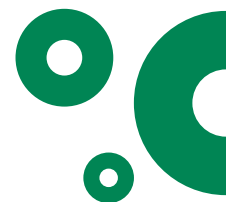




 Resource Accounts



## Statement of comprehensive net expenditure for the year ended 31 March 2021

This account summarises the expenditure and income generated and consumed on an accruals basis. It also includes other comprehensive income and expenditure, which include changes to the values of non-current assets and other financial instruments that cannot yet be recognised as income or expenditure.

|   |             | 2020-21<br>£000  | 2019-20<br>Restated<br>£000 |
|---|-------------|------------------|-----------------------------|
|   | <b>Note</b> |                  |                             |
| Operating income                                  | 4           | (109,119)        | (99,145)                    |
| <b>Total Operating Income</b>                     |             | <b>(109,119)</b> | <b>(99,145)</b>             |
| Staff cost  | 3           | 76,548           | 64,966                      |
| Other operating expenditure                       | 3           | 44,565           | 35,297                      |
| <b>Total operating expenditure</b>                |             | <b>121,113</b>   | <b>100,263</b>              |
| <b>Net operating expenditure for the period</b>   | 2           | <b>11,994</b>    | <b>1,118</b>                |
| <b>Comprehensive net expenditure for the year</b> |             | <b>11,994</b>    | <b>1,118</b>                |

The notes on pages 73 to 87 form part of these accounts.

# Statement of financial position as at 31 March 2021

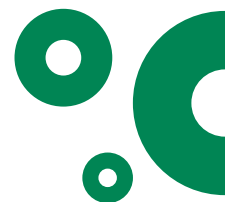
This statement presents the financial position of the department. It comprises three main components: assets owned or controlled; liabilities owed to other bodies; and equity, the remaining value of the entity.

|  | Note | 2020-21<br>£000 | 2019-20<br>Restated<br>£000 | 1 April 2019<br>Restated<br>£000 |
|--|------|-----------------|-----------------------------|----------------------------------|
| <b>Non-current assets:</b>                   |      |                 |                             |                                  |
| Property, plant and equipment                | 5    | 2,285           | 1,502                       | 2,677                            |
| <b>Total non-current assets</b>              |      | <b>2,285</b>    | <b>1,502</b>                | <b>2,677</b>                     |
| <b>Current assets:</b>                       |      |                 |                             |                                  |
| Trade and other receivables                  | 9    | 15,575          | 7,702                       | 7,189                            |
| Cash and cash equivalents                    | 8    | 3,604           | 12,269                      | 9,036                            |
| <b>Total current assets</b>                  |      | <b>19,179</b>   | <b>19,971</b>               | <b>16,225</b>                    |
| <b>Total assets</b>                          |      | <b>21,464</b>   | <b>21,473</b>               | <b>18,902</b>                    |
| <b>Current liabilities:</b>                  |      |                 |                             |                                  |
| Trade and other payables                     | 10   | (23,137)        | (28,290)                    | (18,382)                         |
| Provisions                                   | 11   | (14,308)        | (1,131)                     | (570)                            |
| <b>Total current liabilities</b>             |      | <b>(37,445)</b> | <b>(29,421)</b>             | <b>(18,952)</b>                  |
| <b>Total assets less current liabilities</b> |      | <b>(15,981)</b> | <b>(7,948)</b>              | <b>(50)</b>                      |
| <b>Non-current liabilities:</b>              |      |                 |                             |                                  |
| Provisions                                   | 11   | (2,298)         | (5,241)                     | (3,254)                          |
| <b>Total non-current liabilities</b>         |      | <b>(2,298)</b>  | <b>(5,241)</b>              | <b>(3,254)</b>                   |
| <b>Total assets less total liabilities</b>   |      | <b>(18,279)</b> | <b>(13,189)</b>             | <b>(3,304)</b>                   |
| <b>Taxpayers' equity:</b>                    |      |                 |                             |                                  |
| General fund                                 |      | (18,279)        | (13,189)                    | (3,304)                          |
| <b>Total equity</b>                          |      | <b>(18,279)</b> | <b>(13,189)</b>             | <b>(3,304)</b>                   |

**Jonathan Brearley**  
Chief Executive

12 July 2021

The notes on pages 73 to 87 form part of these accounts.



# Statement of cash flows for the year ended 31 March 2021

The Statement of Cash Flows shows the changes in cash and cash equivalents of the department during the reporting period. The statement shows how the department generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of service costs and the extent to which these operations are funded by way of income from the recipients of services provided by the department. Investing activities represent the extent to which cash inflows and outflows have been made for resources which are intended to contribute to the departments' future public service delivery.

