

Appendix 1

Resource Accounts 2001-2002

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 2001 to 31 March 2002. It should be read in conjunction with the Ofgem Annual Report for 2001-2002, which is published with these Accounts.

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 regulation and increasingly relies on competition powers to regulate companies' behaviour and protect domestic and commercial customers' interests. Where competition is not possible or sufficiently well developed, Ofgem protects consumers' interests by regulating the monopoly companies that run the national transmission and local distribution networks in England, Scotland and Wales.

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

In fulfilling its obligations, Ofgem works closely with the Department of Trade and Industry (DTI) and energywatch.

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.

In pursuit of this aim, Ofgem relies increasingly on competition and intends to continue the process of withdrawing from detailed regulation wherever possible. In order to assess how Ofgem performed against its objectives the following priority headings were identified in the Plan and Budget for 2001-2002:

- Social and environmental action
- Regulation of monopoly businesses
- Efficient trading in the wholesale electricity and gas markets
- Managing the move to competitive supply markets
- Work on industrial structure and competitiveness, and
- Work to develop Ofgem as an efficient regulator.

Operating and financial review

In 2001-2002 cash of £68.5m was received in respect of licence fees and other income, mainly from property and charges for technical fees. Of this, £22.4m was collected from licence fee payers on behalf of the DTI, in respect of the costs of energywatch and subsequently transferred to the DTI. After clearing outstanding debtors from 2000-2001 (£12.1m) and taking account of current debtors (£3.4m) Ofgem had an operating income of £37.2m.

Cash receipts from licence fees	£62.2m
Cash receipts from property, technical fees and others	£4.1m
Cash receipts from fees charged in prior years	£2.2m
	<hr/>
	£68.5m
Less cash transferred to the DTI	£22.4m
Less other payments	£0.2m
Less opening debtors	£12.1m
Add closing debtors	£3.4m
	<hr/>
Operating Income	£37.2m

In addition to operating income of £37.2m, public funds were provided to meet the cost of work undertaken in respect of the Climate Change Levy (£0.3m).

Total operating costs amounted to £37.6m. Three areas of expenditure absorbed 82 per cent of the total: payroll (34 per cent), contractors (17 per cent) and accommodation (31 per cent). Ofgem uses contractors to augment permanent staff and their skills. Completion of the major New Electricity Trading Arrangements (NETA) project, which made extensive use of contractors and added significantly to costs in 2000-2001 compared to 2001-2002, has resulted in a step fall in contractor costs in 2001-2002.

Capital expenditure in the year totalled £0.9m in respect of furniture, office and computer equipment. This is a much lower level of expenditure than in 2000-2001 when the costs of refurbishment of the Millbank headquarters were incurred.

Ofgem's financial performance in pursuit of its objectives is detailed in Schedule 5 – 'Resources by Departmental Aim and Objectives'. Expenditure against the main projects identified in Ofgem's Plan and Budget 2001-2002 was as follows:

Project	Corporate Plan (£000)	Cost (£000)
Transco Price Control Review	970	1,599
Gas Trading Arrangements	1,000	1,084
Supply Projects	1,090	995
British Electricity Transmission Trading Arrangements (BETTA)	960	846
Electricity Operations	1,000	669
Market Surveillance	440	634
Information & Incentives	850	574

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

Ofgem's budget is approved by Parliament following a consultation process with industry and other interested parties. In 2001-2002 Parliament approved an original resource budget of £36.6m and a capital budget of £1.1m. The resource budget was subsequently increased to £38.7m to cover additional provisions.

Ofgem received a loan from the Exchequer of £33m, needed to fund expenditure prior to receipt of licence fee income. This loan was fully repaid during the year and no interest was payable on it. An amount of £8.4m, due to be surrendered to the Exchequer, will be retained to fund operations in 2002-2003 until adequate licence fee income is received.

Following the Utilities Act 2000 and subsequent changes to licence conditions, Ofgem consulted industry and other stakeholders on proposals for a new method of determining licence fees. A new method was determined in February 2002 and the collection of 2001-2002 licence fees was based on the new procedure. In 2001-2002 an amount of £1.1m was over-recovered from licence fee payers and this will be offset against licence fee charges in 2002-2003.

Substantial provision has been made for liabilities arising from the merger of Office of Electricity Regulation (Offer) and Office of Gas Supply (Ofgas). They relate to staff severance and onerous costs of a building lease. Fixed assets are kept to optimum levels and capital expenditure originally needed to set up Ofgem is now falling to lower levels. Trade creditors are paid within the Government's target of 30 days and new debt management procedures have improved debt collection.

