Presented pursuant to [GRA] Act 2000 c20. S.6

Office of Gas and Electricity Markets
Resource Accounts
2004-05

(For the year ended 31 March 2005)

Ordered by the House of Commons to be printed
25 May 2005

LONDON: The Stationery Office 25 May 2005
HC 64 £9.00

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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 HM Treasury's Resource Accounting Manual.

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

This document contains the Accounts of Ofgem for the period 1 April 2004 to 31 March 2005. It should be read in conjunction with the Ofgem Annual Report for 2004-05, which is published separately.

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 and related legislation.

In addition, the Energy Act 2004 received Royal Assent on 22 July 2004. The Act provides the legal framework for the introduction of a single British wholesale electricity market (BETTA); security of supply measures; additional statutory duties for the Authority; provisions to support the development of renewables; and various other minor measures.

In fulfilling its obligations Ofgem works closely with the Department of Trade and Industry (DTI), energywatch and the Department for Environment, Food and Rural Affairs (DEFRA).

Aim

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

To protect consumers' interests, wherever possible by promoting effective competition and only where necessary through regulation.

This means working on behalf of consumers to secure gas and electricity supplies which are competitively priced, reliable and safe. In particular, the Corporate Strategy 2004-2007 identified seven themes:

- Creating and sustaining competition
- Regulating network monopolies
- Helping to protect the security of Britain's energy supplies
- Providing a leading voice in Europe
- Helping to protect the environment
- Helping tackle fuel poverty, and
- Improving Ofgem's efficiency and effectiveness

Operating and Financial Review

Income Generation

In 2004-05 cash of £51.1 million was received in respect of licence fees and other income mainly from property rental income. Of this, £13.3 million was transferred to DTI in respect of the costs of energywatch. Ofgem had an operating income of £35.8 million as follows:

Cash receipts:	
licence fees	£45.4m
deferred licence fees	£1.9m
property and other receipts	£3.8m
	£51.1m
Less:	
cash transferred to DTI for energywatch	£13.3m
opening debtors	£4.1m
additional deferred licence fees retained in year	£1.9m
Add:	
closing debtors	£4.0m
Operating Income	£35.8m

In addition to operating income of £35.8 million, public funds were provided to meet the cost of work undertaken in respect of the Climate Change Levy (£0.7 million).

A total amount of £1.9 million has been over-recovered from licence fee payers during 2004-05 and this will be offset against future licence fee charges as determined under Ofgem's new RPI-X cost regime.

Spending

Total operating costs amounted to £36.5 million. Three areas of expenditure absorbed 87 per cent of the total, staff costs 46 per cent, contractors 18 per cent and accommodation 23 per cent.

Capital expenditure in the year totalled £0.9 million in respect of furniture, office and computer equipment.

Output

Ofgem's financial performance in pursuit of its objectives is detailed in the Resources by Departmental Aim and Objectives. Expenditure, including indirect costs, against the main projects identified in Ofgem's Corporate Strategy 2004-2007 was as follows:

Project	**Corporate Plan**	**Actual**	**Variance**
	£000	£000	£000
British Electricity Trading and Transmission Arrangements (BETTA)	4,830	4,655	(175)
Distribution Price Control Review	2,910	2,354	(556)
DN Sales	1,720	2,546	826
Quality of Service	1,560	1,474	(86)
Security of Supply	1,430	1,633	203
Renewables	850	1,252	402
Total	**13,300**	**13,914**	**614**

Two factors largely explain the variances between actual spend and the Corporate Plan budget:

Project Timing

- Distribution Price Control (DPCR). The DPCR project was completed in 2004-05 on budget. The project was ahead of schedule and budget in 2003-04, as noted in the accounts and consequently 2004-05 shows an underspend.
- Renewables. As noted in the 2003-04 account, legislative changes resulted in delays to work on the Guarantees of Origin for Renewables system. These delays accounted for an underspend in the accounts. This work was undertaken in 2004-05 and consequently the 2004-05 accounts show an overspend.

DN Sales. The nature and complexity of this project was not fully reflected in the original budget. A detailed review early in 2004-05 resulted in a number of new workstrands being identified associated with the development of a regulatory and commercial framework that could support a divested industry structure. These workstrands included undertaking a series of Regulatory Impact Assessments on aspects of this framework that were issued for consultation and which contributed to Ofgem's Final Impact Assessment on the sales which was released in November 2004.

Reviews of these and other projects can be found in the Ofgem Annual Report.

Budgets and Liquidity

Ofgem's budget is approved by Parliament following a consultation process with industry and other interested parties. For 2004-05 Parliament approved a resource budget of £38.111 million and a capital budget of £1.0 million. In addition, DTI directed that a sum of £13.3 million should be collected on behalf of energywatch; this amount was transferred to DTI, in full.

Financial penalties were imposed on two companies. Transco were fined £1,000,000 for the poor performance of its connections business and Powergen were fined £700,000 for unfairly stopping customers from moving to new suppliers. The penalties were received in 2004-05 and paid over to the Exchequer.

A Contingency Fund advance of £15.0 million was drawn down to provide short term liquidity until the first receipt of licence fees. This was fully repaid in August 2004.

An amount of £2.6 million due to be surrendered to the Exchequer will be retained to fund operations in 2005-06 until adequate licence fee income is received.

Finance and Provisions

Substantial provision was originally made for liabilities arising from the merger of the Office of Electricity Regulation (OFFER) and Office of Gas Supply (Ofgas) in June 1999. The balance remaining relates to staff severance and totals £0.798 million. On acquiring the lease for Ofgem's accommodation in December 2000 a reverse premium was obtained and is being utilised over the lease term up to the first break point. The balance remaining is £3.871 million. Following the surrender of an onerous building lease in July 2004, no other building provisions remain.

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 additional provisions to be made which now total £0.429 million.

In December 2003 a resource review was announced. The conclusions of the review gave rise to a provision. Following an additional limited review of the organisation during 2004-05 provision has been set aside totalling £0.141 million for pension liabilities and £0.708 million for severance costs.

Fixed assets are kept to optimal levels and capital expenditure will sustain future Ofgem operations at Corporate Strategy levels.

The balance sheet at 31 March 2005 shows negative Taxpayer's Equity of £5.4 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.

Business Focus For The Future

Ofgem will continue to protect consumers' interests, wherever appropriate by promoting effective competition. In particular, the seven themes described earlier have been retained for the coming years. By retaining the themes, which are flexible enough to take full account of fresh challenges faced, Ofgem is demonstrating its commitment to regulatory continuity and predictability.

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 will be independently overseen by the Audit Committee chaired by Sir Keith Stuart, 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.

A limited review of the organisation in April 2005 resulted in a number of organisational changes. The main conclusion of the review resulted in the Senior Management Team being reduced by one Managing Director and the corporate structure based on four divisions: Networks; Markets; Corporate Affairs; and Operations.

