Potential Conflict Parties³ and must ensure that it does not become a party to any arrangements that compromise, or could reasonably be seen as compromising, that independence. This should include, but not be limited to, arrangements that support the impartiality and integrity of the actions of individual employees.
- use best endeavours to avoid perceived/real conflicts of interest from Potential Conflict Parties.
- comply with its policies and processes around independence approved by Ofgem.

² <https://www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code>

³ As defined in Condition A1 ((Definitions) of NESO's licences

Role of the department

6. The responsible Minister

- 6.1. The Secretary of State for the Department will account for NESO on all matters concerning NESO in Parliament.
- 6.2. The Secretary of State's statutory powers in respect of NESO are set out in the Energy Act 2023, Energy Act 2013, Electricity Act 1989 and Gas Act 1986 (and, as Shareholder, in general company law).
- 6.3. The Energy Act 2023 powers include in particular:
 - To designate or revoke designation of the ISOP
 - To request advice from NESO
 - To provide financial assistance to NESO

Shareholder appointments

- 6.4. The Shareholder shall have the following appointment and approval rights in relation to NESO's Board:
 - the Shareholder will appoint the Chair. This appointment is subject to the Public Appointments Order in Council⁴ and as such must comply with the Governance Code on Public Appointments⁵. This appointment will also be subject to parliamentary scrutiny if requested by the relevant committee.
 - the Shareholder will nominate a senior employee of the Shareholder Representative as a non-executive director to NESO's Board (the "Shareholder Director"). The Shareholder Director will make provision for the appointment of an alternate for such Shareholder Director (the "Alternate Shareholder Director") as required and in accordance with the articles.
 - the Shareholder will approve the appointment of the Chief Executive on approval by the Board on the advice of the Nominations Committee. The Chief Executive shall be a permanent employee of NESO, appointed through a process that adheres to best practice guidance for appointments in being open, fair and transparent. The request to the Shareholder for approval of the final appointment should be accompanied by an explanation in writing as to why such appointment is recommended by the Board. It is expected that the Shareholder will typically follow the advice of the Nominations Committee and Board except in reasons of propriety, process, diversity or national security. This process also applies to proposals to appoint an interim Chief Executive.
 - the Shareholder will approve the appointments of the non-executive directors of the Board, who shall be appointed from time to time through an open, fair and transparent process agreed by the Board. It is expected that the Shareholder will typically follow the advice of the

⁴ <https://publicappointmentscommissioner.independent.gov.uk/regulating-appointments/orders-in-council/>

⁵ <https://www.gov.uk/government/publications/governance-code-for-public-appointments>

Nominations Committee and Board except in reasons of propriety, process, diversity or national security.

- in each case, the Board will give legal effect to the appointment.

6.5. All such appointments should have regard to the principle that appointments should reflect the diversity of the society in which we live, and appointments should be made taking account of the need to appoint Boards which include a balance of skills and backgrounds.

Other Shareholder reserved matters

6.6. The Directors shall not, without the prior consent of the Shareholder carry out any of the following "Shareholder reserved matters":

- Any decision which constitutes a significant deviation in NESO's risk profile.
- changes to the approved capital structure and to the financial framework
- the appointment of any external auditor
- Corporate acquisitions, disposals and joint ventures.
- incorporate a subsidiary or incorporate or establish a subsidiary undertaking.

6.7. At the reasonable request of the Shareholder, the Directors shall:

- meet the Shareholder or its representatives to discuss the affairs of NESO
- provide such information in relation to the affairs of NESO as set out in section 32.

6.8. The Shareholder is committed to giving the Board the freedom to operate NESO in line with the spirit of this framework document. Decisions on the day-to-day management of NESO will be taken by the Board in accordance with their statutory, regulatory, common law and fiduciary duties.

National Security

6.9. As outlined in NESO's licences, NESO must comply with any directions issued, or amended, by the Secretary of State where there is a risk relating to national security that may detrimentally impact the resilience, safety or security of the energy system, or continuity of essential services. This power would generally be used in exceptional circumstances where existing pathways are not sufficient but the nature of national security is such that the Secretary of State must retain discretion to act as determined to be appropriate by the Secretary of State.

7. The Principal Accounting Officer (PAO)

7.1. The Permanent Secretary of the Department is Principal Accounting Officer (PAO) for resources provided to NESO by the Exchequer.

7.2. The PAO is accountable to Parliament for the issue of any borrowing facilities or other financial assistance provided to NESO by the Department.

PAO's specific accountabilities and responsibilities

7.3. The PAO is responsible for advising the responsible Minister on:

- an appropriate framework of priorities for NESO in the light of the Department's wider strategic aims and priorities, taking into account NESO's operational independence and Ofgem's role in approving NESO's regulatory business plan and assessing NESO's performance.
- where necessary, an appropriate budget for NESO in the light of the Shareholder department's overall public expenditure priorities, noting that NESO is wholly funded by regulated network charges.
- how well NESO is achieving its strategic objectives and whether it is delivering value for money, taking into account Ofgem's responsibility for assessing NESO's performance and determining NESO's revenue from regulated network charges.
- via the Shareholder Representative, the exercise of the Ministers' statutory responsibilities concerning NESO as outlined above.

7.4. The PAO with support from the Shareholder Representative and the policy sponsorship team in the Department is also responsible for ensuring arrangements are in place in order to:

- monitor NESO's activities and performance
- address significant problems in NESO, making such interventions as are judged necessary, but noting Ofgem's role as independent regulator
- periodically carry out an assessment of the risks both to the Department and NESO's objectives and activities in line with the wider departmental risk assessment process
- inform NESO of relevant government policy in a timely manner
- bring ministerial or departmental concerns about the activities of NESO to the full NESO Board, and, as appropriate to the departmental board, requiring explanations and, where appropriate, assurances that appropriate action has been taken.

8. The role of the Shareholder Representative team

8.1. UKGI, as Shareholder Representative, is responsible for discharging the responsibilities of the Shareholder and is the primary contact between the Shareholder and NESO. They are the main source of advice to the responsible Minister and the PAO on the discharge of their responsibilities in respect of NESO. Therefore, NESO should engage with the Shareholder Representative team as the initial point of contact between NESO and the Shareholder in matters of corporate governance, however noting below the role of the Department's policy sponsorship team.

