

Resource Accounts



Statement of comprehensive net expenditure for the year ended 31 March 2020

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.

	Note	2019-20 £000	2018-19 £000
Operating income	4	(99,145)	(96,728)
Total Operating Income		(99,145)	(96,728)
Staff cost	3	64,966	61,311
Other operating expenditure	3	34,827	35,851
Total operating expenditure		99,793	97,162
Net operating expenditure for the period	2	648	434
Other comprehensive net expenditure			
Actuarial gain/(loss) on pension liabilities	11	-	(15)
Comprehensive net expenditure for the year		648	419

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

Statement of financial position as at 31 March 2020

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.

		2019-20	2018-19
	Note	£000	£000
Non-current assets:			
Property, plant and equipment	5	1,502	2,677
Total non-current assets		1,502	2,677
Current assets:			
Trade and other receivables	9	7,702	7,189
Cash and cash equivalents	8	12,269	9,036
Total current assets		19,971	16,225
Total assets		21,473	18,902
Current liabilities:			
Trade and other payables	10	(28,290)	(18,382)
Provisions	11	(1,131)	(570)
Total current liabilities		(29,421)	(18,952)
Total assets less current liabilities		(7,948)	(50)
Non-current liabilities:			
Provisions	11	(2,853)	(1,336)
Total non-current liabilities		(2,853)	(1,336)
Total assets less total liabilities		(10,801)	(1,386)
Taxpayers' equity:			
General fund		(10,801)	(1,386)
Total taxpayers' equity		(10,801)	(1,386)



Jonathan Brearley
Chief Executive

15 July 2020

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

Statement of cash flows for the year ended 31 March 2020

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.

		2019-20 £000	2018-19 £000
	Note		
Cash flows from operating activities			
Net operating expenditure	SoCNE	(648)	(434)
Adjustments for non-cash transactions	3	4,095	1,903
(Increase)/Decrease in trade and other receivables	9	(513)	11,179
Increase/(Decrease) in trade payables	10	9,908	(2,158)
<i>less movements in payables relating to items not passing through the SoCNE</i>	10	(3,233)	(2,475)
Use of provisions	11	(544)	(425)
Net cash flow from operating activities		9,064	7,590
Cash flows from investing activities			
Purchase of property, plant and equipment	5	(318)	(688)
Net cash outflow from investing activities		(318)	(688)
Cash flows from financing activities			
From the Consolidated Fund (supply) – current year	SOCiTE	1,389	-
From the Consolidated Fund (Supply) – prior year			
Advances from the Contingencies Fund		20,000	15,000
Payments to the Contingencies Fund		(20,000)	(15,000)
Net financing		1,389	-
Net increase in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		10,135	(6,902)
Payments of amounts to the Consolidated Fund		(6,902)	(4,427)
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		3,233	2,475
Cash and cash equivalents at the beginning of the period	8	9,036	6,561
Cash and cash equivalents at the end of the period	8	12,269	9,036

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

Statement of changes in taxpayers' equity for the year ended 31 March 2020

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 £000
Balance at 31 March 2018		5,880
Auditors remuneration	3	85
Comprehensive net expenditure for the year	SoCNE	(434)
Losses relating to pension liabilities	11	(15)
Net Parliamentary Funding - deemed		2,134
Net Parliamentary Funding - drawn down		-
Supply payable adjustment		(9,036)
Balance at 31 March 2019		(1,386)
Non-cash charges - auditor's remuneration	3	100
Net operating cost for the year	SoCNE	(648)
Gains 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)
Balance at 31 March 2020		(10,801)

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.

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 2020-21 has already been given and there is no reason to believe that future approvals will not be granted. 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. The charges are calculated through the recovery of costs as set out in the Ofgem budget and adjusted for any under or over recoveries in the previous year. Revenue is recognised in the year the performance obligation (cost) is incurred. Any under or over recovery of revenue is accrued or deferred and future charges are adjusted accordingly.
- **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.

A former chief executive and director general have separate pension arrangements that are broadly analogous with the PCSPS. The arrangements provide for an unfunded defined-benefit scheme. However, unlike the PCSPS, a pension liability is included in the accounts as required under IAS37 (note 11).

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 2020-21, 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 a discount rate of 0.29%, the government's standard rate. 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 1st 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. The expected impact is expected to be material, but has not yet been quantified due to anticipated changes in leases taking place before the implementation date.

- **IFRS 17**

IFRS 17 Insurance contracts is not likely to be adopted by the public sector until 2020-21 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.