The Gas and Electricity Markets Authority

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

Executive Members of the Authority who served during the year

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

David Gray, Managing Director Networks, was appointed in May 2003.

Dr Boaz Moselle, Managing Director Corporate Strategy, was appointed in March 2003. He left the Authority in March 2005.

John Neilson, Managing Director Corporate Affairs, was appointed in May 2000. He left the Authority in January 2005.

Steve Smith, Managing Director Markets, was appointed in May 2004.

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

Sir John Mogg joined the Authority as a non-executive member in May 2003 and was appointed Chairman in October 2003. His current appointment ends in September 2008.

John Belcher joined the Authority as a non-executive member in January 2001. He left the Authority in December 2004.

Robin Bidwell joined the Authority as a non-executive member in February 2003. His current appointment ends in February 2006.

Miriam Greenwood joined the Authority as a non-executive member in May 2004. Her current appointment ends in May 2007.

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

Jayne Scott joined the Authority as a non-executive member in May 2004. Her current appointment ends in May 2007.

James Strachan joined the Authority as a non-executive member in December 2000. He left the Authority in December 2004.

Sir Keith Stuart joined the Authority as a non-executive member in December 2000. His current appointment ends in December 2006.

Professor Leonard Waverman joined the Authority as a non-executive member in May 2002. His current appointment ends in May 2007.

John Wybrew joined the Authority as a non-executive member in May 2004. His current appointment ends in May 2007.

There were no company directorships or other significant interests held by Authority members which may have caused a conflict with their responsibilities as members of the Authority. John Wybrew holds options for shares in an energy company. This interest was notified to the Chairman of the Authority and John Wybrew does not take part in any Authority discussions relating to matters likely to affect the share price of the energy company in order to avoid any potential conflict with his responsibilities as a member of the Authority.

Basis of appointment and remuneration

The Chairman of the Authority, Sir John Mogg, was appointed non-executive Chairman on 1 October 2003 by the Secretary of State for Trade and Industry following open competition for a period of five years. Prior to taking up his role, he was initially appointed as a non-executive member of the Authority from May 2003. His remuneration was set out in his contract and is subject to annual review in line with awards recommended by the Senior Salaries Review Body.

Alistair Buchanan, was appointed Chief Executive and an executive member of the Authority on 1 October 2003. The appointment was made following open competition, with the process overseen by a Civil Service Commissioner. His remuneration was set out in his contract and is subject to annual review in line with awards recommended by the Senior Salaries Review Body.

Appointment of the other executive members of the Authority is undertaken in accordance with the Civil Service Management Code. Their remuneration is set out in their contracts and is subject to annual review in line with awards recommended by the Senior Salaries Review Body.

The non-executive members of the Authority are appointed by the Secretary of State for Trade and Industry after consulting the Chairman. Their remuneration is by payment of an honorarium of £20,000 per annum.

Details of remuneration can be found in Note 2 to the Resource Accounts.

Senior Management Team

The Senior Management Team (SMT) comprised all the executive members shown in Note 2. 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.

The Chairman of the Authority and the Chairman of the Audit Committee approved senior management remuneration as part of the annual review of senior salaries. The decision was subsequently endorsed by the Authority. It was also agreed that a Remuneration Committee will be created, comprising the Chairman of the Authority, Chairman of the Audit Committee and one non-executive member of the Authority.

During the year, two members of the SMT announced they were leaving. John Neilson left in January 2005 and was succeeded by Sarah Harrison. In April 2005 it was announced that Boaz Moselle would be leaving in August 2005. Due to business appointment rules, from the date of announcement he will not be attending senior management meetings or dealing with information which is not in the public domain.

Governance

Ofgem has introduced a corporate structure with committees that have clear terms of reference. They provide the necessary structure to ensure that there is a strong framework of internal control throughout the organisation.

Audit Committee

The Audit Committee is chaired by Sir Keith Stuart. In September 2004 the non-executive members, Jayne Scott and John Wybrew were appointed to the Audit Committee replacing John Belcher and James Strachan. Robin Bidwell was re-appointed for a further year. 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 anything that affects the financial health, probity or external reputation of the organisation and to ensure the adequacy of the system of internal control. The Committee will also oversee Ofgem's new RPI-X cost control regime. The Committee meets at least three times a year.

Enforcement Committees

The Authority announced revised Rules of Procedure on 28 November 2003. One of the changes allowed for the creation of committees of the Authority, which will be able to exercise delegated powers on behalf of the Authority. Using the new powers, the Authority created two types of Enforcement Committee. One type considers enforcement action in relation to licence breaches, and the second considers compliance with the Competition Act 1998. The Enforcement Committees are made up only of Authority members, with a majority of non-executive members and a non-executive chairman.

Pension Liabilities

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 the Treasury instructions and are described in Notes 1.8 and 2 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:

- just under 43 per cent of all staff were female
- 28 per cent of senior civil service members in Ofgem were women
- 42 per cent of staff in managerial grades were women
- 15 per cent of staff were known to be of ethnic minority origin, and
- the proportion of staff known to be of ethnic minority origin in the managerial grades was 14 per cent.

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

Training and Development

Ofgem's most important investment is in its people and this has been recognised by Ofgem being awarded the status of Investors In People in April 2003. An active policy of recruiting and retaining high calibre staff will also continue. Knowledge management software and processes will be further developed to give staff immediate access to the quality of information they need to work effectively. Ofgem also continues to improve the ways it explains and consults on its work.

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 Learning and Development strategy, an element of which is a training plan setting out the themes that link training and development activity across the organisation to meet Ofgem's wide ranging goals and priorities.

This commitment is reflected in expenditure: £547k was spent on training during 2004-05.

Employee Involvement

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

Creditor Payment, Policy and Performance

Ofgem's policy is to comply with the Better Payment Practice Code. Ofgem's standard terms and conditions for the supply of goods or services specify payment within 30 days, or other agreed credit terms, on receipt of goods or services or valid invoice, whichever is the later. During 2004-05 Ofgem paid 99 per cent of undisputed bills within these deadlines.

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 was £49,000. There was no auditor remuneration (actual or notional) for non-audit work.

The National Audit Office (NAO) published a report 'The Social Action Plan and Household Energy Efficiency' in July 2004. In the press statement accompanying his report Sir John Bourn stated that "Ofgem's actions are to be applauded both in its attempts to help vulnerable consumers and in its attempts to increase energy efficiency."

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 internal audit service to ensure wholly independent and fully professional analysis and recommendations. Our current provider is Chiene and Tait, who were appointed on 1 April 2003, following a competitive process.

Alistair Buchanan
Accounting Officer
23 May 2005

Statement of Accounting Officer's responsibilities

Under the Government Resource 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 *Resource Accounting 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 Resource Accounting 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 the Accounting Officers' Memorandum, issued by the Treasury and published in Government Accounting.

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, aims 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 Government Accounting.

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 Trade and Industry (DTI), Department for Environment, Food and Rural Affairs (DEFRA) and energywatch.

