Presented pursuant to Act 2000 c20. s.6

Office of Gas and Electricity Markets

Resource Accounts 2003-04

LONDON: The Stationery Office
HC 896

15 July 2004
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(For the year ended 31 March 2004)

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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 2003 to 31 March 2004. It should be read in conjunction with the Ofgem Annual Report for 2003-2004, 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.

A new Energy Bill to promote 'cleaner, greener power' and competitive and reliable energy supplies was announced in the Queen's Speech on 26 November 2003 and was introduced in the House of Lords on 27 November 2003. The Bill is currently proceeding through Parliament.

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. The following priority headings were identified in the Plan and Budget for 2003-2004:

- Making competitive markets work successfully
- Regulating monopoly businesses effectively
- Securing Britain's gas and electricity supplies
- Helping tackle fuel poverty, and
- Working towards a low carbon economy

Operating and Financial Review

Income Generation

In 2003-2004 cash of £52.1m was received in respect of licence fees and other income mainly from property rental income. Of this, £12.4m was transferred to DTI in respect of the costs of energywatch. Ofgem had an operating income of £36.7m as follows:

Cash receipts:	
licence fees	£45.0m
deferred licence fees	£1.1m
property and other receipts	£5.1m
fixed assets sold	£0.9m
	£52.1m
Less:	
cash transferred to DTI for energywatch	£12.4m
opening debtors	£5.0m
closing deferred licence fees	£2.1m
Add:	
closing debtors	£4.1m
Operating Income	£36.7m

In addition to operating income of £36.7m, public funds were provided to meet the cost of work undertaken in respect of the Climate Change Levy (£0.68m).

An amount of £2.1m was over-recovered from licence fee payers and this will be offset against future licence fee charges.

Spending

Total operating costs amounted to £37.3m. Three areas of expenditure absorbed 85 per cent of the total, staff costs (44 per cent), contractors (23 per cent) and accommodation (18 per cent).

Capital expenditure in the year totalled £0.5m in respect of furniture, office and computer equipment.

Output

Ofgem's financial performance in pursuit of its objectives is detailed in Schedule 5 – Resources by Departmental Aim and Objectives. Expenditure, including indirect costs, against the main projects identified in Ofgem's Plan and Budget 2003-2004 was as follows:

Project	**Corporate Plan (£000)**	**Actual (£000)**
British Electricity Trading and Transmission Arrangements (BETTA)	4,880	4,660
Electricity Trading Arrangements	2,950	3,370
Gas Trading Arrangements	2,760	2,940
Distribution Price Control Review	2,670	3,350
Quality of Service	1,780	1,870
Renewables	1,000	880

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

- External Legal spend. External legal spend was below budget in the case of BETTA. On the other hand there was additional spend in Gas Trading Arrangements relating to the Distribution Network Sales work, and Electricity Trading Arrangements which included the judicial review costs of the introduction of cost-reflective charging for transmission losses.
- Project Timing. Work on the Distribution Price Control progressed ahead of schedule. However legislative changes resulted in delays to work on the Guarantees of Origin for Renewables (REGO's) system which accounted for the slight underspend on Renewables.

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 2003-2004 Parliament approved a resource budget of £40.152m and a capital budget of £1.0m. In addition, DTI directed that a sum of £12.4m should be collected on behalf of energywatch; this amount was transferred to DTI, in full.

Financial penalties of £200,000 each were imposed on three companies, British Gas Trading, npower and Scottish Power for incorrectly objecting to the transfer of customers to other suppliers. Penalties of £400,000 received in 2003-04 were paid over to the Exchequer.

In April 2003, £10.0m was drawn from the Contingency Fund to provide short term liquidity until first receipt of licence fees. This was fully repaid in September 2003.

An amount of £0.6m due to be surrendered to the Exchequer will be retained to fund operations in 2004-2005 until adequate licence fee income is received.

Finance and Provisions

Substantial provision was made for liabilities arising from the merger of the Office of Electricity Regulation (OFFER) and Office of Gas Supply (Ofgas) in June 1999. They relate to staff severance and onerous costs of a building lease. Fixed assets are kept to optimal levels and capital expenditure will sustain future Ofgem operations at Corporate Plan levels.

The balance sheet at 31 March 2004 shows negative Taxpayer's Equity of £9.4m. 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.

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 £0.525m. A contingent liability for costs that might have arisen up to 31 January 2004 did not materialise – under the terms of the transfer contract Ofgem has no continuing liability after this date. A review of the contract's first year identified that there had been a seamless transition with improved efficiency. Outsourcing has also allowed sale of assets and this process culminated in the sale of the second and final Leicester site for £0.875m in January 2004.

Post Balance Sheet Events

On 2 July 2004 Ofgem surrendered its lease of Hagley House, floors 10-16, for a cash consideration of £5.4m. This has resulted in a reduction of 1.3m in the existing provision which has been written back to the Operating Cost Statement. Further detail is provided in note 16 to the financial statements.

Business Focus For The Future

Ofgem will continue to protect consumers' interests, wherever appropriate by promoting effective competition. In particular, Ofgem has seven themes that represent our priorities for the coming three years:

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

In December 2003, a resource review was announced. The review, led by the Chief Executive, Alistair Buchanan, and Chief Operating Officer, Roy Field, focused on matching resource allocation and organisational structure to the new corporate plan themes. The conclusions of the review were announced in February 2004 and resulted in a new corporate structure, based on five Divisions: Networks; Markets; Corporate Affairs; Corporate Strategy; and Operations. The Senior Management Team replaced the Management Committee.