The balance sheet at 31 March 2002 shows negative Taxpayer's Equity of £7.8m. This reflects the inclusion of liabilities falling due in future years which are to be financed mainly by drawings from the UK Consolidated Fund. Such drawings will be from grants of Supply approved annually by Parliament, to meet Ofgem's Net Cash Requirement. Under the Government Resources and Accounts Act 2000, no money may be drawn from the Fund other than that required for the service of the specified year or retained in excess of that need. All unspent monies, including those derived from Ofgem's income, are surrenderable to the Fund.

In common with other government departments, the future financing of Ofgem's liabilities is accordingly to be met by future grants of Supply and the application of future income, both to be approved annually by Parliament. Such approval for amounts required for 2002-2003 has already been given and there is no reason to believe that future approvals will not be forthcoming. It has therefore been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

Ofgem's most important investment is in its people and an active policy to recruit and retain high-calibre staff will 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 intends to improve the ways it explains and consults on its work.

Ofgem will continue to protect consumers' interests, wherever appropriate by promoting effective competition. In particular, Ofgem will seek to:

- build on the NETA to create British-wide trading and transmission arrangements (British Electricity Transmission Trading Arrangements (BETTA))
- ensure that competition, now established in the supply and most of the wholesale market, continues to work effectively in the interests of the domestic and business consumer
- help Government meet wider environmental and social targets at the lowest cost to consumer and industry, and
- ensure that trading arrangements have the right economic signals and incentives for efficient long-term investment.

There was a reduction in carrying value of Freehold buildings in Leicester, resulting from an external valuation. Ofgem has started the process of seeking bids to outsource functions currently managed at its laboratory in Leicester. These functions include gas quality and gas and electricity meter testing. The cost of these services is recovered through charges and these are budgeted at £1.6m in 2002-2003.

The Gas and Electricity Markets Authority

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

Basis of appointment and remuneration

The Chairman of the Authority was appointed by the Secretary of State for Trade and Industry for a period of five years. 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 was undertaken in accordance with the Civil Service Management Code. Their remuneration was 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 were appointed by the Secretary of State for Trade and Industry after consulting the Chairman. The appointments were for a period of two years. The non-executives are remunerated by payment of an honorarium of £12,000 per annum.

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

Management Committee

The Management Committee comprises 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 policy, management and resources.

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. Other members are Margaret Ford, Richard Farrant and James Strachan, all non-executive members of the Authority. The Chief Operating Officer, Finance Director, the external auditors (National Audit Office) and the internal auditors (Baker Tilly) attend by invitation. The Committee's role is to advise the Accounting Officer and the Authority on anything that affects the financial health, probity or external reputation of the organisation and to ensure the adequacy of the system of internal control. The Committee aims to meet at least three times a year.

Executive members of the Authority

Callum McCarthy, 58, was appointed Chairman in November 2000. He is the Accounting Officer for the Ofgem Resource Accounts.

Dr Eileen Marshall, 60, was appointed Managing Director (Competition and Trading Arrangements) in November 2000.

John Neilson, 43, was appointed Managing Director (Customer and Supply) in November 2000.

Gill Whittington, 43, was appointed Chief Operating Officer in November 2000.

Richard Ramsay, 52, was appointed Managing Director (Regulation and Financial Affairs) in March 2001.

Non-executive members of the Authority

Lord Currie, Richard Farrant, Margaret Ford, James Strachan and Sir Keith Stuart all joined the Authority as non-executive members in December 2000.

John Belcher joined the Authority as a non-executive member in January 2001.

Pension liabilities

The main pension scheme for employees is the Principal Civil Service Pension Scheme (PCSPS). This is a defined benefit, unfunded scheme. The payment of benefits from the scheme is borne by the Civil Service Superannuation Vote. 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 as described in notes 1 and 2 to the financial statements.

The Chairman has separate pension arrangements, broadly analogous with the PCSPS. The arrangements provide for a defined benefit, unfunded scheme, but, unlike the PCSPS, a pension provision is included in the accounts. There are no pension liabilities for members of the Authority who are not also employees of Ofgem.

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 40 per cent of all staff were female
- a third of the senior Civil Service members in Ofgem were women
- 32 per cent of staff in managerial grades were women
- 17 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 16 per cent.

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

Training and development

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.

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 2001-2002 Ofgem paid 94 per cent of undisputed bills within these deadlines.