|   | Note     | 2020-21<br>£000 | 2019-20<br>Restated<br>£000 |
|---|----------|-----------------|-----------------------------|
| <b>Cash flows from operating activities</b>   |          |                 |                             |
| Net operating expenditure   | SoPS1.1  | (11,994)        | (1,118)                     |
| Adjustments for non-cash transactions   | SoPS3    | 12,432          | 4,564                       |
| (Increase)/Decrease in trade and other receivables  | 9        | (7,873)         | (513)                       |
| Increase/(Decrease) in trade payables   | 10       | (5,153)         | 9,908                       |
| less movements in payables relating to items not passing through the SoCNE  | 10       | 8,665           | (3,233)                     |
| Use of provisions   | 11       | (690)           | (544)                       |
| <b>Net cash flow from operating activities</b>  |          | <b>(4,613)</b>  | <b>9,064</b>                |
| <b>Cash flows from investing activities</b>   |          |                 |                             |
| Purchase of property, plant and equipment   | 5        | (2,199)         | (318)                       |
| <b>Net cash outflow from investing activities</b>   |          | <b>(2,199)</b>  | <b>(318)</b>                |
| <b>Cash flows from financing activities</b>   |          |                 |                             |
| From the Consolidated Fund (supply)   | SOCiTE   | 6,893           | 1,389                       |
| Advances from the Contingencies Fund  |          | 27,000          | 20,000                      |
| Payments to the Contingencies Fund  |          | (27,000)        | (20,000)                    |
| <b>Net financing</b>  |          | <b>6,893</b>    | <b>1,389</b>                |
| <b>Net increase in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund</b>           |          | <b>81</b>       | <b>10,135</b>               |
| Payments of amounts to the Consolidated Fund  |          | (8,746)         | (6,902)                     |
| <b>Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund</b> |          | <b>(8,665)</b>  | <b>3,233</b>                |
| Cash and cash equivalents at the beginning of the period  | 8        | 12,269          | 9,036                       |
| <b>Cash and cash equivalents at the end of the period</b>   | <b>8</b> | <b>3,604</b>    | <b>12,269</b>               |

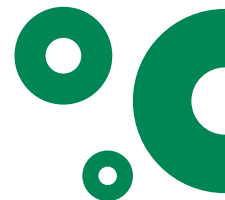
The notes on pages 73 to 87 form part of these accounts.

## Statement of changes in taxpayers' equity for the year ended 31 March 2021

This statement shows the movement in the year on the different reserves held by the department, analysed into 'general fund reserves' (i.e. those reserves that reflect a contribution from the Consolidated Fund). The General Fund represents the total assets less liabilities of a department, to the extent that the total is not represented by other reserves and financing items.

|   | Note  | General fund<br>£000 |
|---|-------|----------------------|
| <b>Balance at 31 March 2019</b>                             |       | <b>(3,304)</b>       |
| Auditors remuneration                                       | 3     | 100                  |
| Comprehensive net expenditure for the year                  | SoCNE | (1,118)              |
| Gains/ losses relating to pension liabilities               | 11    | -                    |
| Net Parliamentary Funding - deemed                          |       | 2,134                |
| Net Parliamentary Funding - drawn down                      |       | 1,389                |
| Supply payable adjustment                                   |       | (12,269)             |
| Cash receipts from 2018-19 not due to the consolidated fund |       | (121)                |
| <b>Balance at 31 March 2020</b>                             |       | <b>(13,189)</b>      |
| Auditors remuneration                                       | 3     | 100                  |
| Comprehensive net expenditure for the year                  | SoCNE | (11,994)             |
| Net Parliamentary Funding - deemed                          |       | 3,523                |
| Net Parliamentary Funding - drawn down                      |       | 6,893                |
| Supply payable adjustment                                   |       | (3,604)              |
| Cash receipts from 2019-20 not due to the consolidated fund |       | (8)                  |
| <b>Balance at 31 March 2021</b>                             |       | <b>(18,279)</b>      |

The notes on pages 73 to 87 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 Financial reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector. Where the FReM permits a choice of accounting policy, Ofgem have selected the accounting policy which is judged to be most appropriate to the particular circumstances for the purpose of giving a true and fair view. The particular policies adopted are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

As well as the primary statements prepared under IFRS, the FReM requires the department to prepare one additional primary statement. The Statement of Parliamentary Supply (SoPS) and supporting notes show outturn against estimate in terms of the net resource requirement and the net cash requirement, and are included in the Parliamentary Accountability and Audit Report section starting on page 60.

### 1.1 Accounting convention

These accounts have been prepared on a going concern basis under the historical cost convention. The accounts are presented to the nearest £'000.

### Going concern

In common with other government departments, the future financing of our liabilities is to be met by future grants of supply and the application of future income, both to be approved annually by Parliament. Approval for amounts required for 2021-22 has already been given and there is no reason to believe that future approvals will not be granted. We expect to continue to deliver services into the future. We have therefore considered it appropriate to adopt a going-concern basis for the preparation of these financial statements.

### 1.2 Operating income

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

- **Licence fees** - In each financial year, Ofgem is required to balance its expenditure with its income. Ofgem is required to raise income from the sector it regulates such that it covers the costs to be incurred by Ofgem in regulating that sector. Therefore, Legislation provides the enforceability on both parties to enable Ofgem to recover its costs from third parties. The performance obligations relate to the underlying work to be undertaken by Ofgem as regulator of the Gas & Electricity Market, and as set out in the published Forward Work Programme. Revenue is recognised in the year the performance obligation (cost) is incurred.
- **Scheme funded recharges** - Under service level agreements/ contracts with the Department of Business, Energy and Industrial Strategy and other government bodies, Ofgem administers energy and environmental schemes on their behalf. These services are provided on a full-cost basis. Income is recognised on an accruals basis as the performance obligations outlined within the service level agreements/ contracts are satisfied over time.
- **Other income** - Other income is accounted for on an accruals basis.