A new five year cost control regime was also announced, with an undertaking to subject Ofgem expenditure to an RPI-X cost control regime from April 2005. The process will be independently overseen by the Audit Committee chaired by Sir Keith Stuart, in association with Chiene and Tait, providers of Ofgem's internal audit service.

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.

The previous Chairman and Chief Executive (Callum McCarthy) had long made known his intention to step down from October 2003 at the end of his five year term. The statement made on 19 December 2002 by the then Minister for Energy and Construction (Brian Wilson MP) said that thereafter the two roles of Chairman and Chief Executive would be separated. The Department of Trade and Industry announced on 12 May 2003 that Sir John Mogg would take over as Chairman following Callum McCarthy's departure. On 11 August 2003 it was announced that Alistair Buchanan was to be the new Chief Executive.

The Authority announced revised Rules of Procedure on 28 November 2003, reflecting the separation of the functions of the Chairman and the Chief Executive. They also allow 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 will consider enforcement action in relation to licence breaches, and the second will consider compliance with the Competition Act 1998. The Enforcement Committees will be made up only of Authority members, with a majority of non-executive members and a non-executive chairman.

Basis of appointment and remuneration

The new Chairman of the Authority, Sir John Mogg, was appointed following open competition by the Secretary of State for Trade and Industry (Patricia Hewitt) for a period of five years as a non-executive Chairman and he took up his post on 1 October 2003. 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.

The new Chief Executive, Alistair Buchanan, was appointed as an executive member of the Authority and he took up his post 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-executives are appointed by the Secretary of State for Trade and Industry after consulting the Chairman. Until December 2003 non-executives were remunerated by payment of an honorarium of £15,000 per annum for two to three days per month. From January 2004 this was revised to £20,000 per annum for three to four days per month.

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

Senior Management Team

The Senior Management Team (formally known as the Management Committee prior to the Resource Review) 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.

Two members of the Committee, Richard Ramsay and Callum McCarthy, left Ofgem during the year. Richard Ramsay left at the beginning of May 2003 and was succeeded by David Gray. Callum McCarthy left at the end of September 2003, and the role of Chief Executive was filled by Alistair Buchanan. Following the outcome of the Resource Review, an additional member, Steve Smith, joined from 23 February 2004.

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 December 2003 the non-executive members, John Belcher and Robin Bidwell were appointed to the Audit Committee for one year replacing Margaret Ford and Richard Farrant at the end of their current terms. James Strachan 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. Following the Resource Review, the Committee will also oversee Ofgem's new RPI-X price control regime. The Committee meets at least three times a year.

Executive Members of the Authority who served during the year

Callum McCarthy, was appointed Chairman in November 2000. He left at the end of September 2003.

Alistair Buchanan, was appointed Chief Executive in October 2003.

Richard Ramsay, was appointed Managing Director Regulation & Financial Affairs in March 2001. His appointment ceased on 9 May 2003.

David Gray, was appointed Managing Director Networks, formerly Regulation & Financial Affairs prior to the Resource Review, in May 2003.

Dr Boaz Moselle, was appointed Managing Director Corporate Strategy, formerly Competition & Trading Arrangements prior to the Resource Review, in March 2003.

John Neilson, was appointed Managing Director Corporate Affairs, formerly Customers & Supply prior to the Resource Review, in May 2000.

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

Non-Executive Members of the Authority

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. His current appointment ends in January 2005.

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

Richard Farrant joined the Authority as a non-executive member in December 2000. He left the Authority on 4 December 2003.

Margaret Ford joined the Authority as a non-executive member in December 2000. She resigned due to other commitments on 31 December 2003.

James Strachan joined the Authority as a non-executive member in December 2000. His current appointment ends in December 2004.

Sir Keith Stuart joined the Authority as a non-executive member in December 2000. His current appointment ends in December 2004.

Professor Leonard Waverman joined the Authority as a non-executive member in May 2002. His current appointment ends in May 2005.

Following the departure of two non-executives during the year, the Secretary of State for Trade and Industry appointed four new non-executive members. Miriam Greenwood, Jayne Scott and John Wybrew took up their appointments in June 2004 while the fourth, Judith Hanratty, will take up her appointment in January 2005.

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.

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 44 per cent of all staff were female
- 33 per cent of senior civil service members in Ofgem were women
- 37 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 12 per cent.

The policy statements describing Ofgem's equal opportunity framework are 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 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: £581k was spent on training during 2003-2004.

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, of receipt of goods or services or valid invoice, whichever is the later. During 2003-2004 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 £48,000. There was no auditor remuneration (actual or notional) for non-audit work.

In addition, the National Audit Office (NAO) are currently finalising a report on Ofgem's work in relation to households in fuel poverty. The report will concentrate on how Ofgem's Social Action team has encouraged the vulnerable groups to take advantage of competition and how groups that have not chosen to take advantage of competition have been helped. The NAO will also look at Ofgem's management of the energy efficiency programmes. The report will discuss whether lessons have been learnt from earlier programmes and the impact which these programmes have had on the delivery of energy efficiency measures to consumers.

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 tendering process.

Alistair Buchanan
Accounting Officer

9 July 2004

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 2004 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 new 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.

