

# **Office of Gas and Electricity Markets**

## **Resource Accounts 2008-09**

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**(For the year ended 31 March 2009)**

*Ordered by the House of Commons to be printed  
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## Contents

	Page
Annual Report	
Introduction	4
Sustainability Report	10
Management Commentary	14
Remuneration Report	19
Statement of Accounting Officer's Responsibilities	23
Statement on Internal Control	24
Certificate and Report of the Comptroller and Auditor General	28
The Accounting Schedules:	
Statement of Parliamentary Supply	30
Operating Cost Statement	31
Balance Sheet	32
Cash Flow Statement	33
Statement of Net Operating Costs by Departmental Aim and Objectives	34
Notes to the Accounts	35

## Annual Report

### Introduction

These Resource Accounts have been prepared and published by the Office of Gas and Electricity Markets (Ofgem). The Accounts have been prepared under a direction issued by HM Treasury in accordance with section 5(2) of the Government Resources and Accounts Act 2000. The Accounts demonstrate the resources that have been used to deliver Ofgem's objectives. These Resource Accounts have been prepared in accordance with the guidance set out in the Government Financial Reporting Manual.

### Nature of Ofgem's Business and its Aim, Objectives and Activities

This document contains the Accounts of Ofgem for the year 1 April 2008 to 31 March 2009. It should be read in conjunction with the Ofgem Annual Report for 2008-09, which is published separately and available from Ofgem's website ([www.ofgem.gov.uk](http://www.ofgem.gov.uk)).

Ofgem is a non-ministerial government department. In the parts of the gas and electricity markets where competition is established and effective, Ofgem withdraws from direct price regulation and increasingly relies on competition powers to regulate companies' behaviour and protect domestic and commercial consumers' interests. Where competition is not possible or sufficiently well developed, Ofgem protects consumers' interests by direct regulation, for example by regulating the charges of monopoly companies that run the national transmission and local distribution networks in England, Scotland and Wales.

Ofgem is governed by the Gas and Electricity Markets Authority. The Authority's responsibilities are set out in the Gas Act 1986, the Electricity Act 1989, as amended by the Utilities Act 2000, the Energy Act 2004 and related legislation.

In addition, the Energy Act 2008 received Royal Assent on 26 November 2008. The Act provides the legal framework for a number of Ofgem activities including, the renewables obligation, feed-in tariffs for small-scale generation of electricity, offshore electricity transmission and the transfer of Ofgem's metrology duties to the National Weights and Measures Laboratory (NWML). The Act also changed our statutory duties in two ways. Firstly, our principal objective has been amended to make it clearer that we must protect the interests of future as well as existing consumers. Secondly, it has promoted sustainable development within the hierarchy of duties so that in seeking to further our principal objective, we must now have regard to the need to contribute to achieving sustainable development. The Government is also revising guidance on social and environmental matters to which we must have regard.

The Climate Change Act 2008 also received Royal Assent on 26 November 2008. The Act sets up a framework for the UK to achieve its long-term goals of reducing greenhouse gas emissions and to ensure steps are taken towards adapting to the impact of climate change.

In fulfilling its obligations Ofgem works closely with the Department of Energy and Climate Change (DECC), Department for Business, Enterprise and Regulatory Reform (BERR), the Department for Environment, Food and Rural Affairs (DEFRA), Consumer Direct, Consumer Focus and formally energywatch.

The Consumers, Estate Agents and Redress Act 2007 made provision for the establishment of the National Consumer Council, to be known as Consumer Focus, and the abolition of energywatch and a number of other consumer bodies. Consumer Focus is an advocacy body, looking at consumer issues across sectors not just energy. It has a duty to investigate complaints about actual or threatened disconnection, and a power to investigate complaints from vulnerable consumers.

Consumer Direct is a telephone and online advice and information service for domestic customers. They give advice to customers raising complaints or enquiries. Consumer Direct also acts as a gateway for contacts with Consumer Focus. Ofgem works closely with both new bodies.

As part of the new arrangements Ofgem appointed the Ombudsman Supply Limited to become the new independent ombudsman for gas and electricity customers. The new ombudsman service replaced the voluntary scheme that Ofgem ordered the industry to put in place in 2006.

## **Aim**

Ofgem's primary objectives, duties and functions are set out in statute. From these, Ofgem has distilled its aim as follows:

*To protect the interests of consumers, existing and future, wherever appropriate by promoting effective competition. Competitive solutions are promoted wherever appropriate, but direct regulation of network monopolies is essential to protect the interests of consumers.*

This means working on behalf of consumers, existing and future, to secure gas and electricity supplies which are competitively priced, reliable and safe. In particular, the Corporate Strategy 2008-2013 identified seven themes:

1. Creating and sustaining competition,
2. Regulating networks effectively,
3. Helping to protect the security of Britain's energy supplies,
4. A leading voice in Europe,
5. Helping to achieve sustainable development,
6. Helping to tackle fuel poverty, and
7. Better regulation

## **The Gas and Electricity Markets Authority**

The Authority comprises executive and non-executive members. The Authority is the ultimate decision making body for all matters dealt with by Ofgem, setting overall strategy, policy and deciding major issues.

### ***Basis of appointment***

The Chairman of the Authority, Lord Mogg KCMG, was appointed non-executive Chairman on 1 October 2003 for a period of five years by the Secretary of State for Trade and Industry following open competition. In February 2008 he was reappointed for a further five years until September 2013. Prior to taking up his role, he was initially appointed as a non-executive member of the Authority from May 2003. The other non-executive members of the Authority are also appointed by the Secretary of State in consultation with the Chairman of the Authority.

Alistair Buchanan CBE was appointed Chief Executive and an executive member of the Authority on 1 October 2003. The appointment was made following open competition and the process was overseen by a Civil Service Commissioner.

The appointment of the other executive members of the Authority is undertaken in accordance with the Civil Service Management Code and the three Ofgem Managing Directors are members of the Authority so long as they hold these posts.

Details of the remunerations paid to Authority members can be found in the Remuneration Report.

**Executive Members of the Authority who served during the year**

Alistair Buchanan CBE, Chief Executive, appointed in October 2003.

Sarah Harrison, Managing Director, Corporate Affairs, appointed in May 2005.

Steve Smith, Managing Director, Networks, appointed in January 2008. He was previously Managing Director, Markets, appointed in May 2004.

Dr Andrew Wright, Managing Director, Markets, appointed in January 2008.

**Non-Executive Members of the Authority who served during the year**

Lord Mogg joined the Authority as a non-executive member in May 2003 and was appointed Chairman in October 2003. In February 2008 he was reappointed. His current appointment ends in September 2013.

Dr Robin Bidwell joined the Authority as a non-executive member in February 2003. In February 2008 he was reappointed. His current appointment ends in February 2010.

Miriam Greenwood joined the Authority as a non-executive member in May 2004. She has been reappointed from January 2010. Her current appointment ends in January 2013.

Judith Hanratty joined the Authority as a non-executive member in January 2005. In December 2007 she was reappointed. Her current appointment ends in December 2009.

David Harker joined the Authority as a non-executive member in January 2009. His current appointment ends in January 2012.

Jim Keohane joined the Authority as a non-executive member in January 2009. His current appointment ends in January 2013.

Jayne Scott joined the Authority as a non-executive member in May 2004. She has been reappointed from January 2010. Her current appointment ends in January 2013.

John Wybrev joined the Authority as a non-executive member in May 2004. In May 2007 he was reappointed. His current appointment ends in May 2009.

Professor George Yarrow joined the Authority as a non-executive member in December 2006. He resigned from the Authority in April 2009.

**Other new Non-Executive Members of the Authority appointed during the year**

Professor David Fisk has been appointed as a non-executive member and joins in July 2009. His appointment ends in July 2012.

John Howard has been appointed as a non-executive member and joins in July 2009. His appointment ends in July 2012.

The non-executive members are considered to be independent of management and comprise a majority of the Authority. Apart from the following issues in respect of shareholdings and their treatment, there were no company directorships or other significant interests held by Authority members which could give rise to a conflict with their responsibilities as members of the Authority.

Judith Hanratty holds options for shares in BP plc, her former employer. A close family member of John Wybrev holds shares in Shell and BP. Both have undertaken that they will not deal in these shares during the period in which they are members of the Authority and for a period of 12 months thereafter.



**Authority Meetings and Activities**

Meetings and attendance records for the full Authority and Authority Committee meetings during the year were as follows:

	<u>The Authority*</u>	<u>Audit Committee</u>	<u>Offshore Electricity Transmission Committee</u>	<u>Sustainable Development Committee</u>	<u>Distribution Price Control Review Committee</u>	<u>Remuneration Committee</u>
Lord Mogg	11/11	–	–	–	3/3	2/2
Dr Robin Bidwell	10/11	–	–	6/6	–	–
Miriam Greenwood	10/11	–	5/5	–	3/3	–
Judith Hanratty	8/11	3/4	–	3/6	–	–
Jayne Scott	10/11	4/4	–	–	3/3	2/2
David Harker**	3/3	–	–	–	–	–
Jim Keohane**	3/3	–	–	–	–	–
John Wybrew	9/11	4/4	4/5	5/6	–	2/2
Professor George Yarrow	10/11	–	–	4/6	–	–

\*Two Authority meeting dates were revised at short notice. A number of Authority members were therefore unable to attend the rescheduled meetings.

\*\*Appointed to the Authority by the Secretary of State on 1 January 2009.

Working closely with the European Commission, European Parliament and others, the Chairman, Lord Mogg, has continued to contribute fully to the development of EU regulatory policy for energy in his role as President of the Council of European Energy Regulators (CEER) and Chairman of the European Group for Electricity and Gas Regulators (ERGEG).

The Chairman and Non-Executives have also played a full part in Authority business through their attendance and contributions at Authority meetings and meetings of committees of the Authority as indicated above. They have attended Ofgem “Powering the Energy Debate” seminars, briefing sessions and an Open session of the Authority to which the public were invited. The Authority met in Scotland in September 2008, using the occasion to hold a Seminar on transmission issues in Edinburgh and hosted a meeting in Glasgow with senior energy interests from the public and private sectors. A visit to Cardiff took place in July 2008.

The Authority held an “Awayday” meeting in June 2008, in part in closed session, involving the Chairman and non-Executives, to consider a detailed survey of its performance during the year, and a range of topics on Authority governance and procedures. These were designed to build on its overall efficiency and effectiveness. Meetings with interested parties, held after its main meetings, have been a regular feature of the Authority’s work in 2008-09.

Non-executives have maintained their close and regular contacts with Ofgem teams dealing with those areas of special responsibility assigned to each of them by the Chairman. In addition to the work of the Audit and Remuneration Committees, and the Sustainable Development and Offshore Electricity Transmission Committees, the Chairman and some non-executives have taken a major part in assessing and formulating price control proposals during the course of the year involving meetings with the gas distribution industry. Members have attended several additional briefing sessions organised for the Authority during the course of the year – for example on Ofgem’s investigations into market prices for energy, and in the preparation of a cases under the Competition Act 1989, in pursuit of the Authority’s principal duty to protect the interests of consumers.

On governance issues, the Authority’s corporate structure – with committees having clear terms of reference – continues to provide assurance that there is a strong framework of internal control throughout the organisation. In particular, the Audit Committee has been active in risk assessment and mitigation strategies across the organisation on both financial and policy matters, concentrating especially on administrative work

undertaken by Ofgem for Government, and in the development of its new role in devising and implementing a new offshore electricity transmission regime.

During the year, the Authority reviewed its rules and procedures in respect of delegated powers with minor amendments and updating. It agreed a resolution to delegate to Managing Directors certain levels of decision-making on more minor infringements of licence conditions or procedures. The Authority also reviewed further its policies and procedures in respect of requests for information under the Freedom of Information Act 2000. Minutes of the Authority's meetings continue to be published on the Ofgem website.