8.2. UKGI will:

- promote appropriate and effective corporate governance foundations which govern the Shareholder and NESO
- promote effective objectives, business planning and performance against NESO's corporate and regulatory business plan (noting there is a separate process by which the latter is formally approved and overseen by Ofgem, as regulator)
- promote the organisational capability of NESO
- promote effective leadership (high quality boards and senior management)
- promote effective relationships between the Shareholder, DESNZ as policy sponsor, and NESO

- support and supplement the activities outlined above by providing an experienced non-executive director to the Board (and Board sub-committees) of NESO (the Shareholder Director).
- advise shareholder on the appointment of non-executive directors.

8.3. UKGI's responsibilities are outlined in Annex B.

9. The role of the policy sponsorship team

9.1. The Secretary of State is the government policy sponsor of NESO.

9.2. The NESO policy sponsorship team in the Department is the policy contact for NESO. The NESO policy sponsorship team advises and, as appropriate, acts on behalf of the Secretary of State on relevant government policy developments and responding to requests from NESO to provide a policy perspective on NESO's activities and plans.

9.3. The policy sponsorship team will:

- advise NESO of relevant energy policy and guidance in a timely manner, including policy objectives in relation to NESO's corporate business plan and objectives.
- advise Ministers on NESO's progress against agreed policy objectives
- engage closely with NESO on wider policy developments and cross-Government priorities impacting on, or affected by, the work of NESO.
- draft parts of the SPS as appropriate and relevant to NESO
- support the Secretary of State (and UKGI, as Shareholder Representative) in preparation of an annual Chair's letter outlining their annual priorities.
- lead secretariat for NESO's Policy Engagement Forum, which will bring together senior leadership from DESNZ, Ofgem, and NESO on a quarterly basis.
- manage, prioritise, and support the process by which Ministers of the Crown request advice from NESO.
- facilitate the process by which government proposed new roles are assigned to NESO.
- co-lead the appointment of future Chair's with the Shareholder Representative team.

9.4. To ensure that NESO does not receive conflicting inputs (or where, necessary, instructions) from the Shareholder department, the Shareholder Representative and policy teams will work together to ensure clarity and consistency in respect of departmental advice and decisions.

10. Resolution of disputes

10.1. Any disputes between the Department and NESO will be resolved in as timely a manner as possible and taking into consideration the individual roles, responsibilities and accountabilities of the individual participants in NESO's governance. The Department and NESO will seek to resolve any disputes through an informal process in the first instance. Senior management from DESNZ and NESO will meet to attempt to resolve the dispute and if necessary, escalate to senior bilateral or trilateral (with Ofgem) meetings depending upon relevant parties.

11. Freedom of Information requests

- 11.1. NESO is in scope of the Freedom of Information Act 2000, Environmental Information Regulations 2004, and the Data Protection Acts 1998 and 2018.
- 11.2. Given the nature of NESO's work and regulatory obligations, all parties will need to appropriately balance the public's right to access information with the requirement to protect certain information on the grounds of confidentiality, commercial sensitivity and national security and under any other applicable exemptions.
- 11.3. Where a request for information is received by any signatory under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, or the Data Protection Act 1998 or 2018, the party or parties receiving the request will, so far as practicable and subject to any obligation as to confidentiality, consult with the other party prior to any disclosure of information that may affect the other party or parties' responsibilities.

12. Reporting on legal risk and litigation

- 12.1. NESO shall provide a quarterly update to the Shareholder (via the Shareholder Representative) on the existence of any active litigation and any threatened or reasonably anticipated litigation. The parties acknowledge the importance of ensuring that legal risks are communicated appropriately to the Shareholder in a timely manner.
- 12.2. In respect of each substantial piece of litigation involving NESO, the parties will agree a litigation protocol which will include specific provisions to ensure appropriate and timely reporting on the status of the litigation and the protection of legally privileged information transmitted to the Shareholder to facilitate this. Until such time as a protocol is agreed, the parties will ensure that:
- material developments in the litigation are communicated to the Shareholder in an appropriate and timely manner
 - legally privileged documents and information are clearly marked as such
 - individual employees handling the legally privileged documents are familiar with principles to which they must adhere to protect legal privilege
 - circulation of privileged information within government occurs only as necessary
- 12.3. Any such protocol will ensure that NESO is able to comply with its confidentiality obligations and will not require information to be shared in breach of those obligations.
- 12.4. NESO shall also provide the Shareholder (via the Shareholder Representative) annual updates on all instances of non-compliance notified to it by Ofgem in relation to its statutory duties and licences and an immediate notification of any formal investigation or enforcement action commenced by Ofgem.

Role of the regulator

13. Ofgem

- 13.1. Ofgem is Great Britain's independent energy regulator and it is broadly responsible for regulating licensees in the electricity and gas markets in Great Britain. Its principal objective is to protect the interests of existing and future consumers in relation to gas conveyed through pipes and electricity conveyed by distribution/transmission systems, including the consumer's interests in net zero targets and the security and supply of gas and electricity to consumers.
- 13.2. Ofgem's duties, functions and powers are largely provided for in statute. This includes the Gas Act 1986, Electricity Act 1989, Utilities Act 2000, Competition Act 1998, Enterprise Act 2002 and the Energy Acts of 2004, 2008, 2010, 2011, 2013 and 2023. The Energy Act 2023 creates the relevant licensable activities in the Electricity Act 1989 and Gas Act 1986.
- 13.3. Ofgem's principal functions relating to NESO originate in the Electricity Act 1989, Gas Act 1986 and Energy Act 2023 and include:
- regulating by licence granted by the Secretary of State the roles of electricity system operator and gas system planner
 - holding NESO accountable to its licence obligations whilst managing any concerns around compliance.
 - making final determinations on NESO's regulatory business plans.
 - assessing NESO's spending, ensuring it has the appropriate resources to fulfil its functions efficiently.
 - putting in place and operating an appropriate performance management framework including the application of regulatory incentives
- 13.4. In the instance of any concerns around poor performance or non-compliance Ofgem is expected to use its regulatory levers to investigate and enforce NESO's obligations. Enforcement action could include, among other things, provisional and final orders or penalty notices being issued. Where necessary, Ofgem may make formal recommendations to the Shareholder on the use of their powers.
- 13.5. NESO's functions are expected to evolve over time. Where appropriate, Ofgem possesses the power to amend NESO's licence obligations and will work with NESO, the Department and GB industry in such instances.
- 13.6. Ofgem also has a role under legislation, licence conditions and industry codes (implemented under and in accordance with the licence conditions) to determine certain disputes between NESO and other market participants.