### 1.3 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) and the Civil Servants and Others Pension Scheme (CSOPS). These are described in the Staff Report. Both schemes are non-contributory and unfunded. Departments, agencies and other bodies covered by both schemes 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 schemes. There is a separate scheme statement for the PCSPS and the CSOPS as a whole.

### 1.4 Early departure costs

Ofgem are required to meet the additional cost of benefits beyond the normal PCSPS benefits for employees who retire early. The full cost is provided for when the early retirement programme has been announced and is binding.

### 1.5 Property, plant, equipment and depreciation

Property, plant and equipment are held at depreciated historical cost 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 property, plant and equipment 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 | Five years        |
| IT equipment                             | Three years.      |

The minimum level for the capitalisation of property, plant and equipment is £2,000. IT equipment and furniture, where individual assets may cost less than £2,000, are capitalised on a grouped basis.

### 1.6 Operating leases

Rentals due under operating leases are charged to the statement of comprehensive net expenditure over the lease term on a straight-line basis, or on the basis of actual rentals payable which fairly reflects the usage. This will change in 2022-23, please see note 1.14.

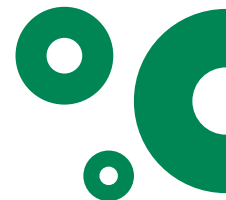
### 1.7 Cash and Cash equivalents

Cash and cash equivalents in the statement of financial position comprises of cash at bank and in hand. For the purpose of the cash flow statement, cash and cash equivalents consist of cash only.

### 1.8 Provisions

Where Ofgem has a legal or constructive obligation to meet certain costs, Ofgem will make a provision based on a management estimate of the value, probability and timing of future payments.

Where the time-value of money is material, the provision is discounted to its present value using the government's standard discount rate (currently a nominal rate of (0.02%) for up to the first five years and 0.18% for greater than five years). Each year the financing charges in the statement of comprehensive net expenditure include the adjustments to amortise one year's discount and restate liabilities to current price levels.



## 1.9 Value added tax

Amounts are shown net of value-added tax (VAT), except:

- irrecoverable VAT is charged to the statement of comprehensive net expenditure and included under the heading relevant to the type of expenditure
- irrecoverable VAT on the purchase of an asset is included in the capitalised purchase cost of the asset.

The amount due from HM Revenue and Customs for VAT is included in receivables within the Statement of Financial Position.

## 1.10 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.

## 1.11 Financial risks

Ofgem has no significant exposure to liquidity, interest rate or currency risks. Because of the nature of its activities and the way in which Ofgem is financed, it is not exposed to the degree of financial risk faced by business entities..

## 1.12 Contingent liabilities

In addition to contingent liabilities disclosed in accordance with IAS 37 (Provisions, Contingent Liabilities and Contingent Assets), certain statutory and non-statutory contingent liabilities are reported for parliamentary reporting and accountability purposes. This occurs where management deem the likelihood of a transfer of economic benefit as remote, but where the liabilities have been reported to parliament in accordance with the requirements of Managing Public Money.

## 1.13 Assets belonging to third parties

Assets belonging to third parties as disclosed in Note 14 (such as money held in relation to the Renewables Obligation and Feed-In Tariff schemes) are not recognised in the Statement of Financial Position since Ofgem have no beneficial interest in them.

## 1.14 Adoption of new and revised accounting standards

### ▪ IFRS 16

IFRS 16 Leases is applicable from 1 April 2022 (delayed from 1 April 2021) for FReM bodies and replaces IAS 17 Leases. IFRS 16 Leases provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less, or the underlying asset meets the IFRS 16 criteria to be classified as of "low value".

IFRS 16 requires that assets and liabilities will be recognised initially at the discounted value of the minimum lease payments, and that the assets, to be described as "right of use" assets, will be presented under Property, Plant and Equipment. Therefore, implementation of IFRS 16 will increase the value of property, plant and equipment assets and the value of lease liabilities.

After initial recognition, right-of-use assets will be amortised on a straight-line basis and interest will be recognised on the liabilities. As a result, the timing of the recognition of the total costs of leasing will change, as interest costs will be higher at the start of a lease.



IFRS 16 will be implemented using the cumulative catch-up method, which means that comparatives for 2021-22 will not be re-stated, and the adjustment to net assets will be made with effect from 1 April 2022. This approach is mandated by HM Treasury. Ofgem's material leases relate to property rentals for office space. The effect of implementation is estimated to be an increase in assets and liabilities of approximately £22 million based on 2020-21 assumptions, interest rates and discount rates.

▪ **IFRS 17**

IFRS 17 Insurance contracts is not likely to be adopted by the public sector until 2023 or later. The impact is not expected to be material for the department.

## **1.15 Accounting Policy on Critical Accounting Judgements and Estimation Uncertainty**

▪ **Provisions**

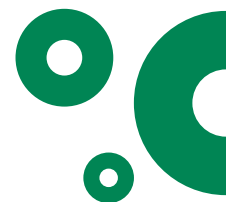
Provisions rely on the application of professional judgement, historical experience and other factors expected to influence future events. Where the likelihood of a liability crystallising is deemed probable and can be measured with reasonable certainty, a provision is recognised. Further information is disclosed in note 11.