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 2005 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 was published in October 2003. The 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 is available to all staff via the intranet.

4. The risk and control framework

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 its likelihood and impact;
- Finance and Business Management team review all risks identified in quarterly reports and identify cross-divisional/directorate risks, those that impact Ofgem as a whole and our ability to meet corporate strategy objectives. Issues identified by the review as of importance to the Senior Management Team will be raised during quarterly reporting;
- Early warning indicators have been introduced for the most important risks – damage to Ofgem's reputation, policy errors and legal;
- Audit Committee considers risk on a regular basis;
- Senior Management Team and Directors review strategic risks six monthly 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 thirty four recommendations made by internal audit and due for implementation by 31 January 2005, twenty four have been fully implemented, eight have been partially implemented and two have been superseded.

During the year, a number of developments have been made to Ofgem's internal control environment:

- Early warning indicators were introduced for Ofgem's most important risks – damage to Ofgem's reputation, policy errors and legal;
- Ofgem's overarching strategic risks were updated following a fundamental review of all Ofgem's risks;
- The highest rated risks are reviewed by Senior Management Team six monthly. The Authority identify and review top risks annually;
- Regular one to one meetings are 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 risk management and control in their own area;
- A review of Ofgem's fraud prevention strategy, including an Internal Audit report on the risk of fraud within environmental work, has been presented to the Audit Committee; and
- Business continuity plans have been updated, ensuring that key activities can continue effectively following a disruption.

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 reviewing and agreeing the processes for managing risk in Ofgem;

Independent **Internal Audit** (provided under contract) reports to the Audit Committee to standards defined in the Government Internal Audit Standards and 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 2005 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.

The format of this statement complies with HM Treasury guidance as set out in Government Accounting Chapter 21.3.

Alistair Buchanan
Accounting Officer
23 May 2005

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

I certify that I have audited the financial statements on pages 16 to 43 under the Government Resources and Accounts Act 2000. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 22 to 24.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 10, the Accounting Officer is responsible for the preparation of the financial statements in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the other contents of the Accounts. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder, and 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. I also report if, in my opinion, the Annual Report is not consistent with the financial statements, if the Department has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Accounts, and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 11 to 13 reflects the Department's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by the Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Department in the preparation of the financial statements, and of whether the accounting policies are 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 are free from material misstatement, whether caused by error, or by fraud or other irregularity 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 have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Office of Gas and Electricity Markets at 31 March 2005 and of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the year then ended, and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by the Treasury; and
- 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.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

24 May 2005

The maintenance and integrity of Ofgem's website is the responsibility of the Accounting Officer; the work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Statement of Parliamentary Supply

Summary of Resource Outturn 2004-05 (£000s)

	2004-05							2003-04
	Estimate			Outturn				
	Gross expenditure	A in A	NET TOTAL	Gross expenditure	A in A	NET TOTAL	Net total outturn compared with estimate: saving/ (excess)	Prior-year outturn
Request for resources 1* Protecting consumers by regulating monopolies and promoting competition in the electricity and gas industry (Note 4, 6, 9)	50,711	(50,710)	1	49,130	(49,129)	1	–	2
Request for resources 2 Expenditure in connection with the Climate Change Levy (Note 9)	700	–	700	700	–	700	–	680
Total resources	51,411	(50,710)	701	49,830	(49,129)	701	–	682
Non-operating cost A in A (Note 6)	–	(50)	(50)	–	(9)	(9)	(41)	(900)
Net cash requirement	–	–	7,556	–	–	4,496	3,060	1,763

*Request for resources 1 includes an amount of £13,267,000 in respect of energywatch expenditure as per Note 4.

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))

		Forecast 2004-05		Outturn 2004-05	
	Note	Income	*Receipts*	Income	*Receipts*
Consolidated Fund Extra receipts		–	–	1,982	*1,982*
Total	5	–	–	1,982	*1,982*

Explanation of the variation between Estimate net cash and requirement and outturn (net cash requirement):

The outturn net cash requirement is lower than the Estimate net cash requirement mainly due to lower than expected changes in working capital arising from an increased level of deferred licence fees. The use of provision was also lower than expected following the surrender of an onerous building lease.

Statement of Parliamentary Supply *(Continued)*

Reconciliation of resources to cash requirement (£000s)

	Note	Estimate	Outturn	Net total outturn compared with estimate: saving/ (excess)	Prior year outturn
Net total resources		**701**	**701**	**–**	**682**
Capital:					
● Acquisition of fixed assets	11	1,000	777	223	481
● Investments		–	–	–	–
Non-operating A-in-A:					
● Proceeds of fixed asset disposals	10	(50)	(9)	(41)	(900)
Accruals adjustments:					
● Non-cash items	3	(1,077)	(906)	(171)	(600)
● Changes in working capital other than cash	12	–	(2,141)	2,141	(834)
● Changes in creditors falling due after more than one year		–	–	–	–
● Use of provision	17	6,982	6,074	908	2,934
Net cash requirement		**7,556**	**4,496**	**3,060**	**1,763**

Operating Cost Statement

for the year ended 31 March 2005 (£000s)

	Note	2004-05		2003-04	
Administration costs:					
Requests for resources 1:					
Staff costs	2	16,571		16,262	
Non-staff administration costs	3	19,196		20,285	
			35,767		36,547
Request for resources 2:					
Non-Staff administration costs	3	700		680	
			700		680
Gross administration costs			**36,467**		**37,227**
Operating income	6		(35,766)		(36,545)
Net administration costs			**701**		**682**
Programme costs					
Request for resources 1:					
Expenditure	4	13,363		12,497	
Less: income	4	(13,363)		(12,497)	
Net programme costs			**–**		**–**
Net operating cost	8		**701**		**682**
Net resource outturn	8		**701**		**682**

All income and expenditure are derived from continuing operations

Statement of Total Recognised Gains and Losses

for the year ended 31 March 2005 (£000s)

	2004-05	2003-04
Net operating cost	(701)	(682)
Net gain/(loss) on revaluation of tangible fixed assets	33	(10)
Actuarial loss on revaluation of pension liabilities	(42)	–
Total recognised losses for the financial year	**(710)**	**(692)**

Balance Sheet

as at 31 March 2005 (£000s)

	Note	31 March 2005		31 March 2004	
Fixed assets:					
Tangible assets	11	4,463		4,679	
			4,463		**4,679**
Current assets:					
Debtors	13	3,978		4,137	
Cash at bank and in hand	14	2,632		2,272	
		6,610		6,409	
Creditors (amounts falling due within one year)	15	(10,174)		(8,170)	
Net current (liabilities)/assets			**(3,564)**		**(1,761)**
Total assets less current liabilities			**899**		**2,918**
Provisions for liabilities and charges	17	(5,946)		(12,061)	
			(5,946)		**(12,061)**
Total net liabilities before pension provision			**(5,047)**		**(9,143)**
Pension liabilities	17		(340)		(257)
Total net liabilities			**(5,387)**		**(9,400)**
Taxpayers' equity:					
General fund	18		(5,422)		(9,425)
Revaluation reserve	19		35		25
			(5,387)		**(9,400)**