As part of the strategy launch, new risk management procedures were presented to team meetings. Existing project management training courses were also updated to reflect the new strategy. 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;
- Consistent 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 which is reported to the Planning and Information team quarterly (a bottom-up approach);
- Risks are assessed and given a risk rating using a combination of its likelihood and impact;
- Planning and Information 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. These will be reported quarterly to Senior Management Team;
- 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, should be 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 fifteen recommendations made by internal audit eleven have been fully implemented and four have been partially implemented by 31 March 2004.

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

- A risk management strategy was published in October 2003, as detailed in section four above;
- Revised Internal Control statements require all Directors to consider and report on all aspects of risk management and control in their own area;
- The highest rated risks are reviewed by Senior Management Team and Directors six monthly. The Authority identify and review top risks annually;
- Ofgem's fraud prevention strategy for the Renewables Obligation and the Climate Change Levy has been updated and 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. On 1 October 2003, revised Rules of Procedure came into force which reflect the separation of the functions of the Chairman and the Chief Executive;

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 Manual 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 2004 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. Although a new corporate structure was announced in February 2004 following a detailed Resource Review, the system of internal control remained unaffected.

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 the Dear Accounting Officer letter DAO (GEN) 09/03.

Alistair Buchanan 9 July 2004
Accounting Officer

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 17 to 45 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 23 to 26.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 11, 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 12-14 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 of which I am aware 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 2004 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 14 July 2004
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

SCHEDULE 1

Summary of Resource Outturn *(£000s)*

	2003-2004 Estimate			2003-2004 Outturn				2002-03
	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, 29)	51,872	(51,870)	2	49,044	(49,042)	2	-	1
Request for resources 2 Expenditure in connection with the Climate Change Levy (Note 9)	680	-	680	680	-	680	-	220
Total resources	52,552	(51,870)	682	49,724	(49,042)	682	-	221
Non-operating cost A in A (Note 6)	-	(950)	(950)	-	(900)	(900)	(50)	(75)
Net cash requirement	-	-	3,814	-	-	1,763	2,051	221

*Request for resources 1 includes an amount of £12,392,000 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))

		2003-2004 Forecast		2003-2004 Outturn	
	Note	**Income**	***Receipts***	**Income**	***Receipts***
Total	5	-	-	400	*621*

Explanation of the variation between Estimate net cash and requirement and outturn (net cash requirement):
(i) The outturn net cash requirement is lower than the Estimate net cash requirement mainly due to lower than expected changes in working capital other than cash.

SCHEDULE 1 (continued)

Reconciliation of resources to cash requirement *(£000s)*

	Note	Estimate	Outturn	Net Total Outturn compared with estimate savings/ (excess)
Net total resources		**682**	**682**	**-**
Capital:				
Acquisition of fixed assets	10,11	1,000	481	519
Investments				
Non-operating A-in-A:				
Proceeds of fixed asset disposals	10	(950)	(900)	(50)
Accruals adjustments:				
Non-cash items	3	(1,061)	(600)	(461)
Changes in working capital other than cash	12	2,686	(834)	3,520
Changes in creditors falling due after more than one year		-	-	-
Use of provision	16	1,457	2,934	(1,477)
Excess cash receipts surrenderable to the Consolidated Fund	15	-	-	-
Net cash requirement (Schedule 4)		**3,814**	**1,763**	**2,051**

SCHEDULE 2

Operating Cost Statement

for the year ended 31 March 2004 (£000s)

	Note	2003-2004		2002-2003 Restated[1]	
Administration costs					
Request for resources 1					
Staff costs	1, 2	16,262		15,961	
Non-staff administration costs	1, 3	20,285		22,181	
			36,547		38,142
Request for resources 2					
Non-staff administration costs	3	680		220	
			680		220
Gross administration costs			**37,227**		**38,362**
Operating income	6		(36,545)		(38,141)
Net administration costs			**682**		**221**
Programme costs					
Request for Resources 1					
Expenditure	4	12,497		13,207	
Less income	4	(12,497)		(13,207)	
Net Programme Cost			-		-
NET OPERATING COST	8		**682**		**221**
NET RESOURCE OUTTURN	8		**682**		**221**

All income and expenditure are derived from continuing operations.

Statement of Recognised Gains and Losses

for the year ended 31 March 2003 (£000s)

	2003-2004	2002-2003
Net operating cost	(682)	(221)
Net loss on revaluation of tangible fixed assets	(10)	(174)
Total recognised losses for the financial year	**(692)**	**(395)**

[1] Comparative amounts are restated to conform to current presentation of seconded and agency staff. Note 2 refers.

SCHEDULE 3

Balance Sheet

as at 31 March 2004 (£000s)

	Note	31 March 2004		31 March 2003	
Fixed assets					
Tangible assets	11	4,679		5,999	
			4,679		**5,999**
Current assets					
Debtors	13	4,137		4,998	
Cash at bank and in hand	14	2,272		1,277	
		6,409		6,275	
Creditors (amounts falling due within one year)	15	(8,170)		(7,423)	
Net current (liabilities)/assets			**(1,761)**		**(1,148)**
Total assets less current liabilities			**2,918**		**4,851**
Provisions for liabilities and charges	16	(12,318)		(15,252)	
			(12,318)		**(15,252)**
			(9,400)		**(10,401)**
Taxpayers equity					
General fund	17		(9,425)		(10,463)
Revaluation reserve	18		25		62
			(9,400)		**(10,401)**

Alistair Buchanan
Accounting Officer

9 July 2004

SCHEDULE 4

Cash Flow Statement

for the year ended 31 March 2004 (£000s)