▪ **Useful lives of non-current assets**

There is uncertainty in relation to estimated useful lives of non-current assets; these are reviewed as at the reporting date and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence or legal or other limits on their use.

## **1.16 Prior Period Adjustment**

During 2020-21, Ofgem identified that an incorrect amount of VAT had been reclaimed from HMRC in prior years. A provision should have been recognised for the amount owed to HMRC. The 2019-20 financial statements have been restated to recognise this provision (more detail provided in note 11).



## 2. Statement of operating costs by operating segment

| 2020-21                |                                  |                          |                               |               |
|------------------------|----------------------------------|--------------------------|-------------------------------|---------------|
|                        | Regulatory<br>Activities<br>£000 | Ofgem<br>E-Serve<br>£000 | Corporate<br>Services<br>£000 | Total<br>£000 |
| Gross expenditure      | 44,340                           | 29,100                   | 47,673                        | 121,113       |
| Income                 | (44,340)                         | (28,402)                 | (36,377)                      | (109,119)     |
| <b>Net expenditure</b> | <b>-</b>                         | <b>698</b>               | <b>11,296</b>                 | <b>11,994</b> |

| 2019-20 Restated       |                                  |                          |                               |               |
|------------------------|----------------------------------|--------------------------|-------------------------------|---------------|
|                        | Regulatory<br>Activities<br>£000 | Ofgem<br>E-Serve<br>£000 | Corporate<br>Services<br>£000 | Total<br>£000 |
| Gross expenditure      | 36,117                           | 24,443                   | 39,703                        | 100,263       |
| Income                 | (36,117)                         | (23,795)                 | (39,233)                      | (99,145)      |
| <b>Net expenditure</b> | <b>-</b>                         | <b>648</b>               | <b>470</b>                    | <b>1,118</b>  |

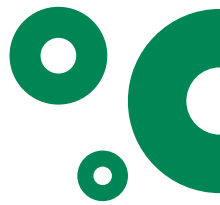
Segmental reporting is undertaken on an activity basis, in line with monthly reporting to decision makers within the organisation.

### 3. Expenditure

|                                       |      | 2020-21        | 2019-20<br>Restated |
|---------------------------------------|------|----------------|---------------------|
|                                       | Note | £000           | £000                |
| <b>Staff costs:*</b>                  |      |                |                     |
| Wages and Salaries                    |      | 57,516         | 48,233              |
| Social Security Costs                 |      | 5,630          | 4,901               |
| Other Pension Costs                   |      | 12,911         | 11,023              |
| Other Staff Costs                     |      | 257            | 610                 |
| Apprenticeship levy                   |      | 234            | 199                 |
|                                       |      | <b>76,548</b>  | <b>64,966</b>       |
| <b>Rental under operating leases:</b> |      |                |                     |
| Operating leases (land and buildings) | 6    | 2,792          | 3,479               |
|                                       |      | <b>2,792</b>   | <b>3,479</b>        |
| <b>Non-cash items:</b>                |      |                |                     |
| Auditors' remuneration and expenses** |      | 100            | 100                 |
| Depreciation                          | 5    | 1,416          | 973                 |
| Impairment                            | 5    |                | 515                 |
| Holiday pay adjustment                |      | 1,310          |                     |
|                                       |      | <b>2,826</b>   | <b>1,588</b>        |
| <b>Other expenditure:</b>             |      |                |                     |
| Consultancy                           |      | 18,689         | 15,829              |
| Accommodation costs                   |      | 2,594          | 1,945               |
| Recruitment and training              |      | 1,132          | 1,350               |
| Travel and subsistence                |      | 31             | 984                 |
| Office supplies and equipment         |      | 4,831          | 4,648               |
| Professional Services                 |      | 929            | 1,352               |
| Staff related costs                   |      | 254            | 366                 |
| Other expenditure                     |      | 484            | 670                 |
|                                       |      | <b>28,944</b>  | <b>27,144</b>       |
| <b>Provisions:</b>                    |      |                |                     |
| Movement in provision                 | 11   | 10,003         | 3,086               |
| <b>Total</b>                          |      | <b>121,113</b> | <b>100,263</b>      |

\* Further analysis of staff costs is located in the Staff Report on page 54

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



#### 4. Operating income analysis

|              | 2020-21<br>£000 |                |                 | 2019-20 Restated<br>£000 |                |                |
|--------------|-----------------|----------------|-----------------|--------------------------|----------------|----------------|
|              | Income          | Full costs     | Deficit         | Income                   | Full costs     | Deficit        |
| Licence fees | 77,301          | 77,301         | -               | 72,194                   | 72,194         | -              |
| Other        | 31,818          | 43,812         | (11,994)        | 26,951                   | 28,069         | (1,118)        |
| <b>Total</b> | <b>109,119</b>  | <b>121,113</b> | <b>(11,994)</b> | <b>99,145</b>            | <b>100,263</b> | <b>(1,118)</b> |

|   | Note | 2020-21       | 2019-20          |
|---|------|---------------|------------------|
|   |      | £000          | Restated<br>£000 |
| <b>Other income includes:</b>   |      |               |                  |
| Offshore Transmission Tender Recharge   |      | 2,638         | 2,629            |
| Department for Business, Energy and Industrial Strategy<br>(relating to environmental programmes and staff transfers) | 13   | 24,269        | 16,806           |
| Scheme-funded recharges   |      | 4,045         | 6,105            |
| Other departments   |      |               | 180              |
| Miscellaneous*  |      | 866           | 1,231            |
|   |      | <b>31,818</b> | <b>26,951</b>    |

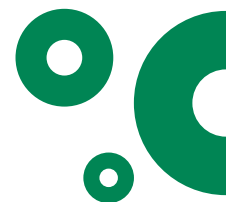
\* Miscellaneous income includes licence application fees, and other minor items.