14. CMA

- 14.1. Under the Electricity Act 1989, the Gas Act 1986 and the Energy Act 2004, the Competition and Markets Authority (CMA) is required to determine the appeal of any modifications to NESO's licences or the relevant industry codes. An appeal may be allowed on specified grounds and the CMA is given a number of statutory powers to allow it to determine an appeal.

NESO governance structure

15. The Chief Executive

Responsibilities of NESO's Chief Executive as the Accountable Person

- 15.1. The PAO of the Department has designated NESO's Chief Executive as NESO's Accountable Person.
- 15.2. The PAO expects the Chief Executive as NESO's Accountable Person to take personal responsibility for running NESO.
- 15.3. The Shareholder recognises that as a public corporation operating in commercial markets, NESO needs to take investment and other financial decisions in accordance with commercial practices.
- 15.4. Public corporations are not subject to MPM as a matter of course. However, the following levels of control and governance set out in this framework document, the Articles and other relevant documentation have been agreed. These are: the Chief Exec should ensure that NESO operates in accordance with the principles of regularity, propriety, value for money, and feasibility, as set out in MPM, but recognising that Ofgem is principally responsible for regulating NESO's performance and efficiency. Where there are inconsistencies between the principles of MPM and NESO's ability to discharge its statutory duties or operate commercially and effectively, this should be brought to the attention of the Shareholder Director (and the PAO) in writing as soon as possible.
- 15.5. A full outline of the responsibilities of the accountable person can be found in their letter of appointment set out in Annex C.

Responsibilities for accounting to Parliament

15.6. Responsibilities to Parliament and the public include:

- signing the accounts and ensuring that proper records are kept relating to the accounts and that the accounts are properly prepared and presented in accordance with any directions issued by the Secretary of State
- preparing and signing a Governance Statement covering corporate governance, risk management and oversight of any local responsibilities, for inclusion in the annual report and accounts
- ensuring that effective procedures for handling complaints about NESO are established and made widely known within NESO
- acting in accordance with the agreed levels of control and accountability, including any relevant principles in MPM it has been agreed the public corporation should comply with (regularity, propriety value for money and feasibility), and other relevant instructions and guidance issued from time to time by the Department, HM Treasury and the Cabinet Office
- ensuring that as part of the above compliance they are familiar with and act in accordance with:
 - their fiduciary duties under the Companies Act

- NESO's governing legislation and licences
- this framework document; and
- giving evidence, normally with the PAO, when summoned before the Public Accounts Committee (PAC) on NESO's stewardship of public funds.

Responsibilities to the Shareholder

15.7. Responsibilities to the Shareholder include:

- establishing, in consultation with the Shareholder, NESO's corporate business plan
- informing the Shareholder of progress in achieving the corporate business plan as appropriate, including in relation to the SPS, and in demonstrating how resources are being used to achieve those plans
- ensuring that timely forecasts and monitoring information on performance and finance are provided to the Shareholder, that any significant problems whether financial or otherwise, and whether detected by internal audit or by other means, are notified to the Shareholder in a timely fashion.
- See also Section 31 on performance reporting.

Responsibilities to the Board

15.8. The Chief Executive is responsible for:

- advising the Board on the discharge of NESO's responsibilities as set out in this document, in the founding legislation, its licence conditions, and in any other relevant instructions and guidance that may be issued from time to time (taking advice where necessary)
- advising the Board on NESO's performance compared with its aims and objectives as set out in the corporate business plan
- ensuring that the Board receives and reviews regular financial information concerning the management of NESO
- ensuring that financial considerations are taken fully into account by the Board at all stages in reaching and executing its decisions, and that financial appraisal techniques are followed; and
- ensuring that NESO operates in accordance with the principles of regularity, propriety, value for money, and feasibility, as set out in MPM, but recognising that Ofgem is principally responsible for regulating NESO's performance and efficiency. Where there are inconsistencies between the principles of MPM and NESO's ability to discharge its statutory duties or operate commercially and effectively, this should be brought to the attention of the Shareholder Director in writing as soon as possible.

15.9. If the Chair or Board of NESO is minded to instruct its Chief Executive to carry out a course inconsistent with their duties as Accountable Person, then the Chief Executive should make their reservations clear, preferably in writing. If the Board is still minded to proceed, the Chief Executive should then:

- ask the PAO of the Department to consider intervening to resolve the difference of view, preferably in writing
- if the Board's decision stands, seek its written direction to carry it out, asking the shareholder department to inform HM Treasury
- proceed to implement without delay; and

- follow the routine in paragraph 3.6.6 of MPM

16. The Board

Role of the Board

16.1. The role of the Board shall be to set strategy and direction for NESO, in accordance with this document, relevant legislation and NESO's licence conditions. Detailed responsibilities of the Board shall be set out in the Board terms of reference (as varied from time to time) and shall include the following:

- taking forward the functions of NESO in accordance with its statutory duties and licence, subject to Shareholder or regulator approval where required and within the agreed policy and resources framework
- developing, updating and approving the forward-looking strategy and the corporate and regulatory business plans.
- providing leadership of NESO within a framework of prudent and effective controls which enables risk to be assessed and managed
- ensuring the financial and human resources are in place for NESO to meet its strategic objectives
- reviewing management and financial performance
- ensuring that the Shareholder is kept informed of any changes which are likely to impact on the strategic direction of NESO or on the attainability of its strategic objectives, and determining the steps needed to deal with such changes
- demonstrating high standards of corporate governance at all times, including by using NESO's audit and risk committee to help the Board to address key financial and other risks
- ensuring that any statutory or administrative requirements for the use of public funds are complied with (as relevant)
- ensuring that any requirements for the use of consumer funds are complied with
- ensuring that the Board operates within the limits of its statutory authority and any delegated authority agreed with the Shareholder, and in accordance with any other conditions relating to the use of public funds (where relevant).
- if required, co-operating fully with the requests of all relevant Parliamentary committees for scrutiny, requests from the Parliamentary Commissioner for Administration and otherwise to assist the Shareholder in answering questions about NESO
- determining all such other things which the Board considers ancillary or conducive to the attainment or fulfilment by NESO of the strategic objectives

Composition of the Board and appointments

16.2. The Board comprises the Non-Executive Chair, the Non-Executive Directors (including the Shareholder Director), the Chief Executive, the Chief Financial Officer, and such other executive directors whose appointment is recommended by the Nominations Committee and approved by the Board from time to time.