### **Senior Management Team**

The Senior Management Team (SMT) comprises all the executive members shown in the Remuneration Report. Its role is to assist the Chief Executive in the day-to-day running of the business. It meets weekly and decides, subject to the overall direction and control of the Authority, on all matters relating to management and resources.

### **Governance**

The following paragraphs set out Ofgem's response to HM Treasury's Corporate Governance Code for Central Government Departments.

### **Audit Committee**

The Audit Committee is chaired by Jayne Scott. The Committee comprises the Chairman and Non-Executive directors Judith Hanratty and John Wybrew. The Chief Executive, Chief Operating Officer and other staff, the external auditors (National Audit Office) and the internal auditors (Chiene and Tait) attend by invitation.

The Committee's role is to advise the Accounting Officer and the Authority on all matters affecting the financial health, probity, external reputation or wider internal controls of the organisation. The Committee also oversees Ofgem's RPI-X cost control regime. The Committee met four times during 2008-09, including a workshop which facilitated discussion and review of a number of topics including risk management and Ofgem's RPI-X cost control regime.

### **Sustainable Development Committee**

The Energy Act 2004 added a duty for Ofgem *"to carry out its functions in the manner best calculated to contribute to the achievement of sustainable development"*. The Energy Act 2008 made two further changes to Ofgem's duties. The first is to highlight that our principal objective refers to future as well as existing customers. The second is the promotion of our duty to contribute to the achievement of sustainable development.

The Authority's Committee on Sustainable Development, chaired by Dr Robin Bidwell, has continued its work of advising the Authority on a wide range of issues. A detailed report was first prepared in 2006 on Ofgem's sustainable development policies, priorities and activities. Subsequent reports in 2007 and 2008 addressed Ofgem's work relevant to this theme including its contributions to managing the transition to a low carbon economy; eradicating fuel poverty and protecting vulnerable customers; promoting energy saving; ensuring secure and reliable gas and electricity supply; and in supporting improvement in all aspects of the environment.

### **Offshore Electricity Transmission Committee**

The Committee was set up in June 2008 to provide advice to the Authority and Ofgem on the development and implementation of the offshore electricity transmission regime. The Committee is chaired by Miriam Greenwood. The Committee met five times during 2008-09.

### **Distribution Price Control Review Committee**

The Committee was set up in June 2008. The purpose of the Committee is to provide advice to the Distribution team and to the Authority on the development of Ofgem's proposals for the electricity distribution price control review (DPCR5). The Committee also meets with the distribution companies and challenges their proposals in a proactive forum. The Committee is chaired by Lord Mogg.

**Enforcement Committees**

Under the Rules of Procedure, the Authority in 2003 created two types of Enforcement Committee. One can be called to consider enforcement action in relation to licence breaches, and the second considers compliance with the Competition Act 1998. The Enforcement Committees comprise Authority members, with a majority of non-executive members and a non-executive chairman.

**Remuneration Committee**

The Committee's role relates to the pay and performance of senior Ofgem staff, and succession planning. Full details of the Committee's membership, role and senior staff salary and pension entitlements are given in the Remuneration Report on pages 19 to 22. The Committee is chaired by Lord Mogg.

**Auditors**

The Comptroller and Auditor General, who has been appointed under statute and reports to Parliament, has audited the Resource Accounts. The notional cost of providing audit services in respect of the Resource Accounts was £42,000. An additional notional amount of £4,000 was charged for the audit of the 1 April 2008 restated balance sheet prepared under International Financial Reporting Standards. There was no auditor remuneration (actual or notional) for non-audit work.

The Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that Ofgem's auditors are aware of that information. So far as he is aware, there is no relevant audit information of which Ofgem's auditors are unaware.

Ofgem's internal audit service provides an independent appraisal service for management by measuring and evaluating the adequacy, reliability and effectiveness of management and financial control systems. Internal audit make recommendations based on the appraisal of each system reviewed. An annual assurance report is provided to the Accounting Officer. Ofgem have chosen to outsource the provision of the internal audit service to ensure wholly independent and fully professional analysis and recommendations. Our current provider is Chiene and Tait, who were first appointed on 1 April 2003 and subsequently reappointed following a competitive process for another term commencing 1 July 2007.

## Sustainability Report

### Taking account of the environment in Ofgem's work

One of Ofgem's main themes is to help protect the environment with an overall goal to assist the gas and electricity markets and industry to achieve environmental improvement as efficiently as possible. Ofgem has had secondary duties in relation to the environment and certain groups of consumers (future as well as present) for some time. Parliament, by way of the Energy Act 2008, has made two changes to Ofgem's duties on sustainable development. The first is to our principal objective, which now refers to future as well as existing customers. The second is the promotion of our duty to contribute to the achievement of sustainable development.

Ofgem is committed to sustainable development and our economic, social and environmental duties put sustainability at the centre of Ofgem's work. Although other government departments have the lead responsibility for sustainable development, Ofgem will use its legal powers to make a difference and its independent voice to influence the debate. The Energy Act 2008 will help ensure the long term delivery of our energy and climate change strategy.

Ofgem administers a number of the schemes and arrangements established by the Government under its Climate Change Programme. The main schemes are the Renewables Obligation (RO), which creates obligations for electricity suppliers, and the Carbon Emissions Reduction Target (CERT), which creates obligations for both gas and electricity suppliers. Ofgem also administers the Renewable Energy Guarantees of Origin arrangements and exemptions from the Climate Change Levy for renewables and CHP generators.

Ofgem has extensive knowledge of the environmental programmes we administer. We have used this experience to inform the discussions on the long-term reforms of the RO and in 2009, Ofgem will update its administration procedures for the new banding regime. Ofgem will also continue to work with Government on the development of its energy efficiency programmes and will update its procedures following the Government's consultation on the amendments to the CERT programme.

We will also work with Government on new environmental programmes. These may include a feed in tariff for renewable electricity, an incentive for renewable heat and the Community Energy Saving Programme that arise from the Energy Act 2008 and the Climate Change Act 2008 respectively.

On 17 December 2008 Ofgem published its third Sustainable Development Report. The report sets out the progress Ofgem has made in encouraging the development of a more sustainable energy industry and the actions to be taken during 2008-09.

### Sustainable development action plan (Internal Ofgem Operations)

In September 2007, Ofgem introduced an internal sustainability development action plan. The sustainability work focuses on five key areas:

- *Climate change and energy efficiency.* To minimise our consumption of natural resources, including water, as far as reasonably and economically practicable, and to incorporate long term strategies for energy efficiency into planning and capital purchases,
- *Waste management and recycling.* To reduce waste, increase the proportion of waste that is recycled and eliminate our use of landfill sites for general office waste,
- *Procurement.* To promote a purchasing policy which will give preference, as far as practical, to those products and services which cause the least harm to the environment by incorporating specific environmental requirements into contracts with principal suppliers,
- *Travel.* To encourage travel options that minimise the environmental impact, and to promote the use of technology, such as videoconferencing, as alternatives to travel where practical,

- *People.* To seek to embed the principle of sustainable development through increasing awareness of sustainability responsibilities among staff and for all who work with us.

Targets will be set annually in order to achieve continuous improvement and our environmental performance will be reported on annually. Of the 28 targets set for 2008-09, initial results show that 22 have been achieved or are on course, 2 were unable to be monitored and 4 were not achieved or not on target.

In setting this new sustainability challenge, Ofgem is building on what has already been achieved over the past few years. Ofgem gained ISO14001 certification for environmental management in 2002 and have retained this each year since.

In September 2007 Ofgem also gained Energy Efficiency Accreditation Status from the National Energy Foundation. Part of the requirements of this award were to demonstrate that energy initiatives have been implemented, senior management were involved and staff were energy efficient aware.

We have also implemented many energy saving initiatives including a combined heat and power unit, which significantly reduces our carbon emissions. Ofgem switched electricity supplier from 1 April 2007. A 'binless office' has also been introduced which has led to an increase in the amount of recycling and reduced waste collection. Following the installation of a PowerPerfector (voltage optimisation unit) in December 2008 it is anticipated that energy consumption will be further reduced by 8%.

## **Suppliers**

### ***Environmental Procurement***

The evaluation criteria for all procurements undertaken by the Procurement Team are based on best value for money, with the contract awarded to the most economically advantageous tender. However, where contracts have possible implications on areas covered by Ofgem's environmental policy such as catering, cleaning or other building type services, additional criteria based on Ofgem's own ISO14001 policies and suitability of the tenderer's own environmental policy will be included.

### ***Creditor Payment, Policy and Performance***

Ofgem is signed up to the Better Payment Practice Code. The Code is laid down by the Better Payment Practice Group, a cooperative forum of representatives of the business community and Government that seeks to help to improve the payment culture in the UK. In line with the Code, Ofgem makes payment within 30 days or other agreed credit terms, following receipt of goods or services or valid invoice, whichever is the later. During 2008-09 Ofgem paid 99.49 per cent of undisputed bills within these deadlines.

In October 2008, the Government set a new challenge to departments to pay all suppliers within 10 working days with effect from 1 December 2008. During the period December 2008 to March 2009 Ofgem paid 98.83 per cent of undisputed bills within this deadline.

## **Employees**

### ***Training and Development***

Ofgem's most important investment is in its people. There is an active policy of recruiting and retaining high calibre staff.

During the year, Ofgem continued to give a high priority to training and developing all staff to enhance their professionalism in pursuit of Ofgem's objectives. To this end, Ofgem has developed a new management development programme, known as Generating Excellence in Management (GEM). This is a skills development programme for leaders and managers, including all members of the SMT and Directors, and will be a key enabler in building a high level of people management competence.

This commitment is reflected in expenditure: £0.869 million was spent on training during 2008-09.

**Employee Involvement**

Ofgem attaches great importance to managing, developing and training its staff in accordance with best practice and has a Staff Consultative Committee.

**Health and Safety**

Ofgem recognises and accepts its legal responsibility in relation to the health, safety and welfare of its employees and for all other people using its premises or engaged on its activities. Ofgem will comply with the Health and Safety at Work Act 1974 and all other relevant legislation as appropriate. Ofgem is committed to the positive promotion of accident prevention and the elimination of incidents involving personal injury, illness or damage.

The Health and Safety policy statement describes Ofgem's responsibilities and objectives and is available to all employees.

**Personal Data**

Ofgem's data security policy aims to ensure that all official information is safeguarded and kept securely. There were no recorded loss of data incidents during the 2008-09 financial year.

**Pensions**

The main pension scheme for employees is the Principal Civil Service Pension Scheme (PCSPS). The pension liabilities arising from Ofgem's employees' membership of the PCSPS are not provided for in these accounts in accordance with HM Treasury's instructions, and are described in the Remuneration Report and Notes 1.8 and 10 to the financial statements.

**Equal Opportunities**

Ofgem's Equal Opportunities Policy aims to ensure that no eligible job applicant or employee receives less favourable treatment on grounds of age, disability, sex, race, ethnic or national origin, sexual orientation, religion or religious affiliation or because the employee works part-time.

At the end of the financial year:

- 0.6 per cent of all staff were known to be disabled,
- 44 per cent of all staff were women,
- 41 per cent of staff in managerial grades were women,
- 29 per cent of senior civil service members in Ofgem were women,
- 17 per cent of staff were known to be of ethnic minority origin, and
- staff known to be of ethnic minority origin in the managerial grades was 11 per cent.

The policy statement describing Ofgem's equal opportunity framework is available to provide guidance for all employees.

**Days lost due to absence**

Ofgem encourages a culture where good attendance is expected and valued. However, it recognises that from time to time absences for medical reasons may be unavoidable. Ofgem aims to treat its staff who are ill with sympathy and fairness and where possible to provide them with support which will enable them to recover their health and attend work regularly.

In 2008-09, the percentage of working days lost was 1.8 per cent or 5 days per annum per employee. This compares favourably to the public sector average of 9 days per annum per employee.