## 5. Property, plant and equipment

|   | Furniture  | Office equipment | IT           | Leasehold    | Total        |
|---|------------|------------------|--------------|--------------|--------------|
|   | £000       | £000             | £000         | £000         | £000         |
| <b>Cost or valuation</b>                |            |                  |              |              |              |
| At 1 April 2020                         | 229        | 121              | 1,382        | 6,038        | 7,770        |
| Additions                               | -          | 322              | 1,811        | 66           | 2,199        |
| Disposals                               | -          | -                | -            | -            | -            |
| Impairments                             | -          | -                | -            | -            | -            |
| <b>At 31 March 2021</b>                 | <b>229</b> | <b>443</b>       | <b>3,193</b> | <b>6,104</b> | <b>9,969</b> |
| <b>Depreciation</b>                     |            |                  |              |              |              |
| At 1 April 2020                         | 114        | 8                | 827          | 5,319        | 6,268        |
| Charged in year                         | 66         | 42               | 877          | 431          | 1,416        |
| Disposals                               | -          | -                | -            | -            | -            |
| Impairments                             | -          | -                | -            | -            | -            |
| <b>At 31 March 2021</b>                 | <b>180</b> | <b>50</b>        | <b>1,704</b> | <b>5,750</b> | <b>7,684</b> |
| <b>Carrying amount at 31 March 2021</b> | <b>49</b>  | <b>393</b>       | <b>1,489</b> | <b>354</b>   | <b>2,285</b> |
| Carrying amount at 31 March 2020        | 116        | 113              | 555          | 718          | 1,502        |

|   | Furniture  | Office equipment | IT           | Leasehold    | Total        |
|---|------------|------------------|--------------|--------------|--------------|
|   | £000       | £000             | £000         | £000         | £000         |
| <b>Cost or valuation</b>                |            |                  |              |              |              |
| At 1 April 2019                         | 332        | 1,999            | 7,162        | 7,533        | 17,026       |
| Additions                               | 47         | 121              | 109          | 41           | 318          |
| Impairments                             | (150)      | (1,999)          | (5,889)      | (1,536)      | (9,574)      |
| <b>At 31 March 2020</b>                 | <b>229</b> | <b>121</b>       | <b>1,382</b> | <b>6,038</b> | <b>7,770</b> |
| <b>Depreciation</b>                     |            |                  |              |              |              |
| At 1 April 2019                         | 211        | 1,997            | 6,022        | 6,119        | 14,349       |
| Charged in year                         | 52         | 73               | 632          | 216          | 973          |
| Disposals                               | (150)      | (2,062)          | (5,827)      | (1,530)      | (9,569)      |
| Impairments                             | -          | -                | -            | 515          | 515          |
| <b>At 31 March 2020</b>                 | <b>113</b> | <b>8</b>         | <b>827</b>   | <b>5,320</b> | <b>6,268</b> |
| <b>Carrying amount at 31 March 2020</b> | <b>116</b> | <b>113</b>       | <b>555</b>   | <b>718</b>   | <b>1,502</b> |
| Carrying amount at 31 March 2019        | 121        | 2                | 1,140        | 1,414        | 2,677        |



## 6. Operating leases

£2.8m (2019-20: £3.5m) was included as an expense on operating leases in the Statement of Comprehensive Net Expenditure. Total future minimum lease payments under operating leases are given in the table below for each of the following periods.

|  | 2020-21       | 2019-20       |
|--|---------------|---------------|
|  | £000          | £000          |
| <b>Obligation under operating leases comprise:</b> |               |               |
| Buildings:   |               |               |
| Not later than one year                            | 2,218         | 2,194         |
| Later than one year and not later than five years  | 8,222         | 8,095         |
| Later than five years                              | 14,014        | 16,292        |
|  | <b>24,454</b> | <b>26,581</b> |

London office space is contracted up to June 2032.

Glasgow office space is leased until 2026-27 with annual breaks from 2021-22.

Cardiff is contracted until March 2026 with an option to extend to 2045.

## 7. Financial instruments

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

## 8. Cash and cash equivalents

|  | 2020-21      | 2019-20       |
|--|--------------|---------------|
|  | £000         | £000          |
| Balance at 1 April                               | 12,269       | 9,036         |
| Net change in cash balances:                     | (8,665)      | 3,233         |
| <b>Balance at 31 March</b>                       | <b>3,604</b> | <b>12,269</b> |
| The following balances at 31 March were held at: |              |               |
| Government Banking Service                       | 3,604        | 1,996         |
| Commercial banks and cash in hand                | -            | 10,273        |
| <b>Balance at 31 March</b>                       | <b>3,604</b> | <b>12,269</b> |

In addition to the cash and cash equivalents disclosed above, Ofgem holds third party assets of cash and letters of credit relating to offshore tender developer securities, the Renewables Obligation, the Feed-in Tariffs funds and Renewable Heat Incentive schemes. These are described in note 14.