Alistair Buchanan
Accounting Officer
23 May 2005

Cash Flow Statement

for year ended 31 March 2005 (£000s)

	Note	2004-05	2003-04
Net cash outflow from operating activities (see a below)		(3,728)	(2,182)
Capital expenditure and financial investment (see b below)		(768)	419
Receipts due to the Consolidated Fund		1,982	–
Payments of amounts due to the Consolidated Fund		(2,410)	–
Amounts due to the Consolidated Fund received in a prior year and paid over		(2,272)	(1,277)
Financing (see c below)		7,556	4,035
Increase in cash in the period		360	995
Reconciliation of operating cost to operating cash flows			
Net operating cost		701	682
Adjust for non-cash transactions	3	(906)	(600)
Adjust for movements in working capital other than cash	12	(2,141)	(834)
Use of provisions	17	6,074	2,934
Net cash outflow from operating activities (a)		**3,728**	**2,182**
Analysis of capital expenditure and financial investment			
Tangible fixed asset additions	11	777	481
Proceeds of disposal of fixed assets	10	(9)	(900)
Net cash outflow/(inflow) from investing activities (b)		**768**	**(419)**
Analysis of financing and reconciliation to net cash requirement			
From the Consolidated Fund (Supply) – current year (1)	18	7,556	3,814
From the Consolidated Fund (Supply) – prior year	15, 18	–	221
Advances from the Contingency Fund		15,000	10,000
Repayment to the Contingency Fund		(15,000)	(10,000)
Net financing (c)		**7,556**	**4,035**
Increase in cash	14	(360)	(995)
Net cash flows other than financing		**7,196**	**3,040**
Adjustment for payments and receipts not related to Supply:			
Amounts due to the Consolidated Fund received in prior year and paid over	15, 18	(2,272)	(1,277)
Amounts due to the Consolidated Fund received and not paid over	15, 18	–	–
Receipts due to the Consolidated Fund (2)		1,982	400
Amounts collected on behalf of other Government Departments (2)		13,267	12,392
Amounts paid over in year (2)		(15,677)	(12,792)
Net cash requirement		**4,496**	**1,763**

(1) Amount of grant actually issued to support the net cash requirement = £7,556,000.00
(2) Amounts paid over: energywatch costs (£13,267 million) paid to DTI , fines levied (£1.982 million) and an advance surrender of cash (£428k) to remove a CFER receivable balance relating to 2002-03 paid to Consolidated Fund.

Statement of Resources by Departmental Aim and Objectives

for the year ended 31 March 2005 (£000s)

AIM: To protect consumers' interests, wherever possible by promoting effective competition and only where necessary through regulation.

Objective*		**2004-05**			**2003-04**	
	Gross	Income	Net total	Restated[1] Gross	Restated[1] Income	Restated[1] Net total
1. Creating and sustaining competition	18,012	(18,012)	–	18,789	(18,789)	–
2. Regulating network monopolies	11,187	(11,187)	–	11,092	(11,092)	–
3. Helping to protect the security of Britain's energy supplies	1,631	(1,631)	–	2,587	(2,587)	–
4. Providing a leading voice in Europe	1,364	(1,364)	–	1,030	(1,030)	–
5. Helping to protect the environment	3,612	(2,911)	701	3,143	(2,461)	682
6. Helping tackle fuel poverty	757	(757)	–	691	(691)	–
Net operating cost	**36,563**	**(35,862)**	**701**	**37,332**	**(36,650)**	**682**

*See note 20. Ofgem's objective of improving efficiency and effectiveness has no staffing or resources separately attributed to it. Consequently, no costs or income have been allocated to it.

[1]Comparative amounts are restated to conform to current presentation of Ofgem objectives.

Notes to the departmental resource accounts

1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2004-05 Resource Accounting Manual (RAM) issued by HM Treasury. The accounting policies contained in the RAM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where the RAM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of Ofgem for the purpose of giving a true and fair view has been selected. The particular accounting policies adopted by Ofgem are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting conventions

These accounts have been prepared under the historical cost convention, modified to include the revaluation of fixed assets at their value to the business by reference to their current costs.

1.2 Tangible fixed assets and depreciation

Tangible assets have been stated at current cost using indices provided by the Office of National Statistics. Leasehold improvements are not revalued.

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
Computers and IT equipment	3 years
Vehicles	3 years

The minimum level for the capitalisation of tangible fixed assets is £1,000.

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 3.5 percent, 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.

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.

Following the introduction of the Utilities Act, monies were collected in respect of energywatch and the Department of Trade and Industry costs. This income and expenditure is shown under programme costs.

Notes to the departmental resource accounts *(continued)*

1.5 Administration and programme expenditure

The operating cost statement is analysed between administration and programme 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. Programme costs reflect non-administration costs in respect of energywatch and the Department of Trade and Industry costs. The classification of expenditure and income as administration or as programme 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 the operating costs. The charge is calculated at the real rate set by HM Treasury, 3.5 per cent for 2004-05, 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 Directors 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 FRS17.

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.

1.10 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 Customs and Excise in respect of VAT is included within Debtors and Creditors within the Balance Sheet.

Notes to the departmental resource accounts *(continued)*

1.11 The Statement of Parliamentary Supply and the Statement of Resources by Departmental Aims 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.

The Statement of Resources by Departmental Aims 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. Restated amounts in the Statement of Resources by Departmental Aims and Objectives (to reflect changes to Ofgem corporate objectives) are fully reflected in the corresponding notes.

1.14 Going concern

The balance sheet at 31 March 2005 shows a negative taxpayers equity of £5.387m. 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 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 2005-06 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 £100,000 (or lower, where required by specific statute or where material in the context of resource accounts) which are required by the Resource Accounting Manual to be noted in the resource accounts.

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.

Notes to the departmental resource accounts *(continued)*

2. Staff numbers and related costs

2.1 Staff costs

	2004-05			2003-04
		£000		£000
	Permanently employed staff	Others	Total	Total
Wages and salaries	12,417	801	13,218	12,518
Social security costs	1,141	–	1,141	1,047
Other pension costs	1,705	–	1,705	1,638
Early retirement and severance costs	75	–	75	226
Total	**15,338**	**801**	**16,139**	**15,429**
Less recoveries in respect of outward secondments	(109)	–	(109)	(72)
Provisions provided in year	541	–	541	905
Total net costs*	**15,770**	**801**	**16,571**	**16,262**

* 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. A full actuarial valuation was carried out as at 31 March 2003. Details can be found in the resource accounts of the **Cabinet Office**: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2004-05, employers' contributions of £1,705,000 were payable to the PCSPS (2003-04 £1,638,000) at one of four rates in the range 12 to 18.5 per cent of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. Rates will increase from 2005-06 in the range 16.2 to 25.6 per cent. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees joining after 1 October 2002 could opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £40,298 were paid to one or more of a panel of four 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 £3,163, 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 (described in the Civil Service Pensions section of note 2.3) at the balance sheet date were nil. Contributions prepaid at that date were nil. Payments are recorded in wages and salaries.