16.3. At least half of the Board, excluding the Chair, should be non-executive directors whom the Board considers to be independent.

- 16.4. It is expected that the Board, in accordance with the UK Corporate Governance Code, shall nominate the Senior Independent Director from one of the current non-executive directors. If the Board cannot identify a candidate for the Senior Independent Director the Secretary of State may choose to appoint to the role in accordance with the principles of the "Governance Code on Public Appointments".
- 16.5. In the event that the Chair is unable to chair a Board meeting, in the first instance the Senior Independent Director shall act as Chair. If the Senior Independent Director is unable to chair the meeting or the Senior Independent Director Role is vacant, any other Non Executive Director may assume the role of Chair.
- 16.6. All of the above will be directors within the meaning of the Companies Act 2006.
- 16.7. The quorum for board meetings shall be three Directors, two Non-Executive Directors (the Shareholder Director or the Alternate Shareholder Director and one other), and an Executive Director (or an alternate director appointed by an Executive Director) as stated in the Articles.
- 16.8. All appointments should have regard to the principle that appointments should reflect the diversity of the society in which we live, and appointments should be made taking account of the need to appoint Boards which include a balance of skills and backgrounds as set out in the UK corporate Governance Code. Where appointments require the prior written approval of the Secretary of State, the Board, working with the Shareholder Representative, must keep the Secretary of State apprised on the process, in line with the Principles of Public Appointments. The Shareholder Representative will lead relevant advice to the Secretary of State for such approvals.
- 16.9. The Board may not remove a director without the prior written approval of the Secretary of State.
- 16.10. The composition of the Board should also be in compliance with any obligations set out in NESO's licences, for example on 'Sufficiently Independent Directors'.

Board committees

- 16.11. It is the responsibility of the Board to constitute such committees as necessary for it to fulfil its functions. In line with the UK Corporate Governance Code as a minimum the Board should have three committees: audit and risk, remuneration and nomination. The Shareholder Director will be a member of each of these committees and will be invited to attend all Board committees.
- 16.12. The terms of each committee should set out its responsibilities and the authority delegated to it by the Board.

17. The Chair's role and responsibilities

- 17.1. The Chair is accountable to the Shareholder. Engagement between NESO's Board and the Shareholder should, in the first instance, be through the Chair engaging with the Shareholder or Shareholder Director.

17.2. The Chair should lead the Board in providing support and challenge to NESO's Chief Executive and the executive team as set out in the Chair's letter issued to them by the Shareholder annually.

17.3. The Chair has the following leadership responsibilities:

- formulating the Board's strategy
- ensuring that the Board, in reaching decisions, takes account of appropriate guidance provided by the responsible Minister or the department
- promoting the efficient and effective use of staff and other resources
- delivering high standards of regularity and propriety
- representing the views of the board to the general public

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

- the Board has a balance of skills and diversity which is appropriate to directing NESO's business, while complying with any obligations on Board membership set out in its licence conditions.
- the Chair, together with the other board members, receives appropriate training on financial management and reporting requirements and on any differences that may exist between private and public sector practice insofar as applicable to NESO
- board members are fully briefed on terms of appointment, duties, rights and responsibilities and the Chair assesses the performance of individual board members regularly and when being considered for re-appointment
- there are regular internal and external reviews of board performance and composition, with an externally facilitated board evaluation at least every three years
- board composition, external board review and succession plans are discussed with the Shareholder from time to time, and agree any actions at least annually
- there is a Board Operating Framework in place setting out the role and responsibilities of the Board consistent with the Corporate Governance Code for Central Government Departments 2017.⁶
- there is a code of practice for board members in place, consistent with the Cabinet Office Code of Conduct for Board Members of Public Bodies.⁷

17.5. The Shareholder shall retain responsibility for conducting overall evaluation and review of the Chair's performance. In conducting such evaluation and review the Shareholder shall take into account appraisal of the Chair's performance as co-ordinated by the Senior Independent Director in accordance with the UK Corporate Governance Code. The Chair's performance will be appraised annually and, in line with the Governance Code for Public Appointments, a satisfactory performance appraisal will be needed when considering re-appointment.

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

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

- 17.6. The Chair is bound by the Code of Conduct for Board Members of Public Bodies⁸ which covers conduct in the role and includes the 'Nolan Principles' of Public Life⁹.

18. Individual board members' responsibilities

- 18.1. Individual board members should:
- comply at all times with the Code of Conduct for Board Members of Public Bodies, which covers conduct in the role and includes the Nolan Principles of Public Life as well as rules relating to the use of public funds and to conflicts of interest
 - demonstrate adherence to the 12 Principles of Governance for all Public Body Non-Executive Directors¹⁰ as appropriate and not misuse information gained in the course of their public service for personal gain or for political profit, nor seek to use the opportunity of public service to promote their private interests or those of connected persons or organisations
 - comply with the Board's rules on the acceptance of gifts and hospitality, and of business appointments
 - in accordance with the UK Corporate Governance Code, not undertake additional external appointments without prior approval of the Board. Furthermore, the Shareholder should be informed in advance
 - act in good faith and in the best interests of NESO and in accordance with their statutory, common law and fiduciary duties as directors of NESO, including under section 172 of the Companies Act 2006 which set out directors' duty to promote the success of NESO for the benefit of the members as a whole; and
 - ensure they are familiar with any applicable guidance on the role of public sector non-executive directors and boards that may be issued from time to time by the Cabinet Office, HM Treasury or wider government.