**Communities**

Ofgem seeks to support its employees who commit personal time or funds to help charities, community activities or voluntary public activities. For example, special leave may be requested for acting as a school governor, a magistrate or an employment tribunal panel member.

A number of events, organised by charities, have also taken place at Ofgem.



## Management Commentary

### Income Generation

In 2008-09 income of £41.316 million was received in respect of licence fees and other income mainly from property rental income. In addition, £21.451 million was received from licence fee payers in respect of consumer advocacy arrangements. £15.064 million was transferred to DECC in respect of the energy sector related costs of Consumer Focus and Consumer Direct, and the closure costs of energywatch. £6.387 million was transferred to BERR in respect of the costs incurred by energywatch prior to closure.

In addition to operating income of £41.316 million, public funds were provided to meet the cost of work undertaken in respect of the Climate Change Levy (£0.695 million).

A saving of £797k from licence fees has been made during 2008-09, arising primarily (£771k) from higher than planned income received from non licence fee sources such as other government departments. This will be utilised by Ofgem in 2009-10 as determined under Ofgem's RPI-X cost regime.

### Spending

Total operating costs amounted to £42.011 million. Three areas of expenditure absorbed 85 per cent of the total; staff costs (49 per cent), contractors (15 per cent) and accommodation (21 per cent). Capital expenditure in the year totalled £0.857 million in respect of office equipment and information technology.

### Output

Ofgem's financial performance in pursuit of its objectives is detailed in the Statement of Net Operating Costs by Departmental Aim and Objectives on page 34. Reviews of these and other projects can be found in the Ofgem Annual Report, which is published separately and available from Ofgem's website ([www.ofgem.gov.uk](http://www.ofgem.gov.uk)).

### Budgets and Liquidity

Ofgem's budget is approved by Parliament following a consultation process with industry and other interested parties. For 2008-09, Parliament approved a resource budget of £42.186 million, a capital budget of £1.0 million and a net cash requirement of £3.557 million. A Winter Supplementary Estimate allowed Ofgem to increase its budget by £1.500 million from RPI-X cost regime reserves.

### Reconciliation between resource outturn and the resource budget outturn

	2008-09 £000s	2007-08 £000s
<b>Net Resource Outturn (Estimates)</b>	695	695
Net Operating Costs (Accounts)	695	695
<b>Resource Budget Outturn (Budget)</b>	695	695
<i>Of which:</i>		
Departmental Expenditure Limits (DEL)	695	695
Annually Managed Expenditure (AME)	–	–

A financial penalty of £41.6 million was imposed on National Grid plc in February 2008. The penalty was in respect of National Grid plc abusing its dominant position in the market in Great Britain for the provision of installed domestic-sized gas meters and the ancillary service of meter maintenance. This was an infringement of Section 18 of the Competition Act 1998 and Article 82 of the EC Treaty. National Grid plc initiated appeal proceedings and the hearing in the Competition Appeal Tribunal was held in January 2009. The outcome of the appeal is not yet known.



In December 2008 a financial penalty of £1.8 million was imposed on Npower after the supplier failed to take sufficient action to prevent misselling of energy contracts to customers. Ofgem found that Npower breached a supply licence condition by failing to take adequate steps following complaints from customers about visits by the company's doorstep salespeople. The penalty was received on 2 March 2009 and paid over to the Exchequer.

A Contingency Fund advance of £10.0 million was drawn down in April 2008 to provide short term liquidity until the first receipt of licence fees. This was fully repaid in August 2008.

The net cash requirement outturn of £3.424 million is lower than the Estimate net cash requirement of £3.557 million.

An amount of £0.133 million due to be surrendered to the Exchequer will be retained to fund operations in 2009-10 until adequate licence fee income is received.

### Finance and Provisions

Statutory examining and testing services provided by Ofgem laboratories at Leicester were outsourced to SGS UK Ltd. in January 2003. Some costs of this change, particularly redundancy and continuing pension liabilities, have fallen to Ofgem and these have required provisions to be made which now total £0.261 million. From 1 April 2006 Ofgem transferred its metrology activities to the National Weights and Measures Laboratory (NWML) under an administrative arrangement. A full transfer of responsibility to NWML took place on 1 April 2009 under the Energy Act 2008.

Other early retirement provision totalling £0.955 million relates to the costs of pensions for individuals who have retired early from Ofgem.

A provision of £0.562 million is included within the accounts in respect of the unfunded pension liabilities which fall to Ofgem for a previous Chief Executive, and a Director General.

The balance sheet at 31 March 2009 shows negative Taxpayer's Equity of £1.641 million. This reflects the inclusion of liabilities falling due in future years which are to be financed mainly by drawings from the UK Consolidated Fund. Such drawings will be from grants of Supply approved annually by Parliament to meet Ofgem's Net Cash Requirement. Further detail is provided in Note 1.14 to the financial statements.

An announcement by the Chancellor in the 2008 Budget Report confirmed that International Financial Reporting Standards (IFRS) will be adopted by Ofgem and other departments from 2009-10. A project team has been set up to ensure that next year's resource accounts are IFRS compliant. HM Treasury set out a 'trigger point' process for Departments to manage the transition from FRS based accounts to IFRS accounts:

- Trigger point 1, 30 September 2008, Ofgem prepared an IFRS restated Balance Sheet as at 1 April 2008 and submitted it to the NAO,
- Trigger point 2, 31 December 2008, marked the completion of the NAO's dry-run audit. There were no specific recommendations arising from the audit,
- The remaining trigger points 3 and 4 refer to the future preparation and audit of 'shadow' IFRS financial statements for 2008-09.

### Business Focus in Year and for the Future

In November 2008, Parliament enacted changes to Ofgem's statutory duties. The Energy Act 2008 changed our statutory duties in two ways: the text of our principal objective has been amended to highlight that we must protect the interests of future as well as existing consumers; and it has promoted our sustainable development within the hierarchy of duties so that it is of equal importance to the regard the Authority has to have to: (a) the need to secure that all reasonable demands for electricity are met; (b) the need to secure that, so far as it is economical to meet them, all reasonable demands in Great Britain for gas conveyed through pipes are met; and (c) the need to secure that licence holders are able to finance the activities which are the subject of obligations imposed by or under the Electricity Act 1989, the Gas Act 1986, the Utilities Act 2000 or the Energy Act 2004.

Whilst Ofgem has retained the seven core themes described earlier, they take into account Ofgem's developing work on making the gas and electricity sectors more sustainable.

There is also significant new energy legislation being developed at the EU level. Ofgem's objective is to develop truly competitive European electricity and gas markets that benefit British consumers in terms of prices and security of supply. Ofgem aims to influence the debate and remove the risk that European markets and regulation roll back the benefits that liberalisation has brought to British consumers.

With higher energy prices and the progressive liberalising of retail markets across Europe, consumer issues are increasingly important. In October 2008 Ofgem hosted the *Citizens Energy Forum* where such issues were discussed.

In July 2008 the Business and Enterprise Committee completed an inquiry into energy prices and fuel poverty. Since then, there have been a number of developments within the energy sector. Amongst these developments were the publication of Ofgem's energy supply probe, the Government's launch of a one billion pound package to tackle fuel poverty and the creation of the new Department of Energy and Climate Change. These events have taken place against the back-drop of a global financial and economic crisis. The Committee's report entitled 'Energy policy: future challenges' looks at the implications of these developments for the future of the UK's energy policy. This was the Committee's last report on energy-related matters, as from January 2009 responsibility for the scrutiny of energy policy passed to the new Energy and Climate Change Committee.

A Fuel Poverty summit was convened in April 2008 bringing together Ministers, Government officials, energy suppliers and consumer organisations to agree a programme of practical action. A number of key outcomes were agreed.

Ofgem received notice of a legal challenge raised by a number of industry parties (the Claimants) in respect of the Authority's September 2007 decision regarding Balancing and Settlement Code modification proposals on zonal transmission losses. The Claimant's challenged, by way of judicial review, the Authority's power to make a decision on the losses proposals after the latest date for a decision set out in the Final Modification Reports for each of the proposals. In July 2008 the judgement found in favour of the Claimants.

In February 2008, Ofgem launched an investigation into the markets in electricity and gas for households and small businesses. The decision to conduct the probe was in response to growing public concern about whether the market is working effectively and movements in energy prices. Initial findings from the probe were published in October 2008. Although no evidence of a cartel was found, a number of wide-ranging reforms were proposed, including removing more than £500 million in unfair premiums from suppliers' tariffs. Ofgem has consulted on other proposals and if sufficient progress is not made following consultation, Ofgem will consider further action. A full Market Investigation Reference to the Competition Commission has not been ruled out.

The Consumer First project, originally launched in January 2007, continued during the year. Two panels have been established to assist Ofgem. The *Consumer First Panel* is a representative sample of 100 energy consumers in five locations across Britain. A *Consumer Challenge Group* has also been set up comprising six consumer experts. In April 2009, three reports were published regarding future consumers.

The RPI-X at 20 review is a two year project, due to conclude in 2010, examining whether the current approach will continue to deliver customers reliable, well-run networks with good service at reasonable prices amid growing investment challenges faced by the energy networks in the future. During 2008 a number of workshops have been held and a web forum has been launched. In February 2009 the first consultation document was published.

The next electricity distribution price control (DPCR5) will come into effect on 1 April 2010. As outlined in the policy document that Ofgem published in December 2008, Ofgem will be seeking to strengthen the incentive on the distribution network operators (DNOs) to play a full role in tackling climate change, for instance connecting renewables and microgeneration and reducing losses on their networks.

The next electricity and gas transmission price control reviews will commence in 2010, the next gas distribution price control review in 2011 and the next electricity distribution price review in 2013. Any changes resulting from the RPI-X at 20 review will be implemented in these price reviews.

Over several years, Ofgem has developed arrangements to protect consumers from the financial failure of a network company. While these arrangements are sound, it is important to test the robustness, and ensure transparency, of our arrangements. Ofgem has run a simulation exercise to test the arrangements in place and intend to publish a draft procedural manual.

In November 2008 Ofgem published the *Long-term electricity network scenarios report* from our academic partners at the University of Strathclyde and King's College London. The report and our ongoing work will play an important role in developing the regulatory framework to deliver future energy networks that meet climate change and renewables targets.

Ofgem has worked closely with the Department of Energy and Climate Change (DECC) in developing the regulatory and licensing regime for offshore electricity transmission networks. Offshore networks are important as they will transmit electricity from marine renewable generation plant to the onshore network. They have the potential both to strengthen security of supply and contribute to a lower carbon energy system. A dedicated team to manage the tenders for offshore electricity transmission licences has been set up. The first competitive tender process is expected to run in 2009.

Ofgem will continue to work with DECC on new regulatory arrangements that may be necessary to extend the electricity transmission network to the Scottish Islands.

Distributed energy has the potential to make a large contribution towards reducing carbon emissions from the energy sector. In 2008 we introduced proposals to remove barriers to distributed energy within the existing marketing and licensing arrangements, making it easier for community electricity generators to supply customers while protecting consumer rights to switch supplier.

The Energy Act contains a power for the Secretary of State to mandate a roll-out of smart meters across Britain. Ofgem will advise DECC with a view to ensuring that smart meters are introduced in a cost-effective manner that maximises the benefits to consumers. Ofgem is currently managing a three year Energy Demand Research Project on behalf of government and industry to trial better billing and a range of smart meter technologies.

Ofgem will work with DECC to refine the arrangements for analysing longer term security of supply issues. In March 2009 Ofgem launched Project Discovery, a review of the medium term outlook for GB Markets, and will report to the Authority in the summer 2009. At the end of 2009 Ofgem will jointly publish our *Energy Markets Outlook*. The document will be the first report to be prepared in the light of the EU Renewables Directive and UK Renewable Strategy and will outline the prospects for medium and long-term security of supply.