Notes to the departmental resource accounts *(continued)*

2.2 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	Others	2004-05 Number Total	2003-04 Number Total
Creating and Sustaining competition	138	8	**146**	**155.4**
Regulating network monopolies	89	4	**93**	**91.7**
Helping to protect the security of Britain's energy supplies	15	3	**18**	**21.4**
Providing a leading voice in Europe	11	–	**11**	**8.5**
Helping to protect the environment	31	–	**31**	**26**
Helping tackle fuel poverty	7	–	**7**	**5.7**
Total	**291**	**15**	**306**	**308.7**

2.3 Salary and pension entitlements

The salary, pension entitlements and the value of any taxable benefits in kind of the most senior members of Ofgem during 2004-05 were as follows:

A. Remuneration	2004-05 Salary, including performance pay	2004-05 Benefits in kind	2003-04 Salary, including performance pay	2003-04 Benefits in kind
	£000	Nearest £100	£000	Nearest £100
Alistair Buchanan *Chief Executive*	170 - 175	N/A	75 - 80	N/A
Roy Field *Chief Operating Officer*	105 - 110	N/A	95 - 100	N/A
David Gray *Managing Director*	160 - 165	N/A	130 - 135	N/A
Dr Boaz Moselle* *Managing Director*	110 - 115	N/A	110 - 115	N/A
John Neilson (to January 2005)** *Managing Director*	100 - 105	N/A	115 - 120	N/A
Steve Smith *Managing Director*	110 - 115	N/A	5 - 10	N/A
Non-executive members of the Authority Sir John Mogg	95 - 100	8,900	55 - 60	5,800

* opted to join premium
** annual equivalent salary for John Neilson: 120 - 125

Notes to the departmental resource accounts *(continued)*

Other non-executive members of the Authority who were remunerated by payment of an honorarium	Honorarium 2004-05	Honorarium 2003-04
John Belcher (to December 2004)	£15,000	£16,250
Robin Bidwell	£20,000	£16,250
Miriam Greenwood (from May 2004)	£17,100	–
Judith Hanratty (from January 2005)	£5,000	–
Jayne Scott (from May 2004)	£17,100	–
James Strachan (to December 2004)	£15,000	£16,250
Sir Keith Stuart	£20,000	£16,250
Leonard Waverman	£20,000	£16,250
John Wybrew (from May 2004)	£17,100	–
Richard Farrant	–	£10,000
Margaret Ford	–	£11,250

Salary

'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.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as a taxable emolument. Travel arrangements for Sir John Mogg fell into this category.

B. Pension Benefits	Real increase in pension and related lump sum at age 60	Accrued pension at age 60 at 31 March 2005 and related lump sum	CETV at 31 March 2005	CETV at 31 March 2004	Real increase in CETV	Employers contribution to partnership pension account
Senior management	£000	£000	£000	£000	£000	Nearest £100
Alistair Buchanan *Chief Executive*	0 - 2.5	0 - 5	26	8	16	N/A
Roy Field *Chief Operating Officer*	0 - 2.5 plus 5 - 7.5 lump sum	45 - 50 plus 135 - 140 lump sum	749	676	30	N/A
David Gray *Managing Director*	N/A	N/A	N/A	N/A	N/A	N/A
Dr Boaz Moselle* *Managing Director*	0 - 2.5	0 - 5	32	16	12	N/A
John Neilson (to January 2005) *Managing Director*	0 - 2.5 plus 2.5 - 5 lump sum	30 - 35 plus 100 - 105 lump sum	464	418	20	N/A
Steve Smith *Managing Director*	0 - 2.5	5 - 10	53	6	40	N/A
Non-executive member of the Authority						
Sir John Mogg	N/A	N/A	N/A	N/A	N/A	N/A

* opted to join premium

Notes to the departmental resource accounts *(continued)*

The following salary and pension details are provided in accordance with the 2004-05 Resource Accounting Manual (RAM) issued by HM Treasury and EPN notice 122 issued by Cabinet Office.

Civil Service Pensions

Pension benefits are provided through the CSP arrangements. From 1 October 2002, civil servants may be in one of three statutory based final salary defined benefit schemes (classic, premium, and classic plus). The Schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, and classic plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of premium or joining a good quality money purchase stakeholder arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary 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 (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic.

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

Further details about the CSP arrangements can be found at the website 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 CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the CSP arrangements and for which the CS Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of 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.

David Gray has opted out of the PCSPS and Ofgem make no pension contributions on his behalf but his salary reflects contributions that would otherwise have been made. Sir John Mogg has also opted out of the PCSPS but a pension contribution is made through salary reimbursement.

Notes to the departmental resource accounts *(continued)*

3. Non-staff administration costs

	2004-05	Restated 2003-04
	£000	£000
Rental under operating leases:		
Hire of office equipment	112	83
Other operating leases	5,486	5,948
	5,598	6,031
Non-cash items (see below):		
Auditors' remuneration and expenses*	49	48
Depreciation	1,038	897
Loss on disposal of fixed assets	6	–
Cost of capital charge	(250)	(323)
Diminution in value of fixed assets	63	69
	906	691
Other expenditure:		
Contractors	6,592	8,409
Other accommodation costs	2,821	3,887
Rent review write back	–	(2,003)
Office supplies and services	864	871
Training	547	581
Travel and subsistence	504	563
Contracted laboratory costs	481	488
Telecoms	318	295
Recruitment	290	470
Hospitality	78	100
Other expenditure	932	1,325
	13,427	14,986
Provisions:		
Provided in year	–	10
Provision not required written back	(87)	(1,289)
Unwinding of the discount	52	536
Movement in provision	(35)	(743)
	19,896	20,965
Administration costs		
Request for resources 1	19,196	20,285
Request for resources 2	700	680
	19,896	20,965

* 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

	2004-05	2003-04
	£000	£000
Non cash costs	906	691
Less non-cash income	–	(91)
Total non cash transactions (Cash flow Statement)	**906**	**600**

Notes to the departmental resource accounts *(continued)*

4. Net programme costs (fees collected on behalf of the DTI for costs of energywatch)

	Note	2004-05 £000	2003-04 £000
Total income from licence fees		45,369	45,052
Less: Ofgem licence fee income		(32,102)	(32,660)
Amount collected and paid to the DTI for the costs of energywatch		13,267	12,392
Add: Fossil Fuel Levy income	6	96	105
		13,363	**12,497**
Less: Programme income		(13,363)	(12,497)
Net programme costs		–	–

In accordance with the income accounting policy (note 1.4), licence fees collected on behalf of the DTI and remitted directly to them, to meet the cost of energywatch and DTI, are shown under programme costs in the Operating Cost Statement.