Auditors

The Resource Accounts have been audited by the Comptroller and Auditor General.



Callum McCarthy

Accounting Officer and Chairman

17 June 2002

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 (previously the Director General) 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

As Accounting Officer I have responsibility for maintaining a sound system of internal control that supports the achievement of departmental policies, aims and objectives set by the Gas and Electricity Markets Authority 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.

The system of internal control is designed to manage rather than eliminate, the 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 the principal risks to the achievement of departmental policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. Substantial progress has already been made through the following arrangements:

- the Authority which meets ten times a year to consider the plans and overall strategic direction of Ofgem and the Management Committee which meets on a weekly basis to manage all policy, resource and operational issues
- a Corporate Strategy and Plan set by the Authority with clear aims, objectives and deliverables which cascade down through Directorate objectives and tasks to project management and then personal job objectives for each staff member
- a detailed annual budget and key performance indicators and outputs which are identified during corporate planning and then monitored through the year in routine management information systems that inform the Authority, Management Committee and Audit Committee
- a formal risk management framework that identifies key risks and their consequences. Current risk status is reviewed every six months by Directors and the Management Committee
- a properly constituted Audit Committee comprising non-executive members of the Authority which reports directly to the Authority
- an independent Internal Audit (currently provided under contract by Baker Tilly, Chartered Accountants) 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, and
- a process of Internal Control questionnaires requires all Directors to consider and report on all aspects of financial control in their own area.

I am continuing to develop our internal control procedure in order to ensure that we continue to meet good practice. In so doing, we expect to have met HM Treasury's requirement by 1 January 2003. This takes account of the time needed to fully embed existing processes, which Ofgem has agreed should be established and to improve their robustness.

My review of the effectiveness of the system of internal control is informed by all of the above, but particularly the reports of the Audit Committee, internal audit, the internal control questionnaires and the risk framework monitoring reports, as well as by the day-to-day advice of my managers and staff and comments made by the external auditors in their management letter and other reports.



Callum McCarthy

Accounting Officer and Chairman

17 June 2002

Financial statements

The financial statements on pages 88 to 118, together with the annual report and other statements on pages 72 to 83 and the Certificate and Report of the Comptroller and Auditor General on pages 85 to 86, reproduce in full those included in the Resource Accounts for Ofgem for 2001-2002, laid before the House of Commons on 26 June 2002 under reference HC986. Pages 1 to 71 of this Annual Report provide additional information, for which I am responsible, that is not included with those accounts. The auditor is required by auditing standards to read other information in documents containing audited financial statements and to consider the implications for his/her audit opinion. A supplementary statement has accordingly been provided by the Comptroller and Auditor General at page 87 in respect of his reading of the additional information.

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 88 to 118 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 96 to 100.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 81, 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 Annual Report. My responsibilities, as independent auditor, are established by statute and are guided by the Auditing Practices Board and the auditing professions ethical guidance.

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 Annual Report at pages 72 to 80, 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 82 and 83 reflects the Department's compliance with Treasury's guidance, 'Corporate governance: statement on the system of internal financial 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.

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 2002 and of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the year then ended, and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by the Treasury, and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn

Comptroller and Auditor General

21 June 2002

National Audit Office, 157-197 Buckingham Palace Road,
Victoria, London SW1W 9SP

Supplementary statement by the Comptroller and Auditor General in respect of material included at pages 1 to 71 of this Annual Report, not included with the financial statements to which the audit opinion above relates.

In respect alone of my responsibility under United Kingdom auditing standards to read the other information included with financial statements on which I express an audit opinion, I have read the additional information on pages 1 to 71 which was not included with the financial statements on which I reached the audit opinion set out in my Certificate above and considered whether it is consistent with the audited financial statements. I have considered the implications for my audit opinion if I have thereby become aware of any apparent misstatement or material inconsistencies with the financial statements.

In this regard, my audit opinion on the financial statements is unchanged.