## 9. Trade receivables and other current assets

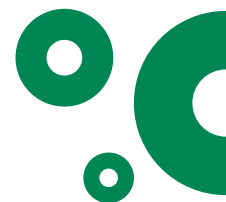
|   | 2020-21       | 2019-20      |
|---|---------------|--------------|
| <b>Amounts falling due within one year:</b> | <b>£000</b>   | <b>£000</b>  |
| Accrued income                              | 12,987        | 5,787        |
| Trade receivables                           | 793           | 564          |
| Prepayments                                 | 1,309         | 639          |
| VAT   | 468           | 660          |
| Other receivables                           | 18            | 52           |
| <b>Balance at 31 March</b>                  | <b>15,575</b> | <b>7,702</b> |

Other receivables represent staff loans outstanding, such as season ticket loans and through the cycle to work scheme.

## 10. Trade payables and other current liabilities

|  | 2020-21       | 2019-20       |
|--|---------------|---------------|
| <b>Amounts falling due within one year:</b>                                    | <b>£000</b>   | <b>£000</b>   |
| Amounts issued from the Consolidated Fund for supply but not spent at year end | 3,604         | 3,523         |
| Excess cash payable to the consolidated fund                                   |               | 8,746         |
| Deferred licence fees  | 745           | 3,955         |
| Accruals   | 5,502         | 6,290         |
| Other deferred income  | 5,477         | 555           |
| Other payables   | 3,108         | 1,799         |
| Taxation and social security   | 2,952         | 2,497         |
| Trade payables   | 1,749         | 925           |
| <b>Balance at 31 March</b>   | <b>23,137</b> | <b>28,290</b> |

Ofgem encourages staff to use their full holiday entitlement for each year. However, staff can carry over up to ten days of untaken leave into the next year. Amounts untaken as at 31 March are accrued within "other payables".



## 11. Provisions for liabilities and charges

### Prior period adjustment: Restatement of Statement of Financial Position and Statement of Comprehensive Net Expenditure

In preparing the 2020-21 annual report and accounts, a historic overclaim of VAT was identified. Ofgem has restated the 2019-20 financial statements to retrospectively include a provision of £2.388m for overclaimed VAT.

The effect of the restatement on the 2019-20 Statement of Comprehensive Net Expenditure is to increase "Other Operating Expenditure" by £0.47 million and increases "Provisions" within "Non-current Liabilities" by the same amount. The Non-current Liabilities at 1 April 2019 increase by £1.918 million.

Extracts from the statement of comprehensive net expenditure and statement of financial position.

|   | 2019-20<br>(as previously<br>reported) | Adjustment | 2019-20<br>(restated) |
|---|--|------------|-----------------------|
|   | £000                                   | £000       | £000                  |
| <b>Operating Income</b>                             | <b>(99,145)</b>                        | -          | <b>(99,145)</b>       |
| Staff costs   | 64,966                                 | -          | 64,966                |
| Other operating expenditure                         | 34,827                                 | 470        | 35,297                |
| <b>Total operating expenditure</b>                  | <b>99,793</b>                          | <b>470</b> | <b>100,263</b>        |
| <b>Net operating expenditure<br/>for the period</b> | <b>648</b>                             | <b>470</b> | <b>1,118</b>          |

|  | 2019-20<br>(as previously<br>reported) | Adjustment     | 2019-20<br>(restated) | As at<br>1 April 2019<br>(as previously<br>reported) | Adjustment     | As at<br>1 April 2019<br>(restated) |
|--|--|----------------|-----------------------|--|----------------|-------------------------------------|
|  | £000                                   | £000           | £000                  | £000   | £000           | £000                                |
| Extract from the statement of financial position |  |                |                       |  |                |                                     |
| <b>Current liabilities:</b>                      |  |                |                       |  |                |                                     |
| Trade and other payables                         | (28,290)                               | -              | (28,290)              | (18,382)   | -              | (18,382)                            |
| Provisions                                       | (1,131)                                | -              | (1,131)               | (570)  | -              | (570)                               |
| <b>Total current liabilities</b>                 | <b>(29,421)</b>                        | -              | <b>(29,421)</b>       | <b>(18,952)</b>                                      | -              | <b>(18,952)</b>                     |
| <b>Total assets less<br/>current liabilities</b> | <b>(7,948)</b>                         | -              | <b>(7,948)</b>        | <b>(50)</b>  | -              | <b>(50)</b>                         |
| <b>Non-current liabilities:</b>                  |  |                |                       |  |                |                                     |
| Provisions                                       | (2,853)                                | (2,388)        | (5,241)               | (1,336)  | (1,918)        | (3,254)                             |
| <b>Total non-current<br/>liabilities</b>         | <b>(2,853)</b>                         | <b>(2,388)</b> | <b>(5,241)</b>        | <b>(1,336)</b>                                       | <b>(1,918)</b> | <b>(3,254)</b>                      |
| <b>Total assets less total<br/>liabilities</b>   | <b>(10,801)</b>                        | <b>(2,388)</b> | <b>(13,189)</b>       | <b>(1,386)</b>                                       | <b>(1,918)</b> | <b>(3,304)</b>                      |
| <b>General fund</b>                              | <b>(10,801)</b>                        | <b>(2,388)</b> | <b>(13,189)</b>       | <b>(1,386)</b>                                       | <b>(1,918)</b> | <b>(3,304)</b>                      |