2. Statement of operating costs by operating segment

2019-20				
	Regulatory Activities	Ofgem E-Serve	Corporate Services	Total
	£000	£000	£000	£000
Gross expenditure	36,117	24,443	39,233	99,793
Income	(36,117)	(23,795)	(39,233)	(99,145)
Net expenditure	-	648	-	648

2018-19				
	Regulatory Activities	Ofgem E-Serve	Corporate Services	Total
	£000	£000	£000	£000
Gross expenditure	33,812	25,227	38,123	97,162
Income	(33,812)	(24,793)	(38,123)	(96,728)
Net expenditure	-	434	-	434

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

3. Expenditure

		2019-20	2018-19
	Note	£000	£000
Staff costs:*		64,966	61,311
Wages and Salaries		48,233	48,646
Social Security Costs		4,901	4,523
Other Pension Costs		11,023	7,936
Other Staff Costs		610	20
Apprenticeship levy		199	186
Rental under operating leases:		3,479	3,309
Operating leases	6	3,479	3,309
Non-cash items (see below):		1,588	1,458
Auditors' remuneration and expenses**		100	85
Depreciation	5	973	1,373
Loss on impairment of fixed assets	5	515	-
Other expenditure:		27,145	30,639
Contractors		15,829	18,039
Accommodation costs		1,945	2,806
Recruitment and training		1,350	1,390
Travel and subsistence		984	1,232
Office supplies and equipment		4,649	5,872
Professional Services		1,352	319
Staff related costs		366	322
Other expenditure		670	659
Provisions (non-cash):		2,615	445
Provided in year	11	2,615	425
Interest cost	11	-	20
Total		99,793	97,162

* 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

	2019-20 £000			2018-19 £000		
	Income	Full costs	Deficit	Income	Full costs	Deficit
Licence fees	72,194	72,194	-	69,143	69,143	-
Other	26,951	27,599	(648)	27,585	28,019	(434)
Total	99,145	99,793	(648)	96,728	97,162	(434)

		2019-20 £000	2018-19 £000
Other income includes:	Note	£000	£000
Offshore Transmission Tender Recharge		2,629	2,385
Department for Business, Energy and Industrial Strategy (relating to environmental programmes and staff transfers)	13	16,806	19,138
Scheme-funded recharges		6,105	5,655
Department for Environment, Food and Rural Affairs (relating to shared accommodation costs and staff transfers)		-	(6)
Other departments		180	137
Miscellaneous*		1,231	276
		26,951	27,585

* Miscellaneous income includes licence application fees, and other minor items. In 2019-20, £0.8 million was received from Innovate UK to cover the costs of a project which began in 2018-19.

5. Property, plant and equipment

	Furniture	Office equipment	IT	Leasehold	Total
	£000	£000	£000	£000	£000
Cost or valuation					
At 1 April 2019	332	1,999	7,162	7,533	17,026
Additions	47	121	109	41	318
Disposals	(150)	(1,999)	(5,889)	(1,536)	(9,574)
Impairments	-	-	-	-	-
At 31 March 2020	229	121	1,382	6,038	7,770
Depreciation					
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
At 31 March 2020	113	8	827	5,320	6,268
Carrying amount at 31 March 2020	116	113	555	718	1,502
Carrying amount at 31 March 2019	121	2	1,140	1,414	2,677

	Furniture	Office equipment	IT	Leasehold	Total
	£000	£000	£000	£000	£000
Cost or valuation					
At 1 April 2018	306	1,999	6,535	7,498	16,338
Additions	26	-	627	35	688
Impairments	-	-	-	-	-
At 31 March 2019	332	1,999	7,162	7,533	17,026
Depreciation					
At 1 April 2018	180	1,976	5,249	5,571	12,976
Charged in year	31	21	773	548	1,373
Impairments	-	-	-	-	-
At 31 March 2019	211	1,997	6,022	6,119	14,349
Carrying amount at 31 March 2019	121	2	1,140	1,414	2,677
Carrying amount at 31 March 2018	126	23	1,286	1,927	3,362

The useful life of leasehold assets for Glasgow was reassessed during the year, resulting in an impairment charge of £514,856.

During the year, fixed assets originally with a cost of £9,569,365 were disposed of. The assets were obsolete, fully written down and had an overall carrying value of nil.

6. Operating leases

£3.5m (2018-19: £3.3m) 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

	2019-20	2018-19
	£000	£000
Obligation under operating leases comprise:		
Buildings:		
Not later than one year	2,194	2,134
Later than one year and not later than five years	8,095	8,502
Later than five years	16,292	23,626
	26,581	34,262

London office space is contracted up to June 2032.

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

Cardiff office is expected to move to a government hub during 2020-21.

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 Ofgem's expected purchase and usage requirements and Ofgem is therefore usually exposed to little credit, liquidity or market risk.