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

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

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

Management and financial framework

19. HM Treasury guidance

- 19.1. The activities, roles and responsibilities of NESO as described in this document should be undertaken in accordance with the principles of regularity, propriety, value for money, and feasibility, as set out in MPM, but recognising that Ofgem is responsible as regulator for ensuring that NESO operates in a manner that is efficient and economic. Where there are inconsistencies between the principles of MPM and NESO's ability to discharge its statutory duties or to operate commercially and effectively, this should be brought to the attention of the Shareholder Director in writing as soon as possible.
- 19.2. Notwithstanding arrangements in respect of MPM, NESO will be subject to the rules set out in Consolidated Budgeting Guidance¹¹ in so far as they relate to public corporations.

20. Delegated authorities

- 20.1. The Board is responsible for establishing appropriate delegations with the Executive team. The Shareholder will review these delegations from time to time with the Board.
- 20.2. NESO will be wholly funded by regulated network charges. However, the Secretary of State will provide NESO with a working capital loan facility the terms of which are set out in a separate agreement between the Department and NESO. The Secretary of State may provide other financial assistance to NESO if appropriate and has power to do so under the Energy Act 2023
- 20.3. NESO shall obtain the Department's and, where appropriate, HM Treasury's prior written approval before:
- entering into any undertaking to incur any expenditure of public funds that falls outside the delegations
 - incurring expenditure for any purpose that is or might be considered novel or contentious, or which has or could have significant future cost implications for the exchequer; or
 - making any change of policy or practice which has wider financial implications that might prove repercussive or which might significantly affect the future level of resources required. For the avoidance of doubt, NESO shall not incur external borrowings (or any analogous obligations) without HM Treasury's written consent.

21. Banking, loans and working capital

- 21.1. Any loan facilities put in place should be reviewed and approved by the Board and take into account guidance set out in MPM (5.8 Borrowing by Public Sector Organisations and 5.9 External Borrowing) where relevant. Any loan

11 <https://www.gov.uk/government/publications/consolidated-budgeting-guidance-2021-to-2022>

facility will be agreed between NESO and the Shareholder and will be conducted on arms-length terms for the purposes of providing working capital.

- 21.2. NESO will operate through the Government Banking Service and such commercial banking arrangements as are approved by the Board and approved by the Shareholder and the Treasury from time to time. At designation NESO will utilise commercial arrangements for its operational accounts and a Government Banking Service account linked to its working capital facility.

22. Charging and dividends

- 22.1. NESO will operate a charging regime as set by Ofgem and in accordance with relevant requirements under statute, its licences and industry codes.
- 22.2. NESO shall aim to declare to the Shareholder any dividends to the Shareholder, or make such other distributions as the Board determines in consultation with the Shareholder in line with the agreed Dividend Policy reviewed with the Shareholder from time to time. Any dividends or distributions are subject to the requirements of the Companies Act 2006, including sufficiency of distributable reserves, as well as the liquidity position of the Company and the Articles. The Company will inform the Shareholder of the expected distribution profile through its Corporate Business Plans, keep the Shareholder updated regarding any changes to the expected distribution profile and will confirm its forecast for the annual dividend at least three months before the end of the financial year.

23. Risk management

- 23.1. NESO shall ensure that the risks that it faces are dealt with in an appropriate manner, in accordance with relevant aspects of best practice in corporate governance.

24. Counter fraud and theft

- 24.1. NESO should adopt and implement policies and practices to safeguard itself against fraud and theft.
- 24.2. NESO should take all reasonable steps to appraise the financial standing of any firm or other body with which it intends to enter a contract (noting that some industry arrangements may limit the steps that can be taken).
- 24.3. NESO should keep records of and prepare and forward to the Department an annual report on fraud and theft suffered by NESO and notify the Department of any unusual or major incidents as soon as possible.

Remuneration and staff

25. Status of NESO's employees

- 25.1. NESO's staff are not civil servants and therefore the annually updated Civil Service Pay Guidance¹² does not apply.

26. Pay controls

- 26.1. Controls over remuneration and conditions apply as follows:
- the remuneration package of NESO's Chief Executive and remuneration for any other roles that are Ministerial appointments, or subject to ministerial approval, require approval by the Chief Secretary to the Treasury (CST) assuming the remuneration threshold¹³ is reached. In addition, any remuneration package for any member of staff that is in excess of the Chief Executive's will require CST approval
 - the Chair is a Ministerial appointment and is therefore subject to the provisions set out in the guidance on the approval of senior pay¹⁴ which came into force on 1 January 2018
 - any other appointments that are made by NESO and are not Ministerial appointments or appointments that are approved by a Minister do not engage the senior pay controls and do not require CST approval.
 - any requirements on remuneration or conditions put in place through Ofgem's regulation will be adhered to.

27. Broad responsibilities regarding staff

- 27.1. The Board is solely responsible for all other staff matters, including the appointment and management of staff, determining staff numbers, determining terms and conditions of appointment in accordance with appropriate HR documents, including the remuneration policy.
- 27.2. NESO must have regard to wider public sector pay policy when setting a remuneration policy as well as taking account of appropriate benchmarks within the private and public sectors.
- 27.3. The Remuneration Committee should have oversight of all bonus and incentive schemes. The Board will delegate to the Remuneration Committee those responsibilities set out in 27.1 and 27.2.
- 27.4. The Chief Executive is responsible for ensuring NESO conducts its operations in accordance with the principles of regularity, propriety, value for money, and feasibility, as set out in MPM.
- 27.5. It is the responsibility of NESO to ensure it complies with the IR35 requirement.