	Note	2003-2004	2002-2003
Net cash (outflow)/inflow from operating activities (see a below)		(2,182)	1,694
Capital expenditure and financial investment (see b below)		419	11
Payments of amounts due to the Consolidated Fund		(1,277)	(8,398)
Financing (see c below)		4,035	265
Increase/(decrease) in cash in the period		995	(6,428)

Reconciliation of operating cost to operating cash flows

	Note	2003-2004	2002-2003
Net operating cost		682	221
Adjust for non-cash transactions	3	(600)	(252)
Adjust for movements in working capital other than cash	12	(834)	(385)
Use of provisions	16	2,934	(1,278)
Net cash outflow(inflow) from operating activities (a)		**2,182**	**(1,694)**
Analysis of capital expenditure and financial investment			
Tangible fixed asset additions	11	481	707
Proceeds of disposal of fixed assets	10	(900)	(618)
Repayment of deposits		-	(100)
Net cash (inflow)/outflow from investing activities (b)		**(419)**	**(11)**
Analysis of financing and reconciliation to net cash requirement			
From the Consolidated Fund (Supply) – current year (1)	17	3,814	
From the Consolidated Fund (Supply) - prior year (2)	15,17	221	265
Advances from the Contingency Fund		10,000	5,000
Repayment to the Contingency Fund		(10,000)	(5,000)
Net financing (c)		**4,035**	**265**
(Increase)/decrease in cash	14	**(995)**	**6,428**
Net cash flows other than financing		**3,040**	**6,693**
Adjustment for payments and receipts not related to Supply:			
Amounts due to the Consolidated Fund received in prior year and paid over	15,17	(1,277)	(8,398)
Amounts due to the Consolidated Fund received and not paid over	14,17	-	1,926
Amounts collected in year(3)		12,792	15,728
Amounts paid over in year(3)		(12,792)	(15,728)
Net Cash Requirement (Schedule 1)		**1,793**	**221**

Notes
(1) Amount of grant actually issued to support the net cash requirement = £3,814,000.00
(2) Amount of grant actually issued to support the prior year net cash requirement = £221,000.00
(3) Amounts paid over relate to energywatch costs (£12,392m) paid to DTI and fines levied (£0.4m)

SCHEDULE 5

Resources by Departmental Aim and Objectives

for the year ended 31 March 2004 (£000s)

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

Objective*	2003-2004			2002-2003		
	Gross	Income	Net total	Restated[1] Gross	Restated[1] Income	Restated[1] Net total
1. Making competitive markets work successfully	21,996	(21,996)	-	22,593	(22,593)	-
2. Regulating monopoly businesses effectively	11,778	(11,778)	-	12,205	(12,205)	-
3. Helping tackle fuel poverty	638	(638)	-	666	(666)	-
4. Working towards a low carbon economy	2,920	(2,238)	682	3,038	(2,817)	221
Net operating cost	**37,332**	**(36,650)**	**682**	**38,502**	**(38,281)**	**221**

*See note 19.**

[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 2003-04 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

Title to freehold land and buildings shown in the accounts was held by the Ministry of Defence (MOD).

Freehold land and buildings are restated at current cost using professional valuations in accordance with Financial Reporting Standard (FRS) 15 every five years and appropriate indices, as published by the Office of National Statistics, in intervening years. Other tangible assets have been stated at current cost using appropriate indices.

Freehold land is not depreciated.

Depreciation is provided at rates calculated to write off the valuation of freehold buildings and other tangible fixed assets by equal instalments over their estimated useful lives, after allowance for residual value. Freehold buildings are now depreciated over 20 to 60 years following an external valuation. Asset lives are within the following ranges:

Freehold buildings	20 to 60 years
Leasehold improvements	Life of the lease
Office equipment, furniture and fittings	5 to 17 years
Specialist laboratory equipment	5 to 10 years
Computers and IT equipment	3 to 5 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 6 per cent for 2002-03 and 3.5 percent for 2003-04, 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.

Notes to the Departmental Resource Accounts (continued)

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.

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 (6 per cent for 2002-03 and 3.5 per cent for 2003-04) 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 provision is included in the accounts.

Notes to the Departmental Resource Accounts (continued)

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.

1.11 Schedules 1 and 5

The information contained in Schedule 1 and associated notes is based on the Request for Resources information that will form part of parliamentary approval processes.

Schedule 5 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 21, “Commitments under leases”, are not discounted.

1.13 Comparative amounts

Comparative amounts are restated where necessary to conform to current presentation. Restated amounts in Schedule 5 (to reflect changes to Ofgem corporate objectives) are fully reflected in the corresponding notes.

1.14 Going concern

The balance sheet at 31 March 2004 shows a negative taxpayers equity of £9.4M. 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 2004-2005 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.

Notes to the Departmental Resource Accounts (continued)

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.

2.1 Staff Costs

Staff costs consist of:

	2003-04	Restated 2002-03
	£000	£000
	Total	Total
Wages and salaries	12,029	11,319
Social security costs	1,047	911
Other pension costs	1,638	1,552
Early retirement and severance costs	226	184
Sub total	**14,940**	**13,966**
Inward secondments	489	142
Total	**15,429**	**14,108**
Less recoveries in respect of outward secondments	(72)	(149)
Provisions:		
Provided in year	905	2,002
Total net costs*	**16,262**	**15,961**

* 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 2003-04, employers' contributions of £1,638,000 were payable to the PCSPS (2002-03 £1,552,000) 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 remain the same next year, subject to revalorisation of the salary bands, but will increase from 2005-06. 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 £14,535 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 £1,307, 0.8 per cent of pensionable pay, were payable to the **PCSPS** to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Contributions due to the **partnership** pension providers at the balance sheet date were nil. Contributions prepaid at that date were nil.