Ofgem has a long standing commitment to better regulation in all our activities. Better regulation principles are not only applied to policies but also to the way in which we develop them. In June 2008, Ofgem issued its decision on the scope of the industry codes governance review. The review is one of Ofgem's key better regulation initiatives. The 'Consumer First' initiative, described earlier, ensures that consumers' priorities especially in relation to sustainability considerations are reflected in Ofgem's future approach. The distribution licence review has provided a shorter and easier licence to use. Ofgem's Publication Scheme under the Freedom of Information Act is being reviewed and a wider range of operational information is expected to be published as a result. The RPI-3 cost control is giving an ongoing incentive to reduce costs in real terms although it should be noted that where Ofgem is asked to undertake additional work, such as by the Government, additional budgetary provision will be required. Further details are shown below.

In February 2004 it was announced that Ofgem would impose a cost control regime (RPI-X) on itself for a period of five years commencing from April 2005. The process is independently overseen by the Audit Committee, supported by Chiene and Tait, providers of Ofgem's internal audit service. The Audit Committee concluded that the cost control regime should be set at RPI-3 per cent and this was agreed by the Authority.

In April 2009, the Audit Committee reviewed the regime operation and concluded that it was working efficiently and to the benefit of licence payers. It was also recommended that the 2008-09 saving, which at year-end was £0.797 million, should be used to fund activities in 2009-10. The corresponding saving in 2005-06, 2006-07 and 2007-08, was £2.9 million, £0.6 million and £0.9 million respectively. All of these savings were achieved at the same time as achieving the objectives and targets set out in the corporate strategy. At the beginning of April 2008, an amount of £3.0 million was retained under RPI-X year-end flexibility. In November 2008, £1.5 million was drawn down and it is expected that the remaining £1.5 million will be used for 2009-10 due to increasing cost pressures.

## Remuneration report

### Remuneration Committee

The Remuneration Committee consists of non-executive members of the Authority who are appointed by ordinary resolution of the Authority for a term of not more than one year. Members may be reappointed. The Remuneration Committee is chaired by Lord Mogg, Chairman of the Authority. Other members are Jayne Scott, Chairman of the Audit Committee and John Wybrew. The Chief Executive attends as an observer and the Chief Operating Officer provides a secretariat function.

The Committee's role is to review and approve the pay award and the level of any bonus for Senior Management Team members and consider other matters relating to the pay and performance of senior Ofgem staff. Performance pay and bonus awards are made within the parameters set by the Cabinet Office for the Senior Civil Service following recommendations by the Senior Salaries Review Body. The committee also reviews succession planning.

### Salary and pension entitlements

The following information has been subject to external audit.

The salary, pension entitlements and the value of any taxable benefits in kind of the most senior members of Ofgem during 2008-09 were as follows:

Remuneration	2008-09			2007-08		
	Salary, including performance pay	Pension entitlement/ allowances	Benefits in kind	Salary, including performance pay	Pension entitlement/ allowances	Benefits in kind
	£000	£000	Nearest £100	£000	£000	Nearest £100
Alistair Buchanan <i>Chief Executive</i>	260 – 265	N/A	N/A	245 – 250	N/A	N/A
Roy Field <i>Chief Operating Officer</i>	165 – 170	N/A	N/A	145 – 150	N/A	N/A
Sarah Harrison <i>Managing Director</i>	155 – 160	N/A	N/A	145 – 150	N/A	N/A
Steve Smith <i>Managing Director</i>	215 – 220	N/A	N/A	185 – 190	N/A	N/A
Dr Andrew Wright <i>Managing Director</i>	195 – 200	N/A	N/A	125 – 130*	N/A	N/A
<b>Non- executive members of the Authority</b>						
Lord Mogg	140 – 145**	30	9,800	100 – 105	30	9,200

\*Annual equivalent salary: 165-170

\*\*Part-time appointment hours were increased from October 2008 to reflect increasing responsibilities for the development of EU regulatory policy in his role as Chairman of the European Regulators Group for Electricity and Gas (ERGEG), and as President of the Council of European Energy Regulators (CEER).

'Salary' includes gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation.

In addition to the honoraria paid to the non-executive directors, which are included in salaries, they are also entitled to receive expenses.

'Pension entitlement/allowances' relates to an allowance paid to senior staff who have chosen to take extra salary to invest in a pension scheme of their choice rather than participate in a Civil Service pension.

'Benefits in kind' covers any monetary benefits provided by the employer and treated by Her Majesty's Revenue and Customs (HMRC) as a taxable emolument. Payments outlined above were net of tax and the tax amounts were paid over to HMRC. Travel arrangements for Lord Mogg fell into this category.

Other non-executive members of the Authority who were remunerated by payment of an honorarium

	Honorarium 2008-09	Honorarium 2007-08
Robin Bidwell	£22,667	£20,000
Miriam Greenwood	£22,667	£20,000
Judith Hanratty	£22,667	£20,000
David Harker	£6,250*	–
Jim Keohane	£6,250*	–
Jayne Scott	£22,667	£20,000
John Wybrew	£21,667	£20,000
George Yarrow	£21,667	£20,000

\* part-year pro-rata

Pension Benefits	Real increase in pension and related lump sum at age 60	Accrued pension at age 60 at 31 March 2009 and related lump sum	CETV at 31 March 2009	CETV at 31 March 2008*	Real increase in CETV	Employer's contribution to partnership pension account
	£000	£000	£000	£000	£000	Nearest £100
Alistair Buchanan <i>Chief Executive</i>	0 – 2.5	10 – 15	146	114	21	N/A
Roy Field <i>Chief Operating Officer</i>	2.5 – 5.0 plus 5 – 10 lump sum	65 – 70 plus 200 – 205 lump sum	1,501	1,347	64	N/A
Sarah Harrison <i>Managing Director</i>	0 – 2.5	15 – 20	215	181	17	N/A
Steve Smith <i>Managing Director</i>	0 – 2.5	15 – 20	156	129	14	N/A
Dr Andrew Wright <i>Managing Director</i>	2.5 – 5.0	5 – 10	53	10	36	N/A
<b>Non-executive member of the Authority</b>						
Lord Mogg	N/A	N/A	N/A	N/A	N/A	N/A

\* The figure may be different from the closing figure in last year's accounts. This is due to the CETV factors being updated to comply with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008

### Service contracts

Remuneration of senior members is set out in their contracts and subject to annual review in line with awards recommended by the Senior Salaries Review Body. Senior members of Ofgem, apart from Lord Mogg, are all permanent members of staff. The notice period for all senior members of Ofgem does not exceed six months.

The arrangements for early termination of senior members are made in accordance with the service contract of the relevant individual. Each contract provides for a payment in lieu of notice on early termination based on the provisions of the Civil Service Compensation Scheme.



Each executive member participates in a bonus scheme which is in line with Senior Salaries Review Body recommendations. The bonus is based on the individual's performance. Bonus payments are non-consolidated and non-pensionable.

Non-executive members, apart from the Chairman of the Authority, have fixed-term appointments not exceeding three years. These appointments are renewable. Remuneration and appointments are set by the Secretary of State for Energy and Climate Change after consulting the Chairman. Their remuneration is by payment of an honorarium of £25,000 per annum plus an additional allowance where any Authority Committee chairman duties are undertaken. The honorarium was increased from £20,000 on 1 December 2008. They have no entitlement to performance related pay or pension entitlements. Compensation in the event of early termination is at the discretion of the Secretary of State. The non-executive Chairman of the Authority, Lord Mogg, has an appointment which commenced on 1 October 2003 for five years. In February 2008 it was announced that he had been reappointed for a further five years until September 2013. His remuneration details are set out in the above table.

The following salary and pension details are provided in accordance with the 2008-09 Government Financial Reporting Manual issued by HM Treasury and EPN notice 240 issued by Cabinet Office.

### Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a 'final salary' scheme (**classic**, **premium** or **classic plus**); or a 'whole career' scheme (**nuvos**). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under **classic**, **premium**, **classic plus** and **nuvos** are increased annually in line with changes in the Retail Prices Index (RPI). Members who joined from October 2002 could opt for either the appropriate defined benefit arrangement or a good quality 'money purchase' stakeholder pension with a significant employer contribution (**partnership pension account**).

Employee contributions are set at the rate of 1.5 per cent of pensionable earnings for **classic** and 3.5 per cent for **premium**, **classic plus** and **nuvos**. Benefits in **classic** accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For **premium**, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike **classic**, there is no automatic lump sum. **Classic plus** is essentially a hybrid with benefits for service before 1 October 2002 worked out as in **premium**. In **nuvos** a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3 per cent of their pensionable earnings in that scheme year and, immediately after the scheme year end, the accrued pension is uprated in line with RPI. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

The **partnership** pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3 per cent and 12.5 per cent (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3 per cent of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8 per cent of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted, is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of **classic**, **premium** and **classic plus** and 65 for members of **nuvos**.

Further details about the Civil Service pension arrangements can be found at the website [www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)

**Cash Equivalent Transfer Values**

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are calculated in accordance with the Occupational Pension Schemes (Transfer Values) (Amendment) Regulations and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

**Real increase in CETV**

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

*Alistair Buchanan CBE*  
Accounting Officer  
27 April 2009



## Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000, Ofgem is required to prepare resource accounts for each financial year, in conformity with a Treasury direction, detailing the resources acquired, held, or disposed of during the year and the use of resources by Ofgem during the year.

The resource accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of Ofgem at the year-end and of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year.

The Treasury has appointed the Chief Executive as Ofgem's Accounting Officer with responsibility for preparing Ofgem's accounts and for transmitting them to the Comptroller and Auditor General.

In preparing the resource accounts, the Accounting Officer is required to comply with the Government Financial Reporting Manual prepared by the Treasury and, in particular, to:

- observe all relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- make judgements and estimates on a reasonable basis
- state whether applicable accounting standards, as set out in the Government Financial Reporting Manual, have been followed, and disclose and explain any material departures in the accounts, and
- prepare the financial statements on a going concern basis.

The relevant responsibilities of the Accounting Officer (including his responsibility for the propriety and regularity of public finances for which an Accounting Officer is answerable, for the keeping of proper records and for safeguarding Ofgem's assets) are set out in Managing Public Money published by the Treasury.

## Statement on Internal Control

### 1. Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Ofgem's policies, aim and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money.

Ofgem is a non-ministerial government department governed by the Gas and Electricity Markets Authority. In fulfilling its obligations, Ofgem works closely with the Department of Energy and Climate Change (DECC), Department for Business, Enterprise and Regulatory Reform (BERR), Department for Environment, Food and Rural Affairs (DEFRA) and the consumer bodies, Consumer Direct and Consumer Focus.

### 2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level, rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable, and not absolute, assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives; to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently, effectively and economically. The system of internal control has been in place in Ofgem for the year ended 31 March 2009 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

### 3. Capacity to handle risk

Ofgem's risk management strategy sets out why risk management is important; the mechanisms in place to enable Ofgem to manage risk; information on how to identify, assess and manage risks; and details of the roles and responsibilities individuals have to ensure risks are managed effectively.

Under the strategy, risk is embedded in policymaking, planning and delivery. Directors are responsible for ensuring the proper management of risks within their own directorates and cascading implementation of the risk management strategy within their directorates. The strategy was updated in November 2008 and is available to all staff via the intranet.

### 4. The risk and control framework

Ofgem's current work is being undertaken at a time of profound change in Britain's energy markets with the shift towards developing more sustainable and low carbon energy solutions. The Energy Act 2008 and the Climate Change Act 2008 provide new challenges for Ofgem. The approach to these challenges includes the following work:

- A review, known as Project Discovery, of the energy markets and their ability to meet the UK's needs over the coming years,
- The RPI-X@20 review examines whether the current approach to energy networks will continue to deliver a reliable, well-run network at reasonable prices for customers,
- Following the initial findings from a retail markets probe which were published in October 2008, Ofgem is now proposing a number of wide-ranging reforms,
- Conduct major reforms to the onshore transmission network to promote fairer access for new and renewable generators. A new regime is also being developed to connect offshore wind to the transmission system.