John Bourn

Comptroller and Auditor General

21 June 2002

National Audit Office, 157-197 Buckingham Palace Road,
Victoria, London SW1W 9SP

Schedule 1

SUMMARY OF RESOURCE OUTTURN for the year ended 31 March 2002

2001-2002

	Estimate			Outturn			Net total outturn compared to	
	Gross expenditure	A-in-A	Net total	Gross expenditure	A-in-A	Net total	Estimate: savings/(excess)	Prior-year outturn
	1	2	3	4	5	6	7	8
	£000	£000	£000	£000	£000	£000	£000	£000
Request for resources 1*	60,790	(60,788)	2	59,842	(59,840)	2	-	1
<i>Protecting consumers by regulating monopolies and promoting competition in the electricity and gas industry (note 4, 5, 9)</i>								
Request for resources 2	350	-	350	350	-	350	-	-
<i>Expenditure in connection with the Climate Change Levy (note 9)</i>								
Total resources	61,140	(60,788)	352	60,192	(59,840)	352	-	1
Non operating cost A-in-A	-	(150)	(150)	-	(34)	(34)	(116)	(60)
Net cash requirement	-	-	352	-	-	352	-	1

*Request for resources 1 includes an amount of £22,428,000 in respect of energywatch expenditure as per note 5.

Reconciliation of resources to cash requirement

	Note	Estimate Net total	Outturn Net total	Net total outturn compared to estimate saving (excess)
Net total resources		352	352	–
<i>Capital and other</i>				
Purchase of fixed assets	10, 11	1,115	884	231
Non operating cost A-in-A	11	(150)	(34)	(116)
Repayment of deposit	13	–	(159)	159
		965	691	274
<i>Accruals adjustments</i>				
Non-cash items	3	(1,221)	(1,233)	12
Changes in working capital other than cash	12	(6,746)	(6,440)	(306)
Transfer from provision	16	(1,776)	(1,416)	(360)
Excess cash to be CFERd	15	8,778	8,398	380
		(965)	(691)	(274)
Net cash requirement (Schedule 4)		352	352	–

Analysis of income payable to the Consolidated Fund

The following income relates to the Department and is payable to the Consolidated Fund:

	2001-2002 Estimate		2001-2002 Outturn	
	Income £000	Receipts £000	Income £000	Receipts £000
Excess cash to be CFERd	8,778	–	8,398	–
Total	8,778	–	8,398	–

The actual cash surrenderable to the Consolidated Fund is £8,398,087.33

Outturn net cash requirement is (precisely) £352,000.00.

Ofgem did not have any income or receipts in addition to Appropriations-in-Aid.

Schedule 2

OPERATING COST STATEMENT for the year ended 31 March 2002

	<i>Note</i>	2001-2002 £000	Restated 2000-2001 £000
Administration costs			
<i>Request for resources 1</i>			
Staff costs	2	12,699	13,604
Other administration costs	3	24,485	47,724
		37,184	
<i>Request for resources 2</i>			
Other administration costs	3	350	–
		350	
Gross administration costs		37,534	61,328
Operating income	4	(37,182)	(62,051)
Net administration costs		352	(723)
Programme costs			
<i>Request for resources 1</i>			
Expenditure	5	22,658	8,366
Less income	4, 5	(22,658)	(8,366)
Net programme cost		–	–
OPERATING COST			
before exceptional items		352	(723)
Exceptional items	3, 6	–	724
NET OPERATING COST		352	1
NET RESOURCE OUTTURN	8, 9	352	1

STATEMENT OF RECOGNISED GAINS AND LOSSES
for the year ended 31 March 2002

	2001-2002 £000	2000-2001 £000
Net operating cost	(352)	(1)
Net gain on revaluation of tangible fixed assets	–	94
Net loss on revaluation of tangible fixed assets	(128)	–
Total recognised gains and losses for the financial year	(480)	93

All activities are continuing.

Schedule 3

BALANCE SHEET as at 31 March 2002

	Note	31 March 2002 £000	31 March 2001 £000
Fixed assets			
Tangible assets	10	6,865	7,463
		6,865	7,463
Current assets			
Debtors	13	3,523	12,125
Cash at bank and in hand	14	7,705	3,503
		11,228	15,628
Creditors (due within one year)	15	(11,935)	(9,471)
Net current (liabilities)/assets		(707)	6,157
Total assets less current liabilities		6,158	13,620
Provisions for liabilities and charges	16	(13,974)	(12,558)
		(7,816)	1,062
Taxpayers' equity			
General Fund	18	(8,152)	591
Revaluation reserve	17	336	471
		(7,816)	1,062

Callum McCarthy

Callum McCarthy
Accounting Officer and Chairman

17 June 2002

CASH FLOW STATEMENT
for the year ended 31 March 2002

	2001-2002 £000	2000-2001 £000
Net cash inflow from operating activities (see <i>a</i>)	(8,737)	(10,121)
Capital expenditure and financial investment (see <i>b</i>)	691	5,735
Payments to the Consolidated Fund	3,840	469
Financing from the Consolidated Fund	–	–
Increase in cash in the period	(4,206)	(3,917)