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.

	2003-04 Number					2002-03 Number
Objective	**Senior management**	**Officials**	**Staff on inward secondment**	**Agency temporary and contract staff**	**Total**	**Total**
Making markets work successfully	3	162.9	1.7	20.5	188.1	176
Regulating monopoly businesses effectively	1.8	73.8	2.4	10.4	88.4	101
Helping tackle fuel poverty	0.2	5.6	-	0.4	6.2	7
Working towards a low carbon economy	0.5	23.8	-	1.7	26	28
Total	**5.5**	**266.1**	**4.1**	**33**	**308.7**	**312**

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 were as follows:

2003-04	Column 1	Column 2	Column 3	Column 4	Column 5	Column 6	Column 7	Column 8
Name Position	Salary, including performance pay (£k)	Benefits in kind (rounded to nearest £100)	Real increase in pension and related lump sum at age 60 (£k)	Total accrued pension at age 60 at 31/3/04 and related lump sum (£k)	CETV at 31/3/03 (nearest £k)	CETV at 31/3/04 (nearest £k)	Real increase in CETV after adjustment for inflation and charges in market investment factors (nearest £k)	Employers contribution to partnership pension account including risk benefit cover - to nearest £100
Senior Management								
Alistair Buchanan *Chief Executive from 1 October 2003*	75 – 80	N/A	0 – 2.5	0 - 5	0	8	7	N/A
Callum McCarthy *Chairman to 30 September 2003*	100 – 105	24,100	0 - 2.5 plus 0-2.5 lump sum	5 - 10 plus 15-20 lump sum	91	103	9	N/A
Roy Field *Chief Operating Officer from 1 April 2003*	95 – 100	N/A	7.5 – 10 plus 27.5-30 lump sum	40 - 45 plus 125-130 lump sum	500	676	163	N/A
David Gray *Managing Director from 1 May 2003*	130 – 135	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Dr Boaz Moselle* *Managing Director*	110 – 115	N/A	0 - 2.5	0 - 5	1	16	11	N/A
John Neilson *Managing Director*	115 – 120	N/A	0 - 2.5 plus 5-7.5 lump sum	30 - 35 plus 95-100 lump sum	369	418	36	N/A
Richard Ramsay *Managing Director to 9 May 2003*	15 – 20	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Steve Smith *Managing Director from 23 February 2004*	5 – 10	N/A	0 - 2.5	0 - 5	0	6	4	N/A
Non-executive members of the Authority								
Sir John Mogg *Chairman from 1 October 2003*	55 – 60	5,800	N/A	N/A	N/A	N/A	N/A	N/A

Other non-executive members of the Authority who were remunerated by payment of an honorarium	Honorarium
John Belcher	£16,250
Robin Bidwell	£16,250
Richard Farrant	£10,000
Margaret Ford	£11,250
James Strachan	£16,250
Sir Keith Stuart	£16,250
Leonard Waverman	£16,250

* opted to join premium

2002-03

Name Position	Salary, including performance pay (£k)	Benefits in kind (rounded to nearest £100)
Senior Management		
Callum McCarthy *Chairman*	170 - 175	19,800
Dr Eileen Marshall *Managing Director to 31 March 2003*	140 - 145	N/A
Dr Boaz Moselle *Managing Director from 10 March 2003*	5 - 10	N/A
John Neilson *Managing Director*	105 - 110	N/A
Richard Ramsay *Managing Director*	155 - 160	N/A
Gill Whittington *Chief Operating Officer to 31 March 2003*	115 - 120	N/A

Non-executive members of the Authority

Name	Honorarium
John Belcher	£13,500
Richard Farrant	£13,500
Margaret Ford	£13,500
James Strachan	£13,500
Sir Keith Stuart	£13,500
Leonard Waverman	£12,000

The following salary and pension details are provided in accordance with the 2003-2004 Resource Accounting Manual (RAM) issued by HM Treasury.

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.

Pension

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

Columns 5 & 6 of the above table show the member's cash equivalent transfer value (CETV) accrued at the beginning and the end of the reporting period. Column 7 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.

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.

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 Callum McCarthy and Sir John Mogg fell into this category.

Callum McCarthy had a separate pension arrangement that is broadly analogous with the PCSPS. The arrangements provide for a defined benefit, unfunded scheme. However, unlike the PCSPS, a pension provision is included in the accounts.

Richard Ramsay and David Gray have opted out of the PCSPS and Ofgem make no pension contributions on their behalf but their 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 to his pension provider.