12 <https://www.gov.uk/government/publications/civil-service-pay-remit-guidance-202122>

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

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

- 27.6. HMT guidance on exit payments¹⁵ should be applied as relevant. Statutory or contractual exit payments must be affordable and demonstrate value for money. Special severance payments, made outside of contractual or statutory requirements, are novel, contentious and potentially repercussive and so require prior Treasury approval.
- 27.7. Confidentiality clauses may only be used as permitted in relevant public sector guidance¹⁶.
- 27.8. Salary sacrifice schemes must be consistent with MPM guidance on tax planning.
- 27.9. NESO's travel policy must be consistent with both its licence obligations and public sector guidance, with first class travel restricted to exceptional cases¹⁷.
- 27.10. NESO should report (via the Remuneration Committee) to the Shareholder the number of posts paid above the remuneration threshold (with names). The Annual Report should contain full details of the remuneration of board members, provide information in bands for executive committee members paid above the remuneration threshold referred to in 26.1, and report the numbers of other staff (without names) paid above the remuneration threshold. NESO should also notify the Treasury, via the Shareholder, of all bonus arrangements put in place that are above the remuneration threshold as soon as the decision is made and within no more than one month. The number of bonuses paid above the threshold should be made public in the Annual Report.
- 27.11. Other benefits are set out in NESO's remuneration policy, which also covers legacy arrangements and other derogations granted. NESO must not offer allowances that may be considered novel, contentious or repercussive, unless in exceptional cases where prior approval has been sought from the Chief Secretary to the Treasury.

28. Remuneration criteria

- 28.1. The Remuneration Committee shall determine the remuneration policy and remuneration levels in accordance with NESO's licence obligations and the following criteria (which shall also be reflected in the Remuneration Committee terms of reference and the remuneration policy itself). The criteria are that remuneration levels:
- are sufficient to attract and motivate high calibre individuals to drive the delivery of the activities and objectives of NESO described in this document
 - are structured to link remuneration of all employees to organisational performance
 - are aligned with the objectives set out in this document
 - deliver value for money

15 <https://www.gov.uk/government/publications/public-sector-exit-payments-guidance-on-special-severance-payments>

16 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/817156/Cabinet-Office-guidance-on-settlement-agreements-special-severance-payments-on-termination-of-employment-and-confidentiality-clauses.pdf

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

- take account of remuneration levels within comparable private and public institutions and are set with wider public sector pay policy in mind.
- 28.2. Staff terms and conditions should be set out in an Employee Handbook, which should be provided to the Shareholder, together with subsequent amendments, on request.
- 28.3. NESO will operate a performance-related bonus scheme approved by its Remuneration Committee.
- 28.4. NESO will provide the Shareholder with an opportunity to comment (via the Shareholder Director) on any changes to the remuneration policy prior to its submission for Ofgem's approval. As per the Chief Executive's responsibilities as Accountable Person, any amendment which could prove novel, contentious or repercussive should be explicitly agreed with the Shareholder and HMT before Ofgem approval is sought.
- 28.5. The travel expenses of board members will be tied to the rates allowed to senior staff of NESO. Reasonable actual costs, excluding alcohol, shall be reimbursed.

Business plans, management information and audit

29. Business plans

- 29.1. The corporate business plan will set out how NESO intends to carry out its functions and related duties and obligations, setting out key strategic aims for the period.
- 29.2. An early view of the corporate business plan will be developed and shared with the Board and with appropriate officials in the Shareholder Representative (via the Shareholder Director) for comment. A draft of the corporate business plan will then be provided to the Board and the Shareholder, via the Shareholder Representative, for an opportunity to challenge and comment on the organisation's capacity and capability to deliver it, before it is signed off by NESO's Board. This should be done, providing sufficient time for such final review.
- 29.3. Among other things, the corporate business plan shall include:
- financial information at a level of detail agreed between NESO and the Shareholder covering a 5-year forecast period, including an income statement, balance sheet, cashflow statement and explanatory narrative regarding assumptions
 - description of how the key strategic aims will be fulfilled in the current period and for the future including clear descriptions of risks and opportunities to the plan
 - a set of Key Performance Indicators (KPIs) to allow the Board and Shareholder to track performance against the plan.
- 29.4. Following Board approval of the corporate business plan NESO's regulatory business plan will be developed from it, and submitted to Ofgem for determination. The Shareholder may choose to additionally submit their view on NESO's regulatory business plan to Ofgem.

30. Annual report and accounts

- 30.1. NESO's Board must publish an annual report of its activities, together with its audited accounts after the end of each financial year.
- 30.2. The annual report must be produced by NESO and comply with the Companies Act 2006 and the timing for production of such accounts shall accord with "best practice" applicable to UK registered companies.
- 30.3. NESO will share a draft of the report narrative with the Shareholder, via the Shareholder Director, for review before it is signed off by NESO's Board providing adequate time for such review and not less than ten days. The final report should be submitted to the Shareholder immediately upon receipt of auditor approval, for laying in Parliament. The Shareholder recognises that the finalised annual report is solely the responsibility of NESO's Board. Publication will be dependent on other government and NESO announcements but will be as soon as feasibly possible.

- 30.4. The Shareholder will lay the annual report and accounts before Parliament and it should be made available on NESO's website.

31. Reporting performance to the Shareholder

- 31.1. NESO shall operate management, information and accounting systems that enable it to review in a timely and effective manner its financial and non-financial performance against the budgets and targets set out in the corporate and regulatory business plans.
- 31.2. NESO shall inform the Shareholder of any changes that make achievement of objectives more or less difficult. It shall report financial and non-financial performance, including performance in helping to deliver the strategic priorities set out in the SPS, and the achievement of key objectives regularly. Where possible this reporting should be in a manner which aligns with regulatory reporting timescales and minimises duplication of effort.
- 31.3. Reporting and monitoring of performance will be achieved in a number of ways, including:
- meetings between the Shareholder Director and the Chair (quarterly) and between the Shareholder Director and Chief Executive (monthly).
 - quarterly Shareholder meetings between the Chief Executive and CFO and senior representatives from DESNZ, UKGI and HMT to discuss NESO's activities and performance against objectives in the various governance documents.
 - Following these meetings UKGI will lead the production of advice to update the Secretary of State accordingly, which will also include Department views.
 - Regular finance related meetings with officials from DESNZ and UKGI.
- 31.4. The responsible Minister will meet the Chair, the Chief Executive and other members of the Board periodically.
- 31.5. The PAO will meet the Chief Executive at least once a year.

32. Information provided to the Shareholder

- 32.1. NESO will facilitate the fulfilment of the Shareholder's function by providing relevant information to the Shareholder Representative on request, in particular linked to that reasonably required to ensure effective corporate governance and assure the existence of robust processes and practices to deliver on NESO's obligations. This includes, but is not limited to, business plans, financial forecasts and budgets, financial performance, achievements against targets, capital expenditure and investment decisions, governance matters including board appointments and remuneration and reports on key corporate risks.
- 32.2. However, NESO is subject to a number of confidentiality obligations which may preclude it from sharing information and must comply with those obligations. These include:
- Section 105 of the Utilities Act 2000, which prohibits the sharing of information relating to an individual or business obtained under or by virtue of specified legislative provisions (unless an exception applies).