Total programme income and expenditure is reflected in the Operating Cost Statement at £13,363,000.

5. Analysis of income payable to the Consolidated Fund

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)

		Forecast 2004-05		Outturn 2004-05	
		Income	*Receipts*	Income	*Receipts*
	Note	£000	£000	£000	£000
Surplus supply surrenderable to the Consolidated Fund	15	–	–	2,632	*2,632*
Fines levied and CFER'd	6	–	–	1,982	*1,982*
Total		**–**	**–**	**4,614**	***4,614***

Notes to the departmental resource accounts *(continued)*

6. Income and appropriations in aid

6.1 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 7). In 2004-05, all operating income not classified as A in A was within public expenditure.

	2004-05 Resource Outturn	**Reconciliation to Operating Cost Statement**				**Operating Cost Statement**
	A-in-A	Transfer of estimate cover	Netted off gross expenditure in sub-head	Payable to Consolidated Fund	Transactions between requests for resources	Income
	£000	£000	£000	£000	£000	£000
Administrative income:						
Fees and charges to external customers	32,160	–	–	–	–	32,160
Fees and charges to other departments	3,606	–	–	–	–	3,606
	35,766	**–**	**–**	**–**	**–**	**35,766**
Programme income:						
Fossil Fuel Levy	96	–	–	–	–	96
Amounts collected for energywatch	13,267	–	–	–	–	13,267
Total	**49,129**	**–**	**–**	**–**	**–**	**49,129**

	2003-04 Resource Outturn	**Reconciliation to Operating Cost Statement**				**Operating Cost Statement**
	A-in-A	Transfer of estimate cover	Netted off gross expenditure in sub-head	Payable to Consolidated Fund	Transactions between requests for resources	Income
	£000	£000	£000	£000	£000	£000
Administrative income:						
Fees and charges to external customers	33,026	–	–	–	–	33,026
Fees and charges to other departments	3,519	–	–	–	–	3,519
	36,545	**–**	**–**	**–**	**–**	**36,545**
Programme income:						
Fossil Fuel Levy	105	–	–	–	–	105
Amounts collected for energywatch	12,392	–	–	–	–	12,392
Total	**49,042**	**–**	**–**	**–**	**–**	**49,042**

Notes to the departmental resource accounts *(continued)*

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

	2004-05			2003-04		
	Income	Full costs	Surplus/ (deficit)	Income	Full costs	Surplus/ (deficit)
Administration income	£000	£000	£000	£000	£000	£000
Gas and Electricity:						
Licence fees (external)	32,102	32,803	(701)	32,660	33,342	(682)
Other	3,664	3,664	–	3,885	3,885	–
Subtotal	35,766	36,467	(701)	36,545	37,227	(682)
Programme income:						
Fossil Fuel Levy	96	96	–	105	105	–
	35,862	**36,563**	**(701)**	**36,650**	**37,332**	**(682)**

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:

	2004-05	2003-04
	£000	£000
Rent received:		
Department for Environment, Food and Rural Affairs (DEFRA)	3,548	3,519
External tenants	–	51
Other departments	58	–
Profit on disposal of fixed assets	–	91
Miscellaneous	58	224
	3,664	**3,885**

Miscellaneous income includes licence application fees, fees for technical services (meter approval and testing and gas quality audit, etc.), and other minor items.

6.2 Non-operating income not classified as A in A

	Income	Receipts
	£000	£000
Fines	1,982	1,982

Ofgem received fines levied of £1.982m during the year, which are not regarded as income for Ofgem and are surrendered to the Consolidated Fund.

Non-operating appropriations in aid	2004-05	2003-04
	£000	£000
Disposal of fixed assets	9	900

Notes to the departmental resource accounts *(continued)*

7. Administration cost limits

The administration costs control regime is set by HM Treasury. Outturn against individual administration cost limits was as follows:

	2004-05 Outturn	Limits	2003-04 Outturn	Limits
	£000	£000	£000	£000
Request for resources 1				
Protecting consumers by regulating monopolies and promoting competition in the electricity and gas industry	35,767	37,301	36,547	39,296
Request for resources 2				
Expenditure in connection with the Climate Change Levy	700	700	680	680
Total within administration cost control	**36,467**	**38,001**	**37,227**	**39,976**
Administration Expenditure excluded from administration cost limit	–		–	
Administration Income Allowable within the administration cost limit	**(35,766)**		**(36,545)**	
Net administration outturn	**701**		**682**	

8. Reconciliation of net operating cost and net resource outturn

	2004-05	2003-04
	£000	£000
Net operating cost (Note a)	(701)	(682)
Remove non – supply expenditure (–) and income (+), including income scored as Consolidated fund extra receipts (CFERs)	–	–
Net resource outturn (Note a)	**(701)**	**(682)**

Note:

a. Net operating cost is the total of expenditure and income appearing in the Operating Cost Statement. Net resource outturn is the total of those elements of expenditure and income that are subject to parliamentary approval and included in Ofgem's Supply Estimate. The outturn against the Estimate is shown in the Statement of Parliamentary Supply.

For Ofgem, all Supply expenditure is within the control total (resource budget) and no expenditure is financed other than by requests for resources.

Notes to the departmental resource accounts *(continued)*

9. Analysis of net resource outturn by function and reconciliation to Operating Cost Statement

	2004-05							2003-04
	Admin	**Other current**	**Gross resource expen-diture**	**A-in-A**	**Net total**	**Estimate**	**Net total outturn compared with Estimate**	**Prior year outturn**
	£000	£000	£000	£000	£000	£000	£000	£000
Request for resources 1 Protecting consumers by regulating monopolies and promoting competition in the electricity and gas industry	35,767	96	35,863	(35,862)	1	1	–	2
Request for resources 2 Expenditure in connection with the Climate Change Levy	700	–	700	–	700	700	–	680
Resource outturn	**36,467**	**96**	**36,563**	**(35,862)**	**701**	**701**	**–**	**682**

Reconciliation to Operating Cost Statement

	Gross resource expen-diture	**A-in-A**	**Net total**
Non supply expenditure Income payable to the Consolidated Fund	–	–	–
Transactions between Request for Resources netted off in Operating	–	–	–
Cost Statement	–	–	–
Income netted off in gross sub-head grossed up in Operating Cost Statement	–	–	–
Transfer of estimate cover	–	–	–
Gross operating expenditure	**36,563**	**–**	**–**
Operating income	**–**	**(35,862)**	
Net operating cost	**–**	**–**	**701**

10. Analysis of capital expenditure and associated A in A

	Capital expenditure	Loans, etc	A-in-A	Net total
	£000	£000	£000	£000
Request for resources 1 Protecting consumers by regulating monopolies and promoting competition in the electricity and gas industry	867	–	(9)	858
Request for resources 2 Expenditure in connection with the Climate Change Levy	–	–	–	–
Total 2004-05	**867**	**–**	**(9)**	**858**
Total 2003-04	**481**	**–**	**(900)**	**(419)**