Reconciliation of operating cost to operating cash flows

	Note	2001-2002 £000	2000-2001 £000
Net operating cost		352	1
Net adjustment for exceptional charges within net operating costs		–	(724)
Net operating cost before exceptionals		352	(723)
Adjust for non-cash items	3,4	(1,233)	(1,185)
Adjust for movements in working capital other than cash	12	(6,440)	(5,684)
Adjust for transfer to provisions	16	(1,416)	(2,529)
Net cash inflow from operating activities (a)		(8,737)	(10,121)
Analysis of capital expenditure and financial investment			
Purchases of fixed assets	10	884	4,585
Proceeds from disposal of fixed assets	11	(34)	(60)
Repayment of deposits	13	(159)	(590)
Loan from the DTI repaid		–	1,800
Net cash outflow from investing activities (b)		691	5,735
Analysis of financing			
From Consolidated Fund (Supply)*		–	–
From Contingency Fund		33,000	35,000
Repayment to Contingency Fund		(33,000)	(35,000)
Consolidated Fund Extra Receipts (CFER) received and not paid over	15, 18	8,398	4,387
CFER received in prior year paid over	18	(3,840)	(469)
Net financing		4,558	3,918
Increase in cash	14	(4,206)	(3,917)
Net cash requirement (Schedule 1)		352	1

*No supply was drawn down from the Consolidated Fund.

RESOURCES BY DEPARTMENTAL AIM AND OBJECTIVES
for the year ended 31 March 2002

Aim: To ensure choice and value for all gas and electricity consumers by promoting competition and regulating monopolies.

Objective	Gross £000	2001-2002		2000-2001		
		Income £000	Net total £000	Restated Gross £000	Restated Income £000	Restated Net total £000
<i>1. Social and environmental action</i>						
	2,966	(2,616)	350	1,912	(1,912)	–
<i>2. Regulation of monopoly businesses</i>						
	11,833	(11,833)	–	12,552	(12,552)	–
<i>3. Efficient trading in the wholesale electricity and gas markets</i>						
	11,472	(11,472)	–	35,710	(35,710)	–
<i>4. Managing the move to competitive supply markets</i>						
	6,173	(6,173)	–	6,505	(6,505)	–
<i>5. Work on industrial structure and competitiveness</i>						
	3,353	(3,353)	–	4,273	(4,273)	–
<i>6. Work to develop Ofgem as an efficient regulator</i>						
	1,967	(1,965)	2	1,259	(1,258)	1
Net operating cost	37,764	(37,412)	352	62,211	(62,210)	1

See note 25.

Appendix 2

Notes to the accounts

1. Statement of accounting policies

The financial statements have been prepared in accordance with the Resource Accounting Manual (RAM) issued by HM Treasury. 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 is held by the Department of Transport, Local Government and the Regions (DTLR) in the name of the Secretary of State.

Freehold land and buildings are restated at current cost using professional valuations in accordance with Financial Reporting Standards (FRS) 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 installments 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 and furniture	5 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 (ie, 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, the Government's standard rate. Each year the financing charges in the Operating Cost Statement include the adjustments to amortise one year's discount and restate liabilities to current price levels.

1.4 Operating income

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

Since all licence costs are recovered via the licence fees, and these are invoiced in advance 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. Ofgem also collected monies via the licence fees in respect of the running costs of the Gas Consumer Council (GCC) prior to the Utilities Act.

1.5 Administrative expenditure and income

The Operating Cost Statement is analysed between administration and programme costs. Administration costs reflect the costs of running Ofgem. These include both those administration costs controlled under the administration cost-control regime during the RAB1 implementation phase (through Departmental Expenditure Limits) and those which are in Annually Managed Expenditure (capital charges and other non-cash items), together with associated operating income. Income is analysed in the notes between that which, under the 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.

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 Government's standard rate of 6 per cent on 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 Pension costs

Present and past 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 Chief Executive and former 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.

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 20, 'Commitments under operating leases', are not discounted.

1.13 Comparative amounts

Comparative amounts are restated where necessary to conform to current presentation. Restated amounts in Schedule 2 and Schedule 5 (the latter to reflect changes to Ofgem Corporate Objectives) are fully reflected in the corresponding notes.