- Condition B7 of NESO's electricity system operator licence and Condition B6 of its gas system planner licence, which require NESO to identify information which should not be disclosed or otherwise be accessible to persons other than the licensee's employees, agents, contractors and advisors; and
 - Requirements for confidentiality under the industry codes.
- 32.3. Where NESO considers that any information requested by the Shareholder should not be disclosed, it will inform the Shareholder and provide reasons setting out why the information cannot be disclosed.
- 32.4. Where the Shareholder Director receives information:
- in their capacity as the Shareholder Director, they shall be authorised to share this information with the Shareholder, where this aligns with any confidentiality obligations.
 - other than in their capacity as the Shareholder Director and where that information is subject to a duty of confidentiality, they shall not be obliged to disclose the information to NESO. Where the Shareholder Director receives such information in such capacity, in circumstances where they consider that the knowledge or receipt of such information could affect their ability to comply with their duties as a non-executive director of NESO, the Shareholder Director agrees to notify the Board as soon as practicable and to take appropriate steps, including but not limited to agreeing to recuse themselves from relevant decision-making processes.
- 32.5. As noted above, regular meetings between the Shareholder Representative and senior NESO representatives (including the Chair, Chief Executive and Chief Financial Officer) will be held on a quarterly basis to discuss governance, financial performance and other relevant matters.

33. Audit

- 33.1. NESO will arrange for audit of its accounts in accordance with the Companies Act 2006, subject to the approval of the Shareholder.
- 33.2. The Company Audit & Risk Committee (ARC) is responsible for appointing a suitably qualified and experienced external auditor, whose appointment requires the agreement of the Shareholder. NAO should be offered first refusal at such point as a new appointment could be considered. When this occurs the public corporation should inform the Department and the NAO of the appointment of an external auditor.
- 33.3. The ARC should periodically review NESO's auditors in line with best practice. When considering appointing a new auditor, NESO should notify the Department and the NAO of NESO's intention to appoint a new auditor and offer the NAO first refusal to be appointed as NESO's auditor.
- 33.4. The ARC should work with the Chief Executive and CFO to provide the Department, and other relevant bodies, with reports on NESO's regulatory compliance and any other reports deemed appropriate at the commencement of the audit and as compatible with the independent auditor's role.

- 33.5. NESO will maintain an internal audit function (with or without external professional support) who will report to the ARC and will cover (among other things) matters relating to risk management and internal controls, including compliance with the terms of this document.

Reviews and winding up arrangements

34. Review of public corporation's status

- 34.1. NESO will be reviewed at a time determined by the Department's ministers and their PAO.

35. Arrangements in the event that the public corporation is wound up

- 35.1. The Shareholder department shall put in place arrangements to ensure the orderly winding up of NESO. In particular it should ensure that the assets and liabilities of the public corporation are passed to any successor organisation and accounted for properly. (In the event that there is no successor organisation, the assets and liabilities should revert to the Shareholder department.) To this end, the Department shall:

- have regard to any relevant government guidance
- ensure that procedures are in place in NESO to gain independent assurance on key transactions, financial commitments, cash flows and other information needed to handle the wind-up effectively and to maintain the momentum of work inherited by any residuary body; specify the basis for the valuation and accounting treatment of NESO's assets and liabilities
- ensure that arrangements are in place to prepare closing accounts and pass to the Comptroller & Auditor General for external audit, and that, for non-Crown bodies funds are in place to pay for such audits. It shall be for the Comptroller & Auditor General to lay the final accounts in Parliament, together with their report on the accounts
- arrange for the most appropriate person to sign the closing accounts. In the event that another entity takes on the role, responsibilities, assets and liabilities, the succeeding entity AO should sign the closing accounts. In the event that the Department inherits the role, responsibilities, assets and liabilities, the PAO of the department should sign
- work with Ofgem to put in place robust arrangements to ensure that the functions of NESO continue to be fulfilled.

- 35.2. NESO shall provide the Department with full details of all agreements where NESO or its successors have a right to share in the financial gains of

developers. It should also pass to the Department details of any other forms of claw-back due to NESO.

Signatures:

Signed on behalf of National Energy System Operator Limited, the Secretary of State for Energy Security and Net Zero and UK Government Investments Limited by the following:



Fintan Slye – Chief Executive Officer, National Energy System Operator Limited



Emily Bourne – Director, Department for Energy Security and Net Zero



Robert Razzell – Chief Financial Officer, UK Government Investments Limited

Annex A: Guidance

NESO shall comply with the following guidance, documents and instructions. Documents marked as 'good practice' do not form mandatory guidance

36. Corporate governance

- This framework document
- Code of conduct for Board members of Public Bodies: <https://www.gov.uk/government/publications/code-of-conduct-for-board-members-of-public-bodies>
- Financial Reporting Council's UK Corporate Governance Code (to the extent relevant to NESO) <https://www.frc.org.uk/library/standards-codes-policy/corporate-governance/uk-corporate-governance-code/>

Good practice:

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

37. Financial management and reporting

- Relevant guidance and instructions issued by the Treasury in respect of Whole of Government Accounts: <https://www.gov.uk/government/collections/whole-of-government-accounts>

Good practice:

- Managing Public Money (MPM) - beyond the principles of regularity, propriety, value for money, and feasibility and a duty to raise potentially novel, contentious, and repercussive issues: <https://www.gov.uk/government/publications/managing-public-money>
- Government Financial Reporting Manual (FReM): www.gov.uk/government/collections/government-financial-reporting-manual-frem
- Relevant Dear Accounting Officer (DAO) letters: (unless specifically directed at public corporations) www.gov.uk/government/collections/dao-letters

38. Management of risk

- Management of Risk: www.gov.uk/government/publications/orange-book and <https://www.gov.uk/government/publications/management-of-risk-in-government-framework>
- The Government cyber-security strategy and cyber security guidance: <https://www.gov.uk/government/publications/national-cyber-strategy-2022/national-cyber-security-strategy-2022> and