Notes to the departmental resource accounts *(continued)*

11. Tangible fixed assets

	Furniture	Office equipment	Computer equipment	Leasehold works	Motor vehicles	Total
	£000	£000	£000	£000	£000	£000
Cost or valuation						
At 1 April 2004	1,263	649	1,491	4,106	13	7,522
Additions	113	296	458	–	–	867
Disposals	(175)	(68)	(174)	–	(13)	(430)
Revaluations	60	11	(63)	–	–	8
At 31 March 2005	1,261	888	1,712	4,106	–	7,967
Depreciation						
At 1 April 2004	769	339	923	804	8	2,843
Charged in year	220	136	442	240	–	1,038
Disposals	(175)	(61)	(171)	–	(8)	(415)
Revaluations	28	4	6	–	–	38
At 31 March 2005	842	418	1,200	1,044	–	3,504
Net book value At 31 March 2005	419	470	512	3,062	–	4,463
Net book value At 31 March 2004	494	310	568	3,302	5	4,679
Asset financing:						
Owned	419	470	512	3,062	–	4,463
Net book value At 31 March 2005	419	470	512	3,062	–	4,463

Tangible assets have been revalued using appropriate indices.
Ofgem normally depreciates capitalised leasehold improvement costs over the life of the lease or to the point at which the leasehold ends, whichever is the sooner.

Reconciliation of cash flows to tangible fixed asset additions
(Cash flow Statement and Statement of Parliamentary Supply)

	£000
Tangible fixed asset additions	867
Creditor for fixed asset additions	(90)
Cash flows for tangible fixed assets	**777**

Notes to the departmental resource accounts *(continued)*

12. Movements in working capital other than cash

The movements in working capital used in the Reconciliation of resources to cash requirement comprise:

	2004-05	2003-04
	£000	£000
Decrease in debtors	(159)	(861)
Increase in creditors	(2,004)	(747)
	(2,163)	(1,608)
Movement in working capital not related to net operating costs:		
– Amounts due to the Consolidated Fund	360	774
– Movement in working capital related to the acquisition/disposal of tangible fixed assets	90	–
– Amounts receivable due to the Consolidated Fund when received*	(428)	–
Net decrease in working capital other than cash	**(2,141)**	**(834)**

The movement in working capital other than cash used in the Cash Flow Statement comprise:

	2004-05	2003-04
	£000	£000
Decrease in debtors	(159)	(861)
Increase in creditors	(2,004)	(747)
	(2,163)	(1,608)
Movement in working capital not related to voted resource consumption:		
– Amounts due to the Consolidated Fund	360	774
– Movement in working capital related to the acquisition/disposal of tangible fixed assets	90	–
– Amounts receivable due to the Consolidated Fund when received*	(428)	–
Net decrease in working capital other than cash	**(2,141)**	**(834)**

*There were no corresponding debtors to match against the CFER receivable in prior year accounts. This has been corrected by surrendering to HM Treasury the full amount of £428k. This reduces the surplus supply balance due to be surrendered at year end.

13. Debtors

	2004-05	2003-04
	£000	£000
Amounts falling due within one year:		
Trade debtors	807	599
Accrued income	111	232
Prepayments	2,379	2,487
HM Customs and Excise (VAT)	456	575
Staff debtors	225	244
	3,978	**4,137**

Staff debtors represent loans outstanding, of which £79,000 relates to season ticket loans for 92 employees; £136,000 relates to housing advances in respect of 8 employees of which £106,000 is repayable after more than one year; and £10,000 relates to miscellaneous items.

Notes to the departmental resource accounts *(continued)*

14. Cash at bank and in hand

	2004-05	2003-04
	£000	£000
Balance at 1 April	2,272	1,277
Net change in cash balances:	360	995
Balance at 31 March	**2,632**	**2,272**
The following balances at 31 March are held at:		
Office of HM Paymaster General	2,572	2,256
Commercial banks and cash in hand	60	16
Balance at 31 March	**2,632**	**2,272**
The balance at 31 March comprises:		
Amounts issued from Consolidated Fund for supply but not spent at year end	2,632	2,051
Cash due to be paid to the Consolidated Fund	–	221
Balance at 31 March	**2,632**	**2,272**

15. Creditors

	2004-05		2003-04	
	£000	£000	£000	£000
Amounts falling due within one year:				
Trade creditors		530		2,467
Staff creditors		30		4
Deferred licence fees		4,080		2,148
Taxation and Social Security Creditor		458		–
Accruals and other deferred income		2,444		851
Amounts issued from the Consolidated Fund for supply but not spent at year end		2,632		2,051
Consolidated Fund extra receipts due to be paid to the Consolidated Fund				
received	–		221	
receivable	–		428	
		–		649
Total		**10,174**		**8,170**

Notes to the departmental resource accounts *(continued)*

16. Intra-government balances

	Debtors: amounts falling due within one year	Debtors: amounts falling due after more than one year	Creditors: amounts falling due within one year	Creditors: amounts falling due after more than one year
	£000	£000	£000	£000
Balances with other central government bodies	1,359	–	3,090	–
Balances with local authorities	742	–	3	–
Balances with public corporations and trading funds	–	–	–	–
Balances with bodies external to government	1,877	–	7,081	–
At 31 March 2005	**3,978**	–	**10,174**	–
Balances with other central government bodies	988	–	2,700	–
Balances with local authorities	773	–	–	–
Balances with public corporations and trading funds	–	–	–	–
Balances with bodies external to government	2,376	–	5,470	–
At 31 March 2004	**4,137**	–	**8,170**	–

17. Provisions for liabilities and charges

	Early Retirement	Severance	Other	Total
	£000	£000	£000	£000
Balance at 1 April 2004	1,525	674	9,862	12,061
Provided in the year	141	400	–	541
Unwinding of the discount	52	–	–	52
Provisions not required written back	–	(87)	–	(87)
Provision utilised in the year	(351)	(279)	(5,991)	(6,621)
Net movement in year	(158)	34	(5,991)	(6,115)
Balance at 31 March 2005	**1,367**	**708**	**3,871**	**5,946**
Of which:				
Payable within one year	327	708	316	1,351
Total movement in provision in 2004-05	6,074			

(Pension liability increased by £41,000 and other provisions decreased by £6,115,000)

The outstanding onerous building lease was surrendered on 29 June 2004 at a cost of £5,549,000. Other costs were associated with this utilisation and a supplementary estimate of £5,771,000 (in cash terms) was drawn down to help cover the cost in year. Included in other provisions is the reverse premium received on acquiring the lease for Ofgem's new headquarters in London. The remainder of the reverse premium of £3,871,472 will be utilised on a straight-line basis over the lease term up to the first break in the lease, being 23 June 2017. Also included in other provisions were miscellaneous items which have all been fully utilised in the current year.

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 £1,583,011.

The Severance cost provision relates to the balance of costs to be incurred as a result of the Resource review in 2003-04 and an additional provision raised in 2004-05.