In order to respond effectively to these challenges, Ofgem recognises and embraces the key role risk management can play in assisting the organisation in delivery of complex objectives, all of which are subject to risk.

Ofgem's stated aim is to implement best practice risk management procedures in all areas of our work to ensure that our strategy is kept up-to-date with current good practice. Ofgem is seeking to embed risk management into the culture of the organisation by embracing best practice in the way we work. Managers view risk management as an integral part of their job and the Senior Management Team keep the top risks faced by the organisation under regular strategic review. Our basic principles can be summarised as follows:

- A proactive stance to risk management,
- Consistency in how we assess and manage risks,
- Cross-cutting risks will be identified, with risk owners empowered to manage risks across internal boundaries,
- Proportionate actions will be taken when managing risks,
- A robust approach to risk management will be taken, and
- Appropriate risk-taking will be encouraged with an innovative approach to policy making and service delivery.

The key elements of Ofgem's risk management strategy for identifying, evaluating and controlling risk are as follows:

- Project, policy and programme managers create and maintain a risk register (a bottom-up approach),
- Risks are assessed and given a risk rating using a combination of their likelihood and impact,
- All risks identified in quarterly reports are reviewed by senior managers during the quarterly review process,
- Audit Committee considers risk on a regular basis, including in 2007, a review of Ofgem's strategic risks,
- Senior Management Team and Directors review strategic risks and update, where necessary, Ofgem's risk framework (a top-down approach),
- Annually, the Authority identify top risks based on the risk framework, and
- In all cases, all risks, once identified, are managed by a risk manager who will be responsible for applying practical and proportionate countermeasures.

## **5. Review of effectiveness**

As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within Ofgem who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Authority, the Audit Committee and a plan to address weaknesses identified through internal or external audit, and ensure continuous improvement of the system is in place. Of the 41 recommendations made by internal audit and due for implementation by 31 January 2009, 32 have been fully implemented by year-end, 5 have been partially implemented, 3 have not been implemented, and 1 has been superseded.

During the year, a number of key activities have been undertaken to monitor and enhance Ofgem's internal control environment:

- Ofgem's strategic risks were reviewed by the Senior Management Team, the Audit Committee and the Authority,
- An Audit Committee workshop was undertaken in September 2008. The workshop facilitated discussion and review of a number of topics including Ofgem's management of the risk of fraud in the environmental programmes we administer, and risk management,
- Ofgem's approach to risk management was reviewed and a revised process was introduced. Changes included, expanding the risk matrix scale from a 1-3 to a 1-5 scale, including a total score after mitigating actions and developing a new template to collect risk information,
- The risk management strategy was updated to reflect the new process in November 2008,
- A project management group was set up to develop a revised methodology to project management based on Prince2,
- Data security procedures were reviewed and, where necessary, strengthened to ensure that personal information is adequately safeguarded. For example, security checks on IT systems are undertaken every six months, all laptops are encrypted and the use of data sticks has been severely curtailed with most USB ports disabled,
- Regular one to one meetings were held between the Accounting Officer and Managing Directors to review resources, progress towards set objectives and to identify and evaluate associated risks,
- Updated internal control statements require all Directors to consider and report on all aspects of financial and risk management, and other governance control issues in their own area,
- Business continuity plans have been updated, ensuring that key activities can continue effectively following a disruption, and
- Internal auditors have reviewed Ofgem's mitigation of strategic risks, assessing Ofgem's rating as Substantial.

In maintaining and reviewing the effectiveness of the system of internal control the role of Ofgem's bodies which inform my review are detailed below:

The **Authority** which meets at least ten times a year to consider the plans and overall strategic direction of Ofgem. The top risks to Ofgem are reviewed, based on the risk framework, on an annual basis;

The **Senior Management Team** which meets on a weekly basis to manage all resource and operational issues. SMT is corporately responsible for owning Ofgem's risk management strategy. The top risks are agreed, owned and addressed by SMT members;

An **Audit Committee** comprising non-executive members of the Authority which reports directly to the Authority is responsible for advising the Authority as to the adequacy of risk management procedures and processes in Ofgem;

**Internal Audit** (provided under contract) offers an independent assurance on the managerial, financial and operational controls. They are independent of management and work to standards defined in the Government Internal Audit Standard. Internal audit reports are a key element of the Accounting Officer's review of the effectiveness of the system of internal control. The Audit Committee agrees a rolling programme of audit for each forthcoming year according to the Committee's priorities;

The **Head of Internal Audit** presents a yearly review of the audit programme, including an assessment of general risk, and an opinion on the adequacy and effectiveness of Ofgem's system of internal control together with recommendations for improvement. Overall assurance levels available are Full, Substantial, Limited and Nil. The report for the year ended 31 March 2009 has an overall opinion of 'Substantial Assurance'; and

**Directors** are responsible for ensuring that risks have been properly identified and assessed across all their work areas, paying particular attention to cross-cutting risks. They are responsible for agreeing their key risk return for their work areas and for ensuring that each policy/project/programme manager is actively addressing the risks in their command and escalating risks up to Director-level as appropriate.

No significant internal control problems have arisen during the financial year.

*Alistair Buchanan CBE*  
Accounting Officer  
27 April 2009

## The Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of the Office of Gas and Electricity Markets for the year ended 31 March 2009 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the Statement of Net Operating Costs by Departmental Strategic Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

### Respective responsibilities of the Accounting Officer and auditor

The Accounting Officer is responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, the information which comprises the introduction, the sustainability report and the management commentary, included in the Annual Report, is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Department has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Department's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the unaudited part of the Remuneration Report. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

### Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Department's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

## Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Department's affairs as at 31 March 2009, and the net cash requirement, net resource outturn, net operating cost, net operating costs applied to departmental strategic objectives, recognised gains and losses and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- information which comprises the introduction, the sustainability report and the management commentary included within the Annual Report, is consistent with the financial statements.

## Opinion on Regularity

In my opinion, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

## Report

I have no observations to make on these financial statements.

*T J Burr*  
Comptroller and Auditor General  
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28 April 2009

## Statement of Parliamentary Supply

### Summary of Resource Outturn 2008-09 (£000s)

	2008-09			2008-09			Net total outturn compared with estimate: saving	2007-08
	Estimate			Outturn				Net total
	Gross expenditure	A in A	NET TOTAL	Gross expenditure	A in A	NET TOTAL		
Request for resources 1 Protecting consumers by regulating monopolies and promoting competition in the electricity and gas industry, and expenditure in connection with environmental programmes (Note 2)	42,186	(41,484)	702	42,011	(41,316)	695	7	695
Total resources	42,186	(41,484)	702	42,011	(41,316)	695	7	695
Non-operating cost A in A (Note 7)	–	(50)	(50)	–	–	–	50	–

### Net cash requirement 2008-09

	Note	Estimate	Outturn	Net total outturn compared with estimate: saving	Prior year outturn
Net cash requirement	4	3,557	3,424	133	376

### Summary of income payable to the Consolidated Fund

(In addition to appropriations in aid, the following income relates to Ofgem and is payable to the Consolidated Fund (cash receipts being shown in italics and figures in £000s))

	Note	Forecast 2008-09		Outturn 2008-09	
		Income	<i>Receipts</i>	Income	<i>Receipts</i>
Cash surrenderable to the Consolidated Fund	5	–	–	224,933	224,933

The notes on pages 35 to 52 form part of these accounts.



**Operating Cost Statement***for the year ended 31 March 2009 (£000s)*

		2008-09		2007-08
	Note	Staff costs	Other costs	Income
<b>Administration costs</b>				
<b>Request for Resources 1:</b>				
Staff costs	10	20,625		19,198
Other administration costs	11		21,386	20,709
Operating income	9			(41,316)
				(39,212)
<b>Totals</b>		<u>20,625</u>	<u>21,386</u>	<u>(41,316)</u>
<b>Net operating cost</b>	3			<u>695</u>
				<u>695</u>

All income and expenditure are derived from continuing operations.

**Statement of Recognised Gains and Losses***for the year ended 31 March 2009 (£000s)*

	Note	2008-09	2007-08
Actuarial gain/(loss) on revaluation of pension liabilities	16	31	(97)
<b>Recognised gains/(losses) for the financial year</b>		<u>31</u>	<u>(97)</u>

The notes on pages 35 to 52 form part of these accounts.

**Balance Sheet***as at 31 March 2009 (£000s)*

	Note	31 March 2009	31 March 2008
<b>Fixed assets:</b>			
Tangible assets	12	3,939	4,012
		<b>3,939</b>	<b>4,012</b>
<b>Current assets:</b>			
Debtors	13a	4,604	4,220
Cash at bank and in hand	14	133	1,471
		4,737	5,691
Creditors (amounts falling due within one year)	15a	(6,249)	(9,207)
<b>Net current liabilities</b>		<b>(1,512)</b>	<b>(3,516)</b>
<b>Total assets less current liabilities</b>		<b>2,427</b>	<b>496</b>
Creditors (amounts falling due after more than one year)	15a	(2,290)	(2,606)
Provisions for liabilities and charges	16	(1,216)	(1,657)
<b>Total net liabilities before pension liability</b>		<b>(1,079)</b>	<b>(3,767)</b>
Pension liabilities	16	(562)	(578)
<b>Total net liabilities</b>		<b>(1,641)</b>	<b>(4,345)</b>
<b>Taxpayers' equity:</b>			
General fund	17	(1,641)	(4,349)
Revaluation reserve	18	–	4
		<b>(1,641)</b>	<b>(4,345)</b>

*Alistair Buchanan CBE*  
Accounting Officer  
27 April 2009

The notes on pages 35 to 52 form part of these accounts.

**Cash Flow Statement***For the year ended 31 March 2009 (£000s)*

	Note	<u>2008-09</u>	<u>2007-08</u>
Net cash outflow from operating activities	19a	(2,567)	(12)
Capital expenditure and financial investment	19c	(857)	(364)
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities	8, 28	224,800	120,025
Payments of amounts due to the Consolidated Fund		(224,800)	(120,873)
Financing	19d	2,086	–
Decrease in cash in the period	19e	<u>(1,338)</u>	<u>(1,224)</u>

The notes on pages 35 to 52 form part of these accounts.

**Statement of Net Operating Costs by Departmental Aim and Objectives***For the year ended 31 March 2009 (£000s)*

**AIM: To protect the interests of consumers, existing and future, wherever appropriate by promoting effective competition. Competitive solutions are promoted wherever appropriate, but direct regulation of network monopolies is essential to protect the interests of consumers.**

Objective	2008-09			2007-08		
	Gross	Income	Net total	Gross	Income	Net total
1. Creating and sustaining competition	13,395	(13,395)	–	12,763	(12,763)	–
2. Regulating networks effectively	18,750	(18,750)	–	17,033	(17,033)	–
3. Helping to protect the security of Britain's energy supplies	1,749	(1,749)	–	1,893	(1,893)	–
4. Providing a leading voice in Europe	1,749	(1,749)	–	1,893	(1,893)	–
5. Helping to achieve sustainable development	4,185	(3,490)	695	4,517	(3,822)	695
6. Helping tackle fuel poverty	1,837	(1,837)	–	1,357	(1,357)	–
7. Better regulation	346	(346)	–	451	(451)	–
<b>Net operating cost</b>	<b>42,011</b>	<b>(41,316)</b>	<b>695</b>	<b>39,907</b>	<b>(39,212)</b>	<b>695</b>

An explanation of the methodology for allocating costs to objectives is given in Note 1.11 and Note 20.

The notes on pages 35 to 52 form part of these accounts.