<https://www.gov.uk/government/collections/cyber-security-guidance-for-business>

39. Commercial management

- Procurement Policy Notes (when specifically directed at public corporations): <https://www.gov.uk/government/collections/procurement-policy-notes>

Good practice:

- Cabinet Office spending controls: <https://www.gov.uk/government/collections/cabinet-office-controls>
- Transparency in supply chains - a practical guide: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1040283/Transparency in Supply Chains A Practical Guide 2017 final.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1040283/Transparency_in_Supply_Chains_A_Practical_Guide_2017_final.pdf)

40. Public appointments

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

Good practice (excepting the appointment of the Chair):

- Guidance from the Commissioner for Public Appointments: <https://publicappointmentscommissioner.independent.gov.uk/>
- Governance Code on Public Appointments: www.gov.uk/government/publications/governance-code-for-public-appointments

41. Staff and remuneration

- Whistleblowing Guidance and Code of Practice: <https://www.gov.uk/government/publications/whistleblowing-guidance-and-code-of-practice-for-employers>
- The Equalities Act 2010: www.gov.uk/guidance/equality-act-2010-guidance
- HM Treasury guidance on senior pay and reward (unless derogations are otherwise given by HMT): www.gov.uk/government/publications/senior-civil-service-pay-and-reward
- Relevant public sector pay and terms (unless derogations are otherwise explicitly given by HMT): <https://www.gov.uk/government/publications/public-sector-pay-and-terms-guidance-note>

42. General

- Freedom of Information Act guidance and instructions: www.legislation.gov.uk/ukpga/2000/36/contents and <https://ico.org.uk/for-organisations/guide-to-freedom-of-information/>
- Other relevant instructions and guidance issued by the central Departments (Cabinet Office and HM Treasury)
- Recommendations made by the Public Accounts Committee, or by other Parliamentary authority, that have been accepted by the Government and are relevant to NESO.

Good practice:

- The Parliamentary and Health Service Ombudsman's Principles of Good Administration: <https://www.ombudsman.org.uk/about-us/our-principles>

- Guidance produced by the Infrastructure and Projects Authority (IPA) on management of major projects: www.gov.uk/government/organisations/infrastructure-and-projects-authority
- The Government Digital Service: www.gov.uk/government/organisations/government-digital-service
- The Government Grants Management, Public Sector Fraud and Debt Management functions:
 - <https://www.gov.uk/government/collections/grants-management-function> and www.gov.uk/government/publications/grants-standards
 - <https://www.gov.uk/government/organisations/public-sector-fraud-authority>
 - <https://www.gov.uk/guidance/government-debt-management-function-gdmf>
- Code of Practice for Official Statistics: <https://code.statisticsauthority.gov.uk/#:~:text=The%20Code%20of%20Practice%20for%20Statistics%20sets%20the,produced%20by%20people%20and%20organisations%20that%20are%20trustworthy.>
- The Civil Service diversity and inclusion strategy (outlines the ambition, to which partner bodies can contribute): <https://www.gov.uk/government/publications/civil-service-diversity-and-inclusion-strategy-2022-to-2025>

Annex B - UKGI Shareholder Representative Role

Establish and maintain appropriate and effective corporate governance foundations which govern the department-asset relationship

- I. work with the department and NESO to **establish and maintain appropriate corporate governance documents and systems**, through up to date and fit for purpose governance documents, including Framework Documents, Articles of Association where relevant, board Terms of Reference, chair letter.

Promote effective objectives, business planning and performance against business plan

- I. assess and challenge from an owner's perspective NESO's Business Plan, the clarity of the objectives, the quality of the Business Plan and the financial, and where relevant commercial, strength underpinning it, and its effectiveness as a tool for NESO.
- II. monitor and challenge NESO and its board as to the **performance** against its Business Plan or equivalent document, in terms of how NESO is performing as an organisation (as opposed to monitoring the success of the policy delivery itself).
- III. challenge NESO's Business Cases, and other HMG approvals outside NESO's executive delegations, through that NED position on NESO board *only* (this will be limited to the degree of challenge that any non- executive board member can provide. UKGI is not responsible for formally reviewing such business cases, providing advice to the department and Ministers, or obtaining HMG approval for Business Cases, unless explicitly agreed otherwise).

Promote strong corporate capability

- I. through the UKGI shareholder team, as well as the UKGI shareholder representative on NESO's board, promote the **strength of NESO's governance systems which support organisational performance**, by providing high level challenge to NESO (and its board) on:
 - a. governance framework compliance - defined as NESO's view on its compliance with its governance framework (as set out in its Framework Document, delegated authorities, and any other specified governance documents), and
 - b. the adequacy and strength of NESO's reporting to the department on these issues.

Promote effective leadership (high quality boards and senior management)

- I. promote the **effectiveness of NESO's leadership**, specifically through:
 - a. promoting high quality and diverse boards, challenging the board's capability and effectiveness, and monitoring NESO's succession planning,

- b. promoting the implementation of effective board composition, recruitment, remuneration and appointment processes,
- c. acting as the shareholder non-executive director on NESO's board, and
- d. giving a view on NESO's board level executive capability in relation to its responsibilities, and remuneration.

Promote effective relationships between the department and NESO

- I. support effective relationships between the department and NESO, including through:
 - a. (UKGI) building effective relationships with NESO's board and senior management,
 - b. promoting effective interfaces and communications between the department and NESO, including through regular shareholder meetings,
 - c. maintaining an effective regular meeting "rhythm" with NESO chair, board and executive to ensure appropriate flow of information (management information) between NESO, UKGI and the department, including effective reporting to the department.

Supporting and supplementing the activities above by providing a Shareholder NED on NESO's board

- I. act as government shareholder representative on NESO board, through:
 - a. providing an appropriate board member to carry out the non-executive director role effectively, drawing on the support and analysis from the UKGI shareholder team
 - b. being a member of NESO's Remuneration Committee, Audit and Risk Committee, Nominations Committee, and invited to all other Board committees.
 - c. acting as an interlocutor between the department and NESO's board
 - d. providing a view to the department on the strength of NESO's board

HM Treasury contacts

This document can be downloaded from www.gov.uk

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