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

3. Non-staff administration costs

	2003-04	Restated 2002-03
	£000	£000
Rental under operating leases:		
Hire of office equipment	83	82
Other operating leases	6,265	6,400
	6,348	**6,482**
Non-cash items (Note a):		
Auditors' remuneration and expenses*	48	45
Depreciation	897	896
Cost of capital charge	(323)	(490)
Diminution in value of fixed assets	69	54
	691	**505**
Other expenditure:		
Contractors	8,409	7,182
Travel and subsistence	563	577
Hospitality	100	95
	9,072	**7,854**
Provisions:		
Provided in year	10	285
Provision not required written back	(1,289)	-
Unwinding of the discount	536	534
	(743)	**819**
Other	**5,597**	**6,741**
	20,965	**22,401**
Administration costs		
Request for resources 1	20,285	22,181
Request for resources 2	680	220
	20,965	22,401

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

Notes

a. The total of non-cash transactions included in the Reconciliation of Resources to Net Cash Requirement in Schedule 1 and in the Reconciliation of Operating Costs to Operating Cashflows in Schedule 4 comprises:

	2003-04
	£000
Other administration costs - non-cash items (as above)	691
Less non-cash income	
profit on sale of fixed assets	(91)
Total non-cash transactions	**600**

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

	Note	2003-04	2002-03
		£000	£000
Total income from licence fees		45,052	46,264
Less: Ofgem licence fee income		(32,660)	(33,197)
Amount collected and paid to the DTI for the costs of energywatch		12,392	13,067
Add: Fossil Fuel Levy income	6	105	140
		12,497	**13,207**
Less: Programme income		(12,497)	(13,207)
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 Schedule 2 at £12,497,000.

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)

	Note	Forecast 2003-04		Outturn 2003-04	
		Income	Receipts	Income	Receipts
		£000	£000	£000	£000
Operating income and receipts-excess A in A		-	-	-	-
Non-operating income and receipts-excess A in A		-	-	-	-
Subtotal		-	-	-	-
Other operating income and receipts not classified as A in A		-	-	-	-
Other non-operating income and receipts not classified as A in A		-	-	-	-
Other amounts collectable on behalf of the Consolidated Fund		-	-	-	-
Excess cash surrenderable to the Consolidated Fund		-	-	-	*221*
Fines levied and CFER'd		-	-	400	*400*
Total		**-**	**-**	**400**	***621***

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 include in public expenditure and that which is not (see note 7). In 2003-04, all operating income not classified as A in A was within public expenditure.

	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**

	2002-03 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	34,965	-	-	-	-	34,965
Fees and charges to other departments	3,176	-	-	-	-	3,176
	38,141	**-**	**-**	**-**	**-**	**38,141**
Programme income:						
Fossil Fuel Levy	140	-	-	-	-	140
Amounts collected for energywatch	13,067	-	-	-	-	13,067
Total	**51,348**	**-**	**-**	**-**	**-**	**51,348**

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

	2003-04			2002-03		
	Income	Full costs	Surplus /(deficit)	Income	Full costs	Surplus /(deficit)
Administration income	£000	£000	£000	£000	£000	£000
Gas and Electricity:						
Licence fees (external)	32,660	33,342	(682)	33,197	33,418	(221)
Attributable to other government departments	-	-	-	122	122	-
Other	3,885	3,885	-	4,822	4,822	-
Subtotal	36,545	37,227	(682)	38,141	38,362	(221)
Programme income:						
Fossil Fuel Levy	105	105	-	140	140	-
	36,650	**37,332**	**(682)**	**38,281**	**38,502**	**(221)**

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:	**2003-04**	**2002-03**
	£000	£000
Rent received:		
Department for Environment, Food and Rural Affairs (DEFRA)	3,519	3,054
External tenants	51	20
Profit on disposal of fixed assets	91	253
Miscellaneous	224	1,495
	3,885	**4,822**

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

6.2 Non-operating income not classified as A in A

	Income	**Receipts**
	£000	£000
Fines	400	400

Ofgem received fines levied of £400,000 during the year, which are not regarded as income for Ofgem and are surrendered to the Consolidated Fund.

Non-operating appropriations in aid	**2003-04**	**2002-03**
	£000	£000
Disposal of fixed assets	900	75

7. Administration cost limits

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

	2003-04 Outturn	Limits	2002-03 Outturn	Limits
	£000	£000	£000	£000
Request for resources 1				
Protecting consumers by regulating monopolies and promoting competition in the electricity and gas industry	36,547	39,296	37,682	38,001
Request for resources 2				
Expenditure in connection with the Climate Change Levy	680	680	220	220
Total within administration cost control	**37,227**	**39,976**	**37,902**	**38,221**
Administration Expenditure excluded from administration cost limit:	-			
Administration Income Allowable within the administration cost limit	**(36,545)**		N/A	
Net administration outturn	**682**		N/A	

In 2003-04 Ofgem moved from a gross to a net administration cost control regime.

8. Reconciliation of net operating cost and net resource outturn

	2003-04	2002-03
	£000	£000
Net operating cost (Note a)	(682)	(221)
Remove non - supply expenditure (-) and income (+), including income scored as Consolidated Fund extra receipts (CFERs):	-	-
Net resource outturn (Note a)	**(682)**	**(221)**

Note:

a. Net operating cost is the total of expenditure and income appearing in the Operating Cost Statement (Schedule 2). 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 Summary of Resource Outturn (Schedule 1).

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

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

	2003-04							2002-03
	Admin	Other current	Gross resource expenditure	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	36,547	105	36,652	(36,650)	2	2	-	1
Request for resources 2								
Expenditure in connection with the Climate Change Levy	680	-	680	-	680	680	-	220
Resource outturn	**37,227**	**105**	**37,332**	**(36,650)**	**682**	**682**	**-**	**221**

Reconciliation to Operating Cost Statement

			Gross resource expenditure	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			**37,332**		
Operating income				**(36,650)**	
Net operating cost					**682**

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	481	-	(900)	(419)
Request for resources 2				
Expenditure in connection with the Climate Change Levy	-	-	-	-
Total 2003-04	**481**	**-**	**(900)**	**(419)**
Total 2002-03	707	-	(75)	632

Sale proceeds authorised by Parliament to be used as A in A in 2002-03 totalled £75,000, whereas income from fixed asset disposals totalled £618,000.