## Notes to the departmental resource accounts

### 1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2008-09 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

In addition to the primary statements prepared under UK GAAP, the FReM also requires Ofgem to prepare two additional primary statements. The Statement of Parliamentary Supply and supporting notes show outturn against Estimate in terms of the net resource requirement and the net cash requirement. The Statement of Net Operating Cost by Departmental Aim and Objectives and supporting notes analyse the Department's income and expenditure by the objectives agreed with Ministers.

Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to Ofgem's particular circumstances for the purpose of giving a true and fair view has been selected. The Department's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

#### 1.1 Accounting convention

These accounts have been prepared under the historical cost convention.

#### 1.2 Tangible fixed assets and depreciation

As permitted by the FReM, tangible fixed assets are no longer revalued on an annual basis using indices. Depreciated historical cost is now used as a proxy for current value as this realistically reflects consumption of the asset. Revaluations would not cause a material difference.

Depreciation is provided at rates calculated to write off tangible fixed assets by equal instalments over their estimated useful lives, after allowance for residual value. Asset lives are within the following ranges:

Leasehold improvements	Life of the lease
Office equipment, furniture and fittings	5 years
IT equipment	3 years

The minimum level for the capitalisation of tangible fixed assets is £2,000. The grouping of assets below the threshold has been restricted to IT items only.

#### 1.3 Provisions

Ofgem makes provision for liabilities and charges where, at the balance sheet date, a legal or constructive liability exists (i.e. a present obligation from past events exists), where the transfer of economic benefits is probable and a reasonable estimate can be made.

Where the time value of money is material, Ofgem discounts the provision to its present value using a discount rate of 2.2 per cent, the Government's standard rate. Each year the financing charges in the Operating Cost Statement include the adjustments to amortise one year's discount and restate liabilities to current price levels.

#### 1.4 Operating income

Operating income is income that relates directly to the operating activities of Ofgem. It comprises principally licence fees and fees and charges for services provided on a full cost basis.

## Notes to the departmental resource accounts *(continued)*

Since all licence costs are recovered via the licence fees, and these are invoiced in two tranches during the year based on estimated costs, any over recovery is treated as deferred income within Creditors and any under recovery as accrued income within Debtors.

### 1.5 Administration and programme expenditure

Ofgem only incurs administration costs. Administration costs reflect the costs of running Ofgem. These include both administration costs and associated operating income. Income is analysed in the notes between that which, under the administrative cost-control regime, is allowed to be offset against gross administration costs in determining the outturn against the administration cost limit, and that operating income which is not. The classification of expenditure and income as administration follows the definition of administration costs set by HM Treasury.

### 1.6 Capital charge

A charge, reflecting the cost of capital utilised by Ofgem, is included in operating costs. The charge is calculated at the real rate set by HM Treasury, 3.5 per cent for 2008-09, on the average carrying amount of all assets less liabilities, except for:

- cash balances with the Office of the Paymaster General (OPG) where the charge is nil, and
- liabilities for amounts to be surrendered to the Consolidated Fund, where the credit is nil.

### 1.7 Foreign exchange

Transactions which are denominated in a foreign currency are translated into sterling at the rate of exchange ruling on the date of each transaction, except where rates do not fluctuate significantly, in which case an average rate for the period is used.

### 1.8 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), which is non-contributory and unfunded. Liability for payment of future benefits is a charge to the PCSPS. Departments, agencies and other bodies covered by the PCSPS meet the cost of pension cover provided for the staff they employ by payment of charges calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. There is a separate scheme statement for the PCSPS as a whole.

Ofgem's former Chief Executive and Director General have separate pension arrangements that are broadly analogous with the PCSPS. The arrangements provide for a defined benefit, unfunded scheme. However, unlike the PCSPS, a pension liability is included in the accounts as required under FRS 17.

### 1.9 Early departure costs

Ofgem is required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early. Ofgem provides in full for this cost when the early retirement programme has been announced and is binding on Ofgem.

## Notes to the departmental resource accounts *(continued)*

### 1.10 Value Added Taxation

Value Added Tax (VAT) is accounted for in the accounts, in that amounts are shown net of VAT except:

- irrecoverable VAT is charged to the Operating Cost Statement and included under the heading relevant to the type of expenditure, and
- irrecoverable VAT on the purchase of an asset is included in the capitalised purchase cost of the asset.

The amount due to, or from, HM Revenue and Customs in respect of VAT is included within Debtors and Creditors within the Balance Sheet.

### 1.11 The Statement of Parliamentary Supply and the Statement of Operating Costs by Departmental Aim and Objectives

The information contained in the Statement of Parliamentary Supply and associated notes is based on the Request for Resources information that will form part of parliamentary approval processes. During 2007-08 the estimate structure was revised from two Request for Resources down to one in order to better reflect Ofgem's responsibilities for the administration of environmental programmes.

The Statement of Net Operating Costs by Departmental Aim and Objectives has been prepared from the underlying books and records. Where possible costs have been directly attributed to each objective. Overhead costs have been attributed based on the appropriate cost driver.

### 1.12 Operating leases

Rentals due under operating leases are charged to the Operating Cost Statement over the lease term on a straight-line basis, or on the basis of actual rentals payable which fairly reflects the usage. Future payments, disclosed at Note 22, 'Commitments under leases', are not discounted.

### 1.13 Comparative amounts

Comparative amounts are restated where necessary to conform to current presentation.

### 1.14 Going concern

The balance sheet at 31 March 2009 shows negative taxpayers equity of £1.641 million. This reflects the inclusion of liabilities falling due in future years, which are to be financed mainly by drawings from the UK Consolidated Fund. Such drawings will be from grants of supply approved annually by Parliament, to meet Ofgem's Net Cash Requirement. Under the Government Resources and Accounts Act 2000, no money may be drawn from the Fund other than that required for the service of the specified year or retained in excess of that need. All unspent monies, including those derived from Ofgem's income, are surrenderable to the Fund.

In common with other government departments, the future financing of Ofgem's liabilities is accordingly to be met by future grants of Supply and the application of future income, both to be approved annually by Parliament. Such approval for amounts required for 2009-10 has already been given and there is no reason to believe that future approvals will not be forthcoming. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

### 1.15 Contingent liabilities

In addition to contingent liabilities disclosed in accordance with FRS 12, Ofgem discloses for parliamentary reporting and accountability purposes certain contingent liabilities where the likelihood of a transfer of economic benefit is remote. These comprise all items (whether or not they arise in the normal course of business) over £250,000 (or lower, where required by specific statute or where material in the context of resource accounts) which are required by the FReM to be noted in the resource accounts.

## Notes to the departmental resource accounts *(continued)*

Where the time value of money is material, contingent liabilities which are required to be disclosed under FRS 12 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by FRS 12 are stated at the amounts reported to Parliament.

### 1.16 Assets belonging to third parties

Assets belonging to third parties (such as money held in relation to the Fossil Fuel Levy and the Renewables Obligation) are not recognised in the balance sheet since Ofgem has no beneficial interest in them.

## 2. Analysis of net resource outturn by function

	2008-09 Outturn					Estimate	2007-08	
	Admin.	Other current	Gross resource expenditure	A in A	Net total		Net total outturn compared with Estimate	Prior-year outturn
	£000	£000	£000	£000	£000			
<b>Request for Resources 1</b>								
<b>Protecting consumers by regulating monopolies and promoting competition in the electricity and gas industry, and expenditure in connection with environmental programmes</b>								
A Gas and Electricity Markets Authority:								
Administration	39,124	–	39,124	(39,123)	1	2	1	1
B Climate Change Levy and Renewable Energy Guarantees of Origin:								
Administration	694	–	694	–	694	700	6	694
C Energy Efficiency and other Environmental Schemes:								
Administration	1,693	–	1,693	(1,693)	–	–	–	–
D Offshore Transmission Tender:								
Administration	500	–	500	(500)	–	–	–	–
<b>Resource outturn</b>	<b>42,011</b>	<b>–</b>	<b>42,011</b>	<b>(41,316)</b>	<b>695</b>	<b>702</b>	<b>7</b>	<b>695</b>



## Notes to the departmental resource accounts *(continued)*

### 3. Reconciliation of Outturn to net operating cost and against Administration Budget

#### 3(a) Reconciliation of net resource outturn to net operating cost

	Note	2008-09	2007-08
		£000	£000
Net Resource Outturn	2	695	695
Prior period adjustments		-	-
Non supply income (CFERs)	5	-	-
Non supply expenditure		-	-
<b>Net operating cost</b>		<b>695</b>	<b>695</b>

#### 3(b) Outturn against final Administration Budget

	Note	2008-09		2007-08	
		Budget	Outturn	Budget	Outturn
		£000	£000	£000	£000
Gross Administration Budget	2	42,186	42,011	40,186	39,907
Income allowable against the Administration Budget	2	(41,484)	(41,316)	(39,483)	(39,212)
Net outturn against the Administration Budget		<u>702</u>	<u>695</u>	<u>703</u>	<u>695</u>

### 4. Reconciliation of resources to cash requirement

	Note	Estimate	Outturn	Net total outturn compared with estimate: saving/ (excess)
		£000	£000	£000
<b>Resource Outturn</b>	2	<b>702</b>	<b>695</b>	<b>7</b>
Capital:				
• Acquisition of fixed assets	12	1,000	857	143
• Investments		-	-	-
Non-operating A-in-A:				
• Proceeds of fixed asset disposals	19b	(50)	-	(50)
Accruals adjustments:				
• Non-cash items	11	250	88	162
• Depreciation	11	(1,000)	(916)	(84)
• New provisions and adjustments to provisions	11	-	(49)	49
• Other non-cash items	11	(45)	(46)	(1)
• Movement in working capital		2,000	2,320	(320)
• Use of provision	16	700	475	225
Excess cash receipts surrenderable to the Consolidated Fund	5	-	-	-
<b>Net cash requirement</b>		<b><u>3,557</u></b>	<b><u>3,424</u></b>	<b><u>133</u></b>

**Notes to the departmental resource accounts** *(continued)***5. Analysis of income payable to the Consolidated Fund**

In addition to appropriations in aid, the following income relates to Ofgem and is payable to the Consolidated Fund (cash receipts being shown in italics)

	Note	Forecast 2008-09		Outturn 2008-09	
		Income	Receipts	Income	Receipts
		£000	£000	£000	£000
Operating income and receipts- excess A in A	6	-	-	-	-
Other operating income and receipts not classified as A in A	6	-	-	-	-
		-	-	-	-
Non operating income and receipts not classified as A in A	8	-	-	1,800	<i>1,800</i>
Surplus supply surrenderable to the Consolidated Fund	15	-	-	133	<i>133</i>
Other amounts collectable on behalf of the Consolidated Fund	8	-	-	223,000	<i>223,000</i>
Excess cash surrenderable to the Consolidated Fund	4	-	-	-	-
<b>Total income payable to the Consolidated Fund</b>		<b>-</b>	<b>-</b>	<b>224,933</b>	<b><i>224,933</i></b>

**6. Reconciliation of income recorded within the Operating Cost Statement to operating income payable to the Consolidated Fund**

	Note	2008-09	2007-08
		£000	£000
Operating Income	9	41,316	39,212
Income authorised to be appropriated in aid		(41,316)	(39,212)
<b>Operating Income payable to the Consolidated Fund</b>	5	<b>-</b>	<b>-</b>

**7. Non-operating income – Excess A in A**

	Note	2008-09	2007-08
		£000	£000
Proceeds on disposal of fixed assets	19b	-	-
Allowable A in A		(50)	(50)
Excess A in A		-	-

**8. Other amounts collectable on behalf of the Consolidated Fund**

	Note	Income	Receipts
		£000	£000
Fines		1,800	<i>1,800</i>
Fossil Fuel Levy receipts	28	223,000	<i>223,000</i>
Other amounts collectable		224,800	<i>224,800</i>

## Notes to the departmental resource accounts *(continued)*

### 9. Income and appropriations in aid

#### 9.1 Operating income

Operating income not appropriated in aid (i.e. surrenderable to the Consolidated Fund) is analysed for resource budget purposes between that which is included in public expenditure and that which is not (see note 6). In 2008-09, there was no operating income not classified as A in A.