8. Cash and cash equivalents

	2019-20	2018-19
	£000	£000
Balance at 1 April	9,036	6,561
Net change in cash and cash equivalents	3,233	2,475
Balance at 31 March	12,269	9,036
The following balances at 31 March were held at:		
Government Banking Service	1,996	9,036
Commercial banks and cash in hand	10,273	-
Balance at 31 March	12,269	9,036

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

	2019-20	2018-19
Amounts falling due within one year:	£000	£000
Accrued fees (Income)	5,787	5,277
Trade debtors (receivables)	564	565
Prepayments	639	806
HM Customs and Excise (VAT)	660	411
Other receivables	52	130
Balance at 31 March	7,702	7,189

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

	2019-20	2018-19
	£000	£000
Amounts falling due within one year:		
Amounts issued from the Consolidated Fund for supply but not spent at year end	3,523	2,134
Excess cash payable to the consolidated fund	8,746	6,902
Deferred licence fees	3,955	2,995
Accruals	6,845	3,319
Other payables	1,799	1,599
Taxation and Social Security Creditor	2,497	1,314
Trade payables	925	119
Balance at 31 March	28,290	18,382

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 31st March are accrued as "other payables".

11. Provisions for liabilities and charges

	Early retirement	Pension liabilities	Voluntary exit	Dilapidations	Other	Total
	£000	£000	£000	£000	£000	£000
Balance at 1 April 2019	147	838	522	368	32	1,907
Provided in the year	-	-	6	1,531	1,116	2,653
Provisions not required written back	-	-	-	-	(32)	(32)
Provisions utilised in the year	(16)	-	(528)	-	-	(544)
Balance at 31 March 2020	131	838	-	1,899	1,116	3,984

	Early retirement	Pension liabilities	Voluntary exit	Dilapidations	Other	Total
	£000	£000	£000	£000	£000	£000
Balance at 1 April 2018	164	803	504	368	32	1,871
Provided in the year	-	-	522	-	-	522
Provisions not required written back	-	-	(97)	-	-	(97)
Provisions utilised in the year	(17)	-	(407)	-	-	(424)
Interest cost	-	20	-	-	-	20
Actuarial (gain)/loss	-	15	-	-	-	15
Balance at 31 March 2019	147	838	522	368	32	1,907

Analysis of expected timings of discounted flows

Not later than one year	16	-	-	-	1,116	1,132
Later than one year and not later than five years	62	-	-	368	-	430
Later than five years	53	838	-	1,531	-	2,422
Balance at 31 March	131	838	-	1,899	1,116	3,984

Early retirement

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

Pension liabilities

The pension provision is for the unfunded pension liabilities which fall to us for a previous chief executive and a director general. The pension provision is unfunded, with the benefits being paid as they fall due and guaranteed by Ofgem. There is no fund, and therefore no surplus or deficit.

An actuarial valuation was carried out by the Government Actuary's Department at 31 March 2019. The department judged that the movement in the provision in 2019-20 would be immaterial and so no valuation was carried out as at 31 March 2020. The major assumptions used by the actuary at 31 March 2019 were:

	At 31 March 2019
	% (per annum)
Inflation assumption - CPI	2.60
Rate of increase for pensions in payment and deferred income	2.60

	2018-19
Analysis of actuarial loss	£000
Experience (gain)/loss arising on the scheme liabilities	8
Changes in assumptions underlying the present value of scheme liabilities	7
Per statement of changes in taxpayers' equity	15

From 31 March 2018, the discount rate for pension scheme liabilities is 0.29%. This rate is reflected in the valuation of the pension scheme liability as at 31 March 2019.

Voluntary exit

A number of voluntary exit payments were agreed with the Cabinet Office and individuals. These were the result of an internal reorganisation within the Corporate Services division.

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.

Other provisions

The tax calculation for a small number of individuals for several years was calculated incorrectly.

The 2019-20 provision is an estimate of the taxes and interest likely to be due to HMRC and a restructuring provision for a restructure which has been announced but not yet implemented.

The 2018-19 provision related to a lease which Ofgem exited in 2019-20 and was released.

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.

As at 31 March 2020 there were no contingent liabilities that required disclosure.

13. Related party transactions

During the year, we transferred £10.448 million to the Department for Business, Energy and Industrial Strategy (BEIS). £9.338 million of this was for the energy-sector-related costs of Consumer Focus (operating as Consumer Futures) and Citizens Advice. The remaining £1.110 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 £16.806 million.

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 £1.134 million and income of £0.856 million was recognised from the NIAUR, and £0.721 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 50.

14. Third-party assets

Offshore Tender Developer Securities

Government 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 2020 Ofgem held £9.05m in letters of credit (2018-19: £11.750m) and nil in cash (2018-19: £0.702m).

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/about-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 2020 was £54.18m (31 March 2019: £0.1m)

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 2020 was £2.33m (31 March 2019: £3.27m).

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 2020 were: Domestic RHI: £4.118m; Non-domestic RHI Great Britain: £19.448m; Non-domestic RHI Northern Ireland: £0.014m (31 March 2019: £2.739m; £0.354m; £0.027m)

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.