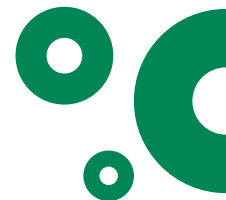


|                                      | Early retirement | Voluntary exit | Pension liabilities | Dilapidations | Legal         | VAT          | Other        | Total         |
|--------------------------------------|------------------|----------------|---------------------|---------------|---------------|--------------|--------------|---------------|
|                                      | £000             | £000           | £000                | £000          | £000          | £000         | £000         | £000          |
| Balance at 1 April 2020 (restated)   | 131              | -              | 838                 | 1,899         | -             | 2,388        | 1,116        | 6,372         |
| Provided in the year                 | -                | 400            | -                   | 285           | 10,064        | 133          | 1,298        | 12,180        |
| Provisions not required written back | -                | -              | (838)               | -             | -             | -            | (435)        | (1,273)       |
| Provisions utilised in the year      | (18)             | -              | -                   | -             | -             | -            | (672)        | (690)         |
| Changes in discount rate             | 17               | -              | -                   | -             | -             | -            | -            | 17            |
| <b>Balance at 31 March 2021</b>      | <b>130</b>       | <b>400</b>     | <b>-</b>            | <b>2,184</b>  | <b>10,064</b> | <b>2,521</b> | <b>1,307</b> | <b>16,606</b> |

|  | Early retirement | Voluntary exit | Pension liabilities | Dilapidations | Legal    | VAT          | Other        | Total        |
|--|------------------|----------------|---------------------|---------------|----------|--------------|--------------|--------------|
|  | £000             | £000           | £000                | £000          | £000     | £000         | £000         | £000         |
| Balance at 1 April 2019                    | 147              | 522            | 838                 | 368           | -        | 1,918        | 32           | 3,825        |
| Provided in the year                       | -                | 6              | -                   | 1,531         | -        | 470          | 1,116        | 3,123        |
| Provisions not required written back       | -                | -              | -                   | -             | -        | -            | (32)         | (32)         |
| Provisions utilised in the year            | (16)             | (528)          | -                   | -             | -        | -            | -            | (544)        |
| <b>Balance at 31 March 2020 (restated)</b> | <b>131</b>       | <b>-</b>       | <b>838</b>          | <b>1,899</b>  | <b>-</b> | <b>2,388</b> | <b>1,116</b> | <b>6,372</b> |

#### Analysis of expected timings of discounted flows

|   |            |            |          |              |               |              |              |               |
|---|------------|------------|----------|--------------|---------------|--------------|--------------|---------------|
| Not later than one year                           | 16         | 400        |          |              | 10,064        | 2,521        | 1,307        | 14,308        |
| Later than one year and not later than five years | 62         |            |          | 2,184        |               |              |              | 2,246         |
| Later than five years                             | 52         |            |          |              |               |              |              | 52            |
| <b>Balance at 31 March 2021</b>                   | <b>130</b> | <b>400</b> | <b>-</b> | <b>2,184</b> | <b>10,064</b> | <b>2,521</b> | <b>1,307</b> | <b>16,606</b> |



### **Early retirement**

The department meets the additional costs of benefits beyond the normal PCSPS benefits for employees, who worked in Leicester office of Ofgem, by paying the required amounts monthly to the PCSPS.

### **Voluntary exit**

Severance provisions relate to voluntary exits which have been discussed with the impacted member of staff prior to 31 March 2021 but are not expected to happen until 2021-22.

### **Pension liabilities**

The pension provision related to unfunded pension liabilities for a previous chief executive and director general. During 2020-21, it was confirmed that this potential liability is no longer required and the provision could be released in full.

### **Dilapidations**

Dilapidations provisions are an anticipation of the future cost to return the department's leased properties to their condition as at the commencement of the lease.

### **Legal**

A number of our RII0-2 price control decisions for the gas distribution and transmission sectors are currently subject to appeal before the CMA. The CMA granted the appellants permission to appeal on 31 March 2021, and they are due to conclude in October 2021. The CMA will make an order for the recovery of its costs and may make an order in respect of party costs as part of this process – an unsuccessful party may be ordered to pay the efficient or reasonably incurred costs of the winning party, and be ordered to pay some or all of the CMA's costs.

It is too early in the process to predict with any certainty what the outcome of the appeals might be and whether Ofgem might be liable for any appellant or CMA costs. The provision value of £10.064 million has been estimated using historic data from similar, but not directly comparable, price control cases and represents a point in a broad range so there is material uncertainty around this estimate.

### **VAT**

VAT provisions are an anticipation of the future cost to repay to HMRC possible over recovery of VAT on Consultancy costs.