An analysis of income from services provided to external and public sector customers is as follows:

	2008-09		2007-08	
	A in A £000	Income £000	A in A £000	Income £000
Administrative income:				
Fees and charges to external customers	36,750	36,750	34,806	34,806
Fees and charges to other departments	4,566	4,566	4,406	4,406
<b>Total</b>	<b>41,316</b>	<b>41,316</b>	<b>39,212</b>	<b>39,212</b>

#### 9.2 Operating income analysis

	2008-09			2007-08		
	Income £000	Full costs £000	(Deficit) £000	Income £000	Full costs £000	(Deficit) £000
Administration income						
Gas and Electricity:						
Licence fees (external)	36,235	36,930	(695)	34,700	35,395	(695)
Other	5,081	5,081	–	4,512	4,512	–
<b>Total</b>	<b>41,316</b>	<b>42,011</b>	<b>(695)</b>	<b>39,212</b>	<b>39,907</b>	<b>(695)</b>

All of the above operating income was appropriated in aid. Appropriations in Aid represent income due to Ofgem that can be retained for offset against other public expenditure. This contrasts with CFERs, which are remitted by Ofgem to the Consolidated Fund.

Other income includes:	2008-09 £000	2007-08 £000
Department for Environment, Food and Rural Affairs (DEFRA)	3,910	4,076
Other departments	656	330
Offshore Transmission tender recharge	500	–
Miscellaneous	15	106
	<b>5,081</b>	<b>4,512</b>

Miscellaneous income includes licence application fees, and other minor items.

Notes to the departmental resource accounts *(continued)*

## 10. Staff numbers and related costs

Staff costs comprise

	Permanently employed staff	2008-09		2007-08
		Others	Total	Total
	£000	£000	£000	£000
Wages and salaries	14,762	1,394	16,156	14,307
Social security costs	1,383	–	1,383	1,311
Other pension costs	2,918	–	2,918	2,645
Other staff costs	168	–	168	935
<b>Total</b>	<b>19,231</b>	<b>1,394</b>	<b>20,625</b>	<b>19,198</b>
Less recoveries in respect of outward secondments	(143)	–	(143)	(142)
<b>Total net costs*</b>	<b>19,088</b>	<b>1,394</b>	<b>20,482</b>	<b>19,056</b>

\* Of the total, no charge has been made to capital

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but Ofgem is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2007. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)).

For 2008-09, employers' contributions of £2,800,000 were payable to the PCSPS (2007-08 £2,588,000) at one of four rates in the range 17.1 per cent to 25.5 per cent (2007-08 17.1 to 25.5 per cent) of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions usually every four years following a scheme valuation. From 2009-10, the rates will be in the range 16.7 per cent to 24.3 per cent. The contribution rates are set to meet the cost of the benefits accruing during 2008-09 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £82,330 (2007-08 £54,184) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £6,103 (2007-08 £3,088), 0.8 per cent of pensionable pay, were payable to the **PCSPS** to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees. Contributions due to the **partnership** pension providers at the balance sheet date amounted to zero (2007-08 £0).

## Average number of persons employed

The average number of whole-time equivalent persons employed during the year is shown in the table below.

Objective	Permanently employed staff	2008-09		2007-08
		Others	Total	Total
Creating and Sustaining competition	95	6	101	103
Regulating networks effectively	136	8	144	121
Helping to protect the security of Britain's energy supplies	14	1	15	13
Providing a leading voice in Europe	14	1	15	12
Helping to protect the environment	36	2	38	37
Helping tackle fuel poverty	17	1	18	12
Better regulation	3	1	4	4
<b>Total</b>	<b>315</b>	<b>20</b>	<b>335</b>	<b>302</b>

**Notes to the departmental resource accounts** *(continued)***11. Other administration costs**

	Note	<u>2008-09</u>	<u>2007-08</u>
		£000	£000
<b>Rental under operating leases:</b>			
Hire of office equipment		1	23
Other operating leases		5,639	5,683
		<u>5,640</u>	<u>5,706</u>
<b>Non-cash items (see below):</b>			
Auditors' remuneration and expenses*		46	42
Depreciation	12	916	735
Loss on disposal of fixed assets		14	–
Cost of capital charge		(102)	(140)
		<u>874</u>	<u>637</u>
<b>Other expenditure:</b>			
Contractors		6,299	5,053
Other accommodation costs		2,986	3,325
Office supplies and services		909	930
Travel and subsistence		603	603
Contracted laboratory costs		526	652
Training		869	542
Recruitment		974	988
Telecoms		202	245
Media and Communications		229	225
Library Services		150	114
Hospitality		111	104
Other expenditure		965	923
		<u>14,823</u>	<u>13,704</u>
<b>Provisions (non-cash):</b>			
Provided in year	16	30	604
Provision not required written back	16	–	–
Unwinding of the discount	16	19	58
Movement in provision		<u>49</u>	<u>662</u>
		<b>21,386</b>	<b>20,709</b>

\* There was no auditor remuneration for non-audit work.

**Reconciliation of Operating costs to Operating cashflows in the Cashflow Statement and the Statement of Parliamentary Supply**

	<u>2008-09</u>	<u>2007-08</u>
	£000	£000
Non-cash costs	923	1,299
Less non-cash income	–	–
<b>Total non-cash transactions</b>	<u><b>923</b></u>	<u><b>1,299</b></u>

**Notes to the departmental resource accounts** *(continued)***12. Tangible fixed assets**

	Furniture	Office equipment	Information Technology	Leasehold works	Total
	£000	£000	£000	£000	£000
<b>Cost or valuation</b>					
At 1 April 2008	356	1,750	1,724	4,297	8,127
Additions	67	428	362	–	857
Disposals	–	(44)	(79)	–	(123)
<b>At 31 March 2009</b>	<b>423</b>	<b>2,134</b>	<b>2,007</b>	<b>4,297</b>	<b>8,861</b>
<b>Depreciation</b>					
At 1 April 2008	326	806	1,133	1,850	4,115
Charged in year	27	331	306	252	916
Disposals	–	(35)	(74)	–	(109)
<b>At 31 March 2009</b>	<b>353</b>	<b>1,102</b>	<b>1,365</b>	<b>2,102</b>	<b>4,922</b>
<b>Net book value</b>					
<b>At 31 March 2009</b>	<b>70</b>	<b>1,032</b>	<b>642</b>	<b>2,195</b>	<b>3,939</b>
<b>Net book value</b>					
<b>At 31 March 2008</b>	<b>30</b>	<b>944</b>	<b>591</b>	<b>2,447</b>	<b>4,012</b>
<b>Asset financing:</b>					
Net book value of owned assets at 31 March 2009	70	1,032	642	2,195	3,939

Ofgem depreciates capitalised leasehold improvement costs over the life of the lease.

Notes to the departmental resource accounts *(continued)*

## 13. Debtors

## 13(a) Analysis by type

	<u>2008-09</u>	<u>2007-08</u>
	£000	£000
<b>Amounts falling due within one year:</b>		
Trade debtors	1,141	1,376
Accrued income	665	126
Prepayments	2,447	2,317
HM Revenue and Customs (VAT)	206	263
Staff debtors	145	138
<b>At 31 March</b>	<u><b>4,604</b></u>	<u><b>4,220</b></u>

Staff debtors include loans outstanding, of which £104,000 relates to season ticket loans for 91 employees; and £41,000 relates to housing advances in respect of 4 employees.

**Staff debtors due after more than one year:** The balance of £41,000 (2007-08: £51,000) relating to housing advances comprises £30,000 (2007-08: £41,000) which is repayable in instalments after one year.

## 13(b) Intra-government balances

	<u>2008-09</u>	<u>2007-08</u>
	£000	£000
Balances with other central government bodies	1,481	1,732
Balances with local authorities	854	813
<i>Subtotal: intra-government balances</i>	<i>2,335</i>	<i>2,545</i>
Balances with bodies external to government	2,269	1,675
<b>Total debtors at 31 March</b>	<u><b>4,604</b></u>	<u><b>4,220</b></u>

## 14. Cash at bank and in hand

	<u>2008-09</u>	<u>2007-08</u>
	£000	£000
Balance at 1 April	1,471	2,695
Net change in cash balances	(1,338)	(1,224)
<b>Balance at 31 March</b>	<u><b>133</b></u>	<u><b>1,471</b></u>
The following balances at 31 March are held at:		
Office of HM Paymaster General	131	1,316
Commercial banks and cash in hand	2	155
<b>Balance at 31 March</b>	<u><b>133</b></u>	<u><b>1,471</b></u>

Notes to the departmental resource accounts *(continued)*

## 15. Creditors

## 15(a) Analysis by type

	<u>2008-09</u>	<u>2007-08</u>
	£000	£000
<b>Amounts falling due within one year:</b>		
Other Taxation and Social Security	791	474
Trade creditors	814	641
Staff creditors	4	2
Deferred licence fees	2,297	3,924
Leasehold reverse premium	316	316
Accruals and other deferred income	1,894	2,379
Amounts issued from the Consolidated Fund for supply but not spent at year end	133	1,471
Excess cash receipts	-	-
Consolidated Fund Extra Receipts due to be paid to the Consolidated Fund:		
received	-	-
receivable	-	-
<b>Balance at 31 March</b>	<b><u>6,249</u></b>	<b><u>9,207</u></b>
	<u>2007-08</u>	<u>2006-07</u>
	£000	£000
<b>Amounts falling due after more than one year:</b>		
Leasehold reverse premium	2,290	2,606
<b>Balance at 31 March</b>	<b><u>2,290</u></b>	<b><u>2,606</u></b>

When Ofgem entered into a lease on its Millbank headquarters in 2000, it received a leasehold reverse premium from the landlord. The remainder of the reverse premium is £2.606 million and will be utilised on a straight-line basis over the lease term up to the first break in the lease, being 23 June 2017.

## 15(b) Intra-government balances

	Creditors: amounts falling due within one year		Creditors: amounts falling due after more than one year	
	<u>2008-09</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2007-08</u>
	£000	£000	£000	£000
Balances with other central government bodies	1,706	2,811	-	-
<i>Subtotal: intra-government balances</i>	<i>1,706</i>	<i>2,811</i>	-	-
Balances with bodies external to government	4,543	6,396	2,290	2,606
<b>Total creditors at 31 March</b>	<b><u>6,249</u></b>	<b><u>9,207</u></b>	<b><u>2,290</u></b>	<b><u>2,606</u></b>



**Notes to the departmental resource accounts** *(continued)***16. Provisions for liabilities and charges**

	Early Retirement
	£000
Balance at 1 April 2007	<b>1,657</b>
Provided in the year	–
Unwinding of the discount	19
Provisions not required written back	–
Provision utilised in the year	(460)
Net movement in year	(441)
<b>Balance at 31 March 2009</b>	<b>1,216</b>

The total movement in provision in 2008-09 was a decrease of £441,000.

The Early Retirement provision relates to the costs of pensions for individuals who have retired early. Ofgem meets the cost of pension payments from its resources until the individual reaches normal retirement age.

The provision has been discounted, with the undiscounted amount being £1,339,513.

**Pension liabilities**

	2008-09	2007-08
	£000	£000
<b>Provision at 1 April</b>	<b>578</b>	<b>474</b>
Interest cost	30	21
Actual benefit payments	(15)	(14)
Actuarial (gain)/loss	(31)	97
<b>Provision at 31 March</b>	<b>562</b>	<b>578</b>
Net movement in year (excluding actuarial loss)	15	7

**History of experience losses**

	2008-09	2007-08	2006-07
	£000	£000	£000
Experience loss/(gain) arising on the scheme liabilities	10	107	(6)
Amount recognised as a percentage of present value of scheme liabilities	1.7%	18.5%	(1.2%)
Total amount recognised in statement of recognised gains and losses	(31)	97	59

The pensions provision is in respect of the unfunded pension liabilities which fall to Ofgem for the previous Chief Executive and a Director General. The pension provision is unfunded, with the benefits being paid as they fall due and guaranteed by Ofgem. There is no fund, and therefore no surplus or deficit. Actuarial advice has been sought to ensure that the provision is set at a realistic level.