11. Tangible fixed assets

	Land and buildings	Office equipment & furniture	Computer equipment	Laboratory equipment	Leasehold works	Motor vehicles	Total
	£000	£000	£000	£000	£000	£000	£000
Cost or valuation							
At 1 April 2003	800	1,978	1,452	6	4,106	47	8,389
Additions	-	188	293	-	-	-	481
Disposals	(800)	(240)	(188)	(6)	-	(34)	(1,268)
Reclassifications	-	-	-	-	-	-	-
Revaluation	-	(14)	(66)	-	-	-	(80)
At 31 March 2004	**-**	**1,912**	**1,491**	**-**	**4,106**	**13**	**7,522**
Depreciation							
At 1 April 2003	2	1,029	775	4	555	25	2,390
Charged in year	7	312	365	2	249	-	935
Disposals	(9)	(226)	(188)	(6)	-	(17)	(446)
Reclassifications	-	-	-	-	-	-	-
Revaluations	-	(7)	(29)	-	-	-	(36)
At 31 March 2004	**-**	**1,108**	**923**	**-**	**804**	**8**	**2,843**
Net book value At 31 March 2004	**-**	**804**	**568**	**-**	**3,302**	**5**	**4,679**
Net book value At 31 March 2003	**798**	**949**	**677**	**2**	**3,551**	**22**	**5,999**
Asset financing:							
Owned	-	804	568	-	3,302	5	4,679
Net book value At 31 March 2004	**-**	**804**	**568**	**-**	**3,302**	**5**	**4,679**

Freehold land and buildings were revalued at £800,000 on 20 January 2003 by DTZ Debenham Tie Leung (International Property Advisors), on the basis of open market value of freehold interest. The valuation has been made in accordance with the appropriate sections of the current Practice Statements and Guidance Notes contained within the Appraisal and Valuation Manual issued by the Royal Institute of Chartered Surveyors. Freehold land and buildings were disposed of during the year for £875,000.

Other 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.

12. Movements in working capital other than cash

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

	2003-04	Restated 2002-03
	£000	£000
(Decrease)/increase in debtors	(861)	1,210
(Increase)/decrease in creditors	(747)	4,777
	(1,608)	5,987
Adjustment: movement in working capital not related to net operating costs		
- Amounts due to the Consolidated Fund	774	(6,372)
- Movement in working capital related to the acquisition/disposal of tangible fixed assets	-	-
- Amounts receivable that will be due to the Consolidated Fund when received	-	-
Net decrease in working capital other than cash	**(834)**	**(385)**

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

	2003-04	2002-03
	£000	£000
(Decrease)/increase in debtors	(861)	1,210
(Increase)/decrease in creditors	(747)	4,777
	(1,608)	5,987
Adjustment: movement in working capital not related to voted resource consumption		
- Amounts due to the Consolidated Fund	774	(6,372)
- Movement in working capital related to the acquisition/disposal of tangible fixed assets	-	-
Net decrease in working capital other than cash	**(834)**	**(385)**

13. Debtors

	2003-04	2002-03
	£000	£000
Amounts falling due within one year:		
Trade debtors	599	1,058
Accrued fees	232	894
Prepayments	2,487	2,017
HM Customs and Excise (VAT)	575	590
Staff debtors	244	218
Amounts due from the Consolidated Fund in respect of supply	-	221
	4,137	**4,998**

Included within trade debtors is £428,000 (2002-03 £221,000) that will be due to the Consolidated Fund once the debts are collected.

Staff debtors represent loans outstanding, of which £89,000 relates to season ticket loans for 110 employees; £151,000 relates to housing advances in respect of 8 employees of which £139,000 is repayable after more than one year; and £4,000 relates to a travel and subsistence advance in respect of 1 employee.

14. Cash at bank and in hand

	2003-04	2002-03
	£000	£000
Balance at 1 April	1,277	7,705
Net change in cash balances:	995	(6,428)
Balance at 31 March	**2,272**	**1,277**

The following balances at 31 March are held at:

Office of HM Paymaster General	2,256	1,248
Commercial banks and cash in hand	16	29
Balance at 31 March	**2,272**	**1,277**

The balance at 31 March comprises:

Amounts issued from Consolidated Fund for supply but not spent at year end	2,051	-
Cash due to be paid to the Consolidated Fund	221	1,277
	2,272	1,277

15. Creditors

		2003-04		2002-03
	£000	£000	£000	£000
Amounts falling due within one year:				
Trade creditors		2,467		1,488
Staff creditors		4		7
Deferred licence fees		2,148		1,071
Accruals		851		2,710
Amounts issued from the Consolidated Fund for supply but not spent at year end		2,051		-
Consolidated Fund extra receipts due to be paid to the Consolidated Fund				
received	221		1,926	
receivable	428		221	
		649		2,147
Total		**8,170**		**7,423**

16. Provisions for liabilities and charges

	Early Retirement	Severance	Pensions	Other	Total
	£000	£000	£000	£000	£000
Balance at 1 April 2003	1,590	1,328	308	12,026	15,252
Provided in the year	186	674	-	55	915
Provisions not required written back	-	-	-	(1,289)	(1,289)
Provision utilised in the year	(347)	(1,328)	(51)	(1,370)	(3,096)
Unwinding of discount	96	-	-	440	536
Net movement in year	(65)	(654)	(51)	(2,164)	(2,934)
Balance at 31 March 2004	**1,525**	**674**	**257**	**9,862**	**12,318**
Of which:					
Payable within one year	358	674	13	5,990	7,035

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 £1,779,771

The Severance cost provision relates to the redundancy costs to be incurred as a result of the Resource review which concluded in February 2004.