### **Other provisions**

Other provisions relate to the probable future cost to Ofgem of a claim from a supplier, potential historic property costs relating to the lease for the 10SC office which have not yet been agreed with Government Property Agency, and some minor costs relating to the 2019-20 senior management restructure. There is also a provision for probable costs related to a historic shortfall in pension contributions for some members of staff and former staff.



## 12. Contingent liabilities disclosed under IAS 37

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

## 13. Related party transactions

During the year, we transferred £10.498 million to the Department for Business, Energy and Industrial Strategy (BEIS). £9.489 million of this was for advocacy services. The remaining £1.009 million was transferred for metrology services.

We administer environmental programmes on behalf of the BEIS, and second staff to BEIS. Total income from BEIS recognised in year amounted to £24.269 million, of which £7.921 million was outstanding at 31 March 2021 (£16.806 million income in 2019-20 with £4.492 million outstanding at 31 March 2020).

We administer the Northern Ireland Renewable Heat Incentive on behalf of the Department for the Economy (DfE), and administer the Northern Ireland Renewables Obligation on behalf of the Northern Ireland Authority for Utility Regulation (NIAUR). Costs of £1.460 million and income of £0.447 million was recognised from the NIAUR, and £1.811 million of income from DfE.

In addition, we have 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 except for remuneration which is included on page 47.

## 14. Third-party assets

### Offshore Tender Developer Securities

Along with the government, we have established the competitive offshore transmission regulatory regime to appoint an Offshore Transmission owner through competitive tendering.

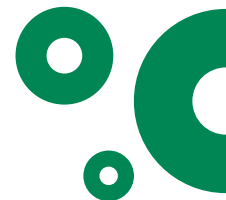
We are responsible for managing the competitive tender process through which offshore transmission licences are granted.

Granting licences to operate new offshore transmission assets via a competitive tender process means that generators are partnered with the most efficient and competitive players in the market. This should result in lower costs and higher standards of service for generators and, ultimately, consumers.

Part of Ofgem's risk management strategy for the competitive tender process is to hold securities for the purposes of recovering costs in the event of an incomplete tender process. These securities are in the form of a letter of credit or cash. At 31 March 2021 Ofgem held £8.85m in letters of credit (31 March 2020: £9.05m)

### Renewables Obligation

The Renewables Obligation is one of the main support mechanisms for large-scale renewable electricity projects in the UK, and the scheme is administered by Ofgem. The scheme closed to applicants in 2017. More about the Renewables Obligation can be found at <https://www.ofgem.gov.uk/environmental-programmes/ro>



Several bank accounts are used to administer the scheme:

- Buyout funds – Suppliers can meet their renewables obligation by paying into the buyout fund. The proceeds of the buy-out fund are paid back pro-rata to those suppliers who discharged their obligation in full.
- Late payments – Any payments received after 31 August will be late payments. These are subject to an annualised daily interest penalty (5% + Bank of England base rate).
- Mutualisation – Where there is an overall shortfall in the obligation amount, suppliers are required to make payment towards mutualisation. The mutualisation funds are redistributed to suppliers who discharged their obligation in full.

Total cash held in these bank accounts as at 31 March 2021 was £25.43m (31 March 2020: £54.18m)

### **Feed-in Tariff levelisation funds**

The Feed-in Tariff (FIT) scheme is a government programme introduced on 1 April 2010 designed to promote the uptake of small-scale renewable and low-carbon electricity generation technologies.

Ofgem administers the scheme on behalf of the Department for Business, Energy and Industrial Strategy (BEIS), who is responsible for the FIT scheme policy and legislation, while Licensed Electricity Suppliers (FIT Licensees) operate the front-facing aspect of the scheme. If a householder, community or business has an eligible installation, they are paid a tariff for the electricity they generate and a tariff for the electricity they export back to the grid by their FIT Licensee.

The levelisation process operated by Ofgem redistributes the cost of the scheme amongst all Licensed Electricity Suppliers, based on their share of the GB Electricity Market and any FIT Payments they have made to accredited installations. This is a quarterly process, with an annual reconciliation process that is completed by September each year. The balance in the levelisation fund is typically a small value at the end of each financial year.

The amount held in the levelisation funds as at 31 March 2021 was £0.85m (31 March 2020: £2.33m).

### **Domestic and non-domestic renewable heat incentive (RHI)**

The Domestic RHI is a government financial incentive to encourage a switch to renewable heating systems. It's a way to help the UK reduce carbon emissions and is for households both off and on the gas grid.

The Non-Domestic RHI is a government environmental programme that provides financial incentives to increase the uptake of renewable heat by businesses, the public sector and non-profit organisations.

Ofgem administers both schemes on behalf of BEIS in Great Britain, and administers Non-Domestic RHI in Northern Ireland on behalf of DfE. Bank balances held in relation to the schemes at 31 March 2021 were: Domestic RHI: £4.919m; Non-domestic RHI Great Britain: £3.077m; Non-domestic RHI Northern Ireland: £0.168m (31 March 2020: £4.118m; £19.448m; £0.014m).

## **15. Events after the reporting period**

The Accounting Officer duly authorised the issue of these financial statements on the date of the Comptroller and Auditor General's audit certificate. The financial statements do not reflect events after this date.