**Notes to the departmental resource accounts** *(continued)*

An actuarial valuation was carried out by the Government Actuary's Department (GAD) at 31 March 2009. The major assumptions used by the actuary were:

	At 31 March 2009 % (per annum)	At 31 March 2008 % (per annum)
Inflation assumption	2.75	2.75
Rate of increase in salaries	4.3	4.3
Investment return in excess of price increases	3.2	2.5
Rate of increase for pensions in payment and deferred income	2.75	2.75

**Analysis of Actuarial Gain/(Loss)**

	<b>2008-09</b>	<b>2007-08</b>	<b>2006-07</b>
	£000	£000	£000
Changes in assumptions underlying the present value of scheme liabilities	(41)	(10)	65
Experience (gains)/losses arising on the scheme liabilities	10	107	(6)
Per statement of recognised gains and losses	(31)	97	59

From 31 March 2009, the discount rate for pension scheme liabilities changed from 2.5 per cent to 3.2 per cent. This rate is reflected in the valuation of the pension scheme liability as at 31 March 2009.

**17. General Fund**

	<b>2008-09</b>		<b>2007-08</b>	
	£000	£000	£000	£000
<b>Balance at 1 April</b>		<b>(4,349)</b>		<b>(3,835)</b>
Net Parliamentary Funding:				
Draw Down	2,086		–	
Deemed Supply	1,471		1,847	
		3,557		1,847
Net transfer from operating activities:				
Net operating cost		(695)		(695)
Surplus supply repayable to the Consolidated Fund		(133)		(1,471)
Non-cash charges:				
Cost of capital	(102)		(140)	
Auditor's remuneration	46		42	
		(56)		(98)
Transfer from Revaluation Reserve		4		–
Gain/(Loss) relating to pension liabilities		31		(97)
<b>Balance at 31 March</b>		<b>(1,641)</b>		<b>(4,349)</b>

**18. Revaluation Reserve**

	<b>2008-09</b>	<b>2007-08</b>
	£000	£000
Balance at 1 April	4	4
Transferred to General Fund	(4)	–
<b>Balance at 31 March</b>	<b>–</b>	<b>4</b>

Ofgem ceased revaluing its assets at the end of 2006-07. During 2008-09, the remaining balance on the revaluation reserve was transferred to the General Fund.

Notes to the departmental resource accounts *(continued)*

## 19. Notes to the Cash Flow Statement

## 19(a) Reconciliation of operating cost to operating cash flows

		<u>2008-09</u>	<u>2007-08</u>
	Note	£000	£000
<b>Net operating cost</b>	3a	695	695
Adjustments for non-cash transactions	11	(923)	(1,299)
Increase in Debtors	13a	384	382
<i>Less movements in debtors relating to items not passing through the OCS</i>	13a	–	–
Decrease in Creditors	15a	2,958	204
<i>Less movements in creditors relating to items not passing through the OCS</i>	15a	(1,338)	(837)
Decrease in long term creditors	15a	316	316
Use of provisions	16	475	551
<b>Net cash outflow from operating activities</b>		<u><b>2,567</b></u>	<u><b>12</b></u>

## 19(b) Analysis of capital expenditure and financial investment

		<u>2008-09</u>	<u>2007-08</u>
	Note	£000	£000
Tangible fixed asset additions	19c	857	364
Proceeds on disposal of fixed assets	19c	–	–
<b>Net cash outflow from investing activities</b>		<u><b>857</b></u>	<u><b>364</b></u>

## 19(c) Analysis of capital expenditure and financial investment by Request for Resources

	Capital expenditure	Loans, etc.	A-in-A	Net total
	£000	£000	£000	£000
<b>Request for Resources 1</b>				
Protecting consumers by regulating monopolies and promoting competition in the electricity and gas industry, and expenditure in connection with environmental programmes (Note 12)	857	–	–	857
<b>Total 2008-09</b>	<u><b>857</b></u>	<u><b>–</b></u>	<u><b>–</b></u>	<u><b>857</b></u>
<b>Total 2007-08</b>	<u><b>364</b></u>	<u><b>–</b></u>	<u><b>–</b></u>	<u><b>364</b></u>

## 19(d) Analysis of financing

		<u>2008-09</u>	<u>2007-08</u>
	Note	£000	£000
From the Consolidated Fund (Supply) – current year	17	2,086	–
Advances from the Contingency Fund		10,000	10,000
Repayments to the Contingency Fund		(10,000)	(10,000)
<b>Net financing</b>		<u><b>2,086</b></u>	<u><b>–</b></u>

**Notes to the departmental resource accounts** *(continued)***19(e) Reconciliation of Net Cash Requirement to change in cash**

		<u>2008-09</u>	<u>2007-08</u>
	Note	£000	£000
Net cash requirement		(3,424)	(376)
From the Consolidated Fund (Supply) – current year	19d	2,086	–
From the Consolidated Fund (Supply) – prior year	19d	–	–
Amounts paid over to the Consolidated Fund – received in prior year		–	(848)
Excess cash surrenderable to the Consolidated Fund		–	–
Amounts due to the Consolidated Fund received and not paid over		–	–
Decrease in cash		<u>(1,338)</u>	<u>(1,224)</u>

**20. Notes to the Statement of Resources by Departmental Aim and Objectives**

Ofgem's capital is employed exclusively for administrative purposes and its attribution to objectives is in the same proportion as the related gross administrative cost. Where costs cannot be directly attributed to each objective, they have been classed as overhead and attributed based on the underlying cost driver, in accordance with the Department's normal management accounting practices. Overhead costs were apportioned according to the direct headcount for each objective.

**21. Capital commitments**

	<u>2008-09</u>	<u>2007-08</u>
	£000	£000
Contracted capital commitments at 31 March for which no provision has been made	–	–

**22. Commitments under leases****Operating leases**

Commitments under operating leases to pay rentals during the year following the year of these accounts are given in the table below, analysed according to the period in which the lease expires.

	<u>2008-09</u>	<u>2007-08</u>
	£000	£000
<b>Obligation under operating leases comprise:</b>		
Land and buildings:		
Expiry within 1 year	32	–
Expiry after 1 year but not more than 5 years	–	99
Expiry thereafter	5,735	5,828
	<u>5,767</u>	<u>5,927</u>
Other:		
Expiry within 1 year	1	1
Expiry after 1 year but not more than 5 years	2	2
Expiry thereafter	–	–
	<u>3</u>	<u>3</u>

## Notes to the departmental resource accounts *(continued)*

### 23. Other financial commitments

Ofgem had not entered into any non-cancellable contracts (which are not operating leases) as at 31 March 2009.

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### 24. Contingent liabilities disclosed under FRS 12

From time to time Ofgem will be subject to legal challenge and judicial review of decisions made in the normal course of its business as regulator of the gas and electricity markets. Legal judgements could give rise to liabilities for legal costs but these cannot be quantified as the outcome of proceedings would be unknown and there is therefore considerable uncertainty as to the nature and extent of any subsequent liability.

As at 31 March 2009 there were no contingent liabilities requiring disclosure.

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### 25. Financial instruments

As the cash requirements of Ofgem are met through the Estimates process, financial instruments play a more limited role in creating risk than would apply to a non-public sector body of a similar size. The majority of financial instruments relate to contracts to buy non-financial items in line with Ofgem's expected purchase and usage requirements and the Department is therefore exposed to little credit, liquidity or market risk.

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### 26. Related Party Transactions

During the year, Ofgem transferred £15.064 million to DECC in respect of new consumer advocacy arrangements following the CEAR Act 2007; £11.266 million costs of Consumer Focus, £2.738 million costs of Consumer Direct, and £1.060 million costs of closure of energywatch. Additionally, £6.387 million was transferred to BERR for the costs of energywatch under the previous consumer advocacy arrangements.

Ofgem sublets part of its Millbank premises to DEFRA, provides financial and payroll services to Postcomm, and administers the Northern Ireland Renewables Obligation on behalf of the NI Authority for Utility Regulation. Income recognised in year was £3.910 million from DEFRA, £69k from Postcomm, £130k from NI Authority for Utility Regulation.

Ofgem has also had a small number of transactions with other government departments and central government bodies.

None of the Authority members, key managerial staff or other related parties has undertaken any material transactions with Ofgem during the year.

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### 27. Post balance sheet events

There were no reportable post balance sheet events between the balance sheet date, and the 28 April 2009, the authorised for issue date. The financial statements do not reflect events after this date.

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## Notes to the departmental resource accounts *(continued)*

### 28. Third Party Assets

#### *Fossil Fuel Levy*

Ofgem is responsible for setting, collecting and administering the Fossil Fuel Levy (FFL) via commercial bank accounts. BERR has overall responsibility for the making of regulations governing the FFL. Under the Electricity Act 1989, the Secretary of State made five Orders (three now remain) requiring the then Regional Electricity Companies (RECs) in England and Wales to contract for certain amounts of renewable generating capacity. This was known as the Non Fossil Fuel Obligation (NFFO). The FFL was created in 1990 to finance NFFO. Similar Regulations came into force in Scotland in 1996, and are the responsibility of the Scottish Government.

The Sustainable Energy Act 2003 created a mechanism by which sums of money could be transferred from the England and Wales levy account to the Consolidated Fund. The Secretary of State for Business, Enterprise and Regulatory Reform is under a duty to spend the amount for the purpose of promoting the use of energy from renewable sources. A parallel provision has been included in the Energy Act 2004 for Scottish Ministers relating to the Scotland levy account.

Cash receipts can also be treated as hereditary revenue when they are received by virtue of statutory authority. Section 1 of the Civil List Act 1952 requires hereditary revenues to be paid into the Consolidated Fund. On 22 September 2008 and 20 March 2009, £82 million and £141 million respectively, were transferred to the Consolidated Fund from the England and Wales account on this basis.

The balance held at 31 March 2009 in the England and Wales account was £29.3 million and the Scotland account held £153.2 million.

Under Section 187 of the Energy Act 2004, the Scottish Government may direct Ofgem to pay an amount from the Scottish Levy account to the Scottish Consolidated Fund. No such direction has yet been made.

In accordance with the FReM issued by HM Treasury, Ofgem is required to disclose any monies held on behalf of third-parties. All monies collected through the FFL have in the past fallen into this category. Prior to 2006-07 under Managing Public Money rules, the account balances were defined as third-party assets where Ofgem nor the Government more generally had any direct beneficial interest. They were therefore not included in our Resource Account.

From 2006-07, the surplus over and above the core third-party balance of £30 million in the England and Wales account is now treated as CFER income in our Resource Account and reflected in the Statement of Parliamentary Supply. The change in treatment arises due to an increased certainty that the surplus will go to the Consolidated Fund. This does not score against resource expenditure. The total balance held in the Scotland levy account continues to be treated as monies held on behalf of third-parties.

#### *Renewables Obligation*

Under the Renewables Obligation Order 2006, Ofgem on behalf of the Secretary of State for Business, Enterprise and Regulatory Reform is responsible for administering the Renewables Obligation. The Renewables Obligation requires suppliers to source a certain portion of the electricity they supply from renewable sources. Alternatively, suppliers can buy out of the obligation.

Buyout payments for a particular compliance period are redistributed to suppliers by 1 November following the end of the compliance period (which runs from April to March each year). The balance on the Renewables Obligation account at year-end is normally zero.

In 2008, a company failed to comply with its obligations resulting in buyout payments being withheld. The amount held as at 31 March 2009 was £27,817.





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