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.

An actuarial valuation was carried out by the Government Actuary's Department (GAD) at 31 March 2004. The major assumptions used by the actuary were:-

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

Other provisions include the onerous costs of a building lease. This provision will be utilised within the next year as the surrender of the lease took place on 2 July 2004. 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 £4,187,865 will be utilised on a straight-line basis over the lease term up to the first break in the lease, being 23 June 2017.

Where the time value of money is material, Ofgem discounts the provision to its present value.The Government's standard rate changed from a discount rate of 6 per cent for 2002-03 to 3.5 percent in 2003-04. The financial effect of this is to increase provisions by £133,381.

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

	2003-04		2002-03	
	£000	£000	£000	£000
Net operating cost for the year (Schedule 2)	(682)		(221)	
Income not appropriated-in-aid paid to the Consolidated Fund	-		-	
		(682)		(221)
Parliamentary Funding:				
Draw Down	3,814		-	
Deemed Supply	221		265	
		4,035		265
Transfer to general fund of realised element of revaluation reserve (Note 18)		11		16
Transfer from Consolidated Fund for standing services		-		-
Consolidated Fund creditor for cash unspent		(2,051)		(1,926)
Non-cash charges:				
Cost of capital	(323)		(490)	
Auditor's remuneration	48		45	
		(275)		(445)
Net decrease/(increase) in general fund		1,038		(2,311)
General fund at 1 April		(10,463)		(8,152)
General fund at 31 March (Schedule 3)		**(9,425)**		**(10,463)**

18. Revaluation reserve

	2003-04	2002-03
	£000	£000
Balance at 1 April	62	336
Arising on revaluation during the year (net)	(10)	(174)
Realisation on disposal of fixed assets	(16)	(84)
Transferred to general fund in respect of realised element of the revaluation reserve	(11)	(16)
Balance at 31 March	**25**	**62**

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

19. Notes to Schedule 5

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.

Ofgem's objective of securing Britain's gas and electricity supplies has no staffing or resources separately attributed to it and is achieved via either effective regulation of monopolies or competition in the market place. Consequently, no costs or income have been allocated to it.

The 2002-2003 comparator figures have been re-stated to the (corporate plan) objectives for 2003-2004.

20. Capital commitments

	2003-04	2002-03
	£000	£000
Contracted capital commitments at 31 March for which no provision has been made	-	-

21. 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.

	2003-04	2002-03
	£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	6,400
	5,803	**6,400**
Other:		
Expiry within 1 year	5	7
Expiry after 1 year but not more than 5 years	69	70
Expiry thereafter	-	-
	74	**77**

22. Other financial commitments

Ofgem had not entered into any non-cancellable contracts (which are not operating leases) as at 31 March 2004.

23. Contingent liabilities disclosed under FRS 12

There were no reportable contingent liabilities at 31 March 2004.

24. Losses and special payments

	Losses Statement
	£000
Special Payments	
Total for 4 cases	81

Ofgem made four payments defined as special payments under Government Accounting to the total value of £81,445.

25. Related party transactions

Ofgem transferred £12.392m to DTI in respect of the costs of energywatch. Ofgem collected £11.2m from licence fee payers, based on DTI's original forecast, the remaining accrued income of £1.192m will offset against the deferred income.

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.

26. Post balance sheet events

There were no reportable post balance sheet events at 31 March 2004 other than as already disclosed at Notes 3 and 16.

27. Fossil Fuel Levy

In accordance with the 2003-2004 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 2004 in the England and Wales account was £134.4m and the Scotland account held £3.7m.

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. The Secretary of State for Trade and Industry is then under a duty to spend the required 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.

28. 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. 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.

Interest rates and foreign currency risks

Ofgem is not exposed to any significant interest rate or foreign currency risks.

Fair values

Set out below is a comparison by category of book and fair values of Ofgem's financial assets and liabilities as at 31 March 2004.

	Book value	Fair value	Basis of valuation
	£000	£000	
Primary financial instruments			
Financial assets:			
Cash at bank	2,272	2,272	
Financial liabilities:			
Provisions	12,318	12,318	see note (a)

Notes:

a. As at 31 March 2004 the fair value was the same as the book value since, in the recent calculation of book value, the expected cash flows were discounted by the HM Treasury discount rate of 3.5 per cent in real terms.

29. Actual outturn - resources and cash

29.1 Actual outturn - resources:

Request for Resources 1: Actual amount net resource outturn £2,000.00. Actual amount of savings in resources over Estimate is nil.

Request for Resources 2: Actual amount net resource outturn £680,000.00. Actual amount of savings in resources over Estimate is nil.

29.2 Actual outturn - cash:

Net cash requirement: Outturn net cash requirement £1,763,304.11 which is £2,050,695.89 less than Estimate.

The actual receipts surrenderable to the Consolidated Fund were £621,000.00

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