Notes to the departmental resource accounts *(continued)*

Pension liability statement

	£000	£000
Provision at 1 April 2004		**257**
Adjustment to provision for 2003-04		36
Interest cost		17
Actuarial benefit payments	(20)	
Undrawn benefit payments	8	
Actual benefit payments		(12)
Actuarial loss		42
Provision at 31 March 2005		**340**
Net movement in year (excluding actuarial loss)		41

The Pensions provision is in respect of the unfunded pension liabilities which fall to Ofgem for previous Chief Executive and Directors General. The pension provision is unfunded, with the benefits being paid as they fall due and guaranteed by Ofgem for previous Chief Executive and Directors General. 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.

An actuarial valuation was carried out by the Government Actuary's Department (GAD) at 31 March 2005. The major assumptions used by the actuary were:-

	At 31 March 2005 % (per annum)	At 31 March 2004 % (per annum)
Inflation assumption	2.5	2.4
Rate of increase in salaries	–	2.4
Rate of increase for pensions in payment and deferred pensions	2.8	2.4
Rate used to discount scheme liabilities	3.5	6

The demographic assumptions used in the assessment as at 31 March 2005 differ to those used as at 31 March 2004. In particular, changes were made to take into account the fact that retired members are expected to live for longer in retirement. From 1 April 2005 the discount rate for pension scheme liabilities will change from 3.5% to 2.8% per annum. The impact of this change is an increase in the pension liability of £30,000 as at 1 April 2005.

Where the time value of money is material, Ofgem discounts the provision to its present value. This is currently 3.5%.

Notes to the departmental resource accounts *(continued)*

18. Reconciliation of net operating cost to changes in general fund

	2004-05		2003-04	
	£000	£000	£000	£000
Net operating cost for the year	(701)		(682)	
Income not appropriated-in-aid paid to the Consolidated Fund	–		–	
		(701)		(682)
Parliamentary Funding:				
Draw Down	7,556		3,814	
Deemed Supply	–		221	
		7,556		4,035
Transfer to general fund of realised element of revaluation reserve (Note 19)		23		11
Consolidated Fund creditor for supply drawn but unspent		(2,632)		(2,051)
Non-cash charges:				
Cost of capital	(250)		(323)	
Auditor's remuneration	49		48	
		(201)		(275)
Actuarial losses relating to pension liabilities		(42)		–
Net decrease/(increase) in general fund		4,003		1,038
General fund at 1 April		**(9,425)**		**(10,463)**
General fund at 31 March		**(5,422)**		**(9,425)**

19. Revaluation reserve

	2004-05	2003-04
	£000	£000
Balance at 1 April	25	62
Arising on revaluation during the year (net)	33	(10)
Realisation on disposal of fixed assets	(2)	(16)
Transferred to general fund in respect of realised element of the revaluation reserve	(21)	(11)
Balance at 31 March	**35**	**25**

The Revaluation reserve reflects the unrealised element of the cumulative balance of indexation and the revaluation adjustments of tangible fixed assets.

20. Notes to the Statement of Resources by Departmental Aims 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.

The 2003-2004 comparator figures have been re-stated to the (corporate plan) objectives for 2004-05.

21. Capital commitments

	2004-05	2003-04
	£000	£000
Contracted capital commitments at 31 March for which no provision has been made	–	–

Notes to the departmental resource accounts *(continued)*

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.

	2004-05	2003-04
	£000	£000
Obligation under operating leases comprise:		
Land and buildings:		
Expiry within 1 year	–	–
Expiry after 1 year but not more than 5 years	–	–
Expiry thereafter	5,803	5,803
	5,803	**5,803**
Other:		
Expiry within 1 year	8	5
Expiry after 1 year but not more than 5 years	105	69
Expiry thereafter	–	–
	113	**74**

23. Other financial commitments

Ofgem had not entered into any non-cancellable contracts (which are not operating leases) as at 31 March 2005.

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 current proceedings is unknown and there is therefore considerable uncertainty as to the nature and extent of any subsequent liability.

26. Related Party Transactions

Ofgem transferred £13.267 million to DTI in respect of the costs of energywatch.

Ofgem sublets part of the premises to DEFRA and provides financial and payroll services to Postcomm. Income received in year is summarised below.

	Income received
	£000
DEFRA	3,548
Postcomm	58

Ofgem has 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.

Notes to the departmental resource accounts *(continued)*

27. Post balance sheet events

There were no reportable post balance sheet events at 31 March 2005.

28. Fossil Fuel Levy

In accordance with the 2004-05 Resource Accounting Manual issued by HM Treasury, Ofgem is required to disclose any monies held on behalf of third-parties. Monies collected through the Fossil Fuel Levy (FFL) fall into this category.

The Department of Trade and Industry (DTI) has overall responsibility for the making of Regulations governing the FFL. Ofgem is responsible for setting, collecting and administering the FFL via commercial bank accounts. Under Government Accounting rules, the account balances are defined as third-party assets where Ofgem has no direct beneficial interest. They are therefore not included in our Resource Account.

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 Executive. The balance held at 31 March 2005 in the England and Wales account was £151 million and the Scotland account held £9 million.

The Sustainable Energy Act 2003 created a mechanism by which sums of money, not exceeding £60 million in total, could be transferred from the England and Wales levy account to the Consolidated Fund. On 14 July 2004 this mechanism was utilised and £60 million transferred. The Secretary of State for Trade and Industry 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 Bill for the Scotland levy account.

29. Financial instruments

FRS 13, *Derivatives and Other Financial Instruments*, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of its activities and the way in which government departments are financed, Ofgem is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. Ofgem has very limited powers to borrow or invest surplus funds and except for relatively insignificant forward purchases of foreign currency, financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing Ofgem in undertaking its activities.

As permitted by FRS 13, debtors and creditors which mature or become payable within 12 months from the balance sheet date have been omitted from the currency profile.

Liquidity risk

Ofgem operates on a full cost recovery basis and is financed primarily by licence fee income and has no borrowings. Specific and limited areas of operation are, for reasons of public policy, directly funded by grants of supply approved annually by Parliament. The extent to which licence fee and other income may be raised and retained for use in operations (Appropriated in Aid) is also approved by annual vote of Parliament, along with further grants of supply needed to meet Ofgem's Net Cash Requirement. Ofgem is not therefore exposed to significant liquidity risks.

Notes to the departmental resource accounts *(continued)*

Interest rates and foreign currency risks

Ofgem has no material deposits, and all material assets and liabilities are denominated in Sterling, so it is not exposed to any significant interest rate or foreign currency risks.

Fair values

There is no material difference between the book values and fair values of Ofgems's financial assets and liabilities as at 31 March 2005.

Printed in the UK by The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office
Id 179387 5/05 C3 19585 307519

Published by TSO (The Stationery Office) and available from:

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www.tso.co.uk/bookshop

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ISBN 0-10-293300-6

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