1.14 Going concern

The balance sheet at 31 March 2002 shows a negative taxpayers' equity of £7.8m. This reflects the inclusion of liabilities falling due in future years, which are to be financed mainly by drawings from the UK Consolidated Fund. Such drawings will be from grants of supply approved annually by Parliament to meet Ofgem's Net Cash Requirement. Under the Government Resources and Accounts Act 2000, no money may be drawn from the Fund other than that required for the service of the specified year or retained in excess of that need. All unspent monies, including those derived from Ofgem's income, are surrenderable to the Fund.

In common with other government departments, the future financing of Ofgem's liabilities is accordingly to be met by future grants of Supply and the application of future income, both to be approved annually by Parliament. Such approval for amounts required for 2002-2003 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 in the preparation of these financial statements.

2. Staff numbers and costs

The average number of whole-time equivalent staff employed (including senior management), by objective, during the year was as follows:

Objective	2001-2002	Restated
	No.	2000-2001 No.
Social and environmental	23	16
Regulation	91	111
Efficient trading	87	91
Competitive supply markets	57	64
Industrial structure	31	42
Developing Ofgem	14	15
	303	339

The aggregate payroll costs of these staff were as follows:

	2001-2002	Restated
	£000	2000-2001 £000
Wages and salaries	9,950	9,586
Social security costs	801	961
Pension costs	1,328	1,641
Early retirement and severance costs	397	237
Provisions		
Provided in year	223	1,179
	12,699	13,604

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded, multi-employer, defined benefit scheme. Ofgem is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2000 and details can be found in the separate scheme statement of the PCSPS. For 2001-2002 employer contributions of £1,328,000 (£1,641,000 in 2000-2001) were payable to the PCSPS at rates in the range 12-18.5 per cent of pensionable pay. Employer contribution rates are reviewed every three years following a scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and they reflect past experience of the scheme.

In relation to early retirement and severance costs, Ofgem made seven payments defined as special payments under Government Accounting to the total value of £182,000.

Average staff numbers have reduced by 36 since 2000-2001, mainly as a result of efficiency gains.

During 2001-2002 average per capita payroll costs rose by 11 per cent. This is accounted for partly by the annual pay award (7 per cent) and partly by grade migration (4 per cent) which reflects a planned shift to an organisation with fewer but better-skilled staff.

The salary and pension entitlements of the executive and the non-executive members were as follows:

The Gas and Electricity Markets Authority

Position	Name	Salary £000	Real increase in pension at 60 £000	Total accrued pension at 60 at 31 March 2002 £000
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Executive members of the Authority

Chairman	Callum McCarthy	160-165	N/A	N/A
Managing Director	Dr Eileen Marshall	120-125	0-2.5	25-30
Managing Director	John Neilson	95-100	2.5-5	25-30
Managing Director	Richard Ramsay	140-145	N/A	N/A
Chief Operating Officer	Gill Whittington	110-115	N/A	N/A

Non-executive members of the Authority

Name	Honorarium £000
John Belcher	12
Lord Currie	12
Richard Farrant	12
Margaret Ford	12
James Strachan	12
Sir Keith Stuart	12

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

The Management Committee received newspapers at Ofgem expense to an estimated value of £200 each. Callum McCarthy also had use of a car and chauffeur at an estimated benefit of £13,500.

Pension benefits are provided through the Principal Civil Service Pension Scheme. This is a statutory scheme that provides benefits on a final salary basis at a normal retirement age of 60. Benefits 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. Members pay contributions of 1.5 per cent of pensionable earnings. Pensions increase is in line with the Retail Price Index. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the scheme pays a lump sum benefit of twice pensionable pay and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

The Chief Executive has 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.

The Managing Director, Regulation and Financial Affairs and the Chief Operating Officer have opted out of the PCSPS and Ofgem make no pension contributions on their behalf but their salaries reflect contributions that would otherwise have been made.

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

3. Other administration costs

	2001-2002 £000	Restated 2000-2001 £000
Rental under operating leases		
Hire of office equipment	55	14
Other operating leases	4,111	4,112
	4,166	4,126
Non-cash items		
Auditors' remuneration and expenses	42	32
Depreciation	879	708
Loss on disposal of fixed assets	112	–
Capital charge	(129)	264
Diminution in value of fixed assets	329	193
	1,233	1,197
Other expenditure		
Contractors	6,378	30,262
Bad debts	14	223
Travel and subsistence	571	871
Hospitality	76	95
Honoraria to non-executive members	72	60
	7,111	31,511
Provisions		
Provided in year	3,441	–
Unwinding of the discount	706	172
	4,147	172
Other	8,178	10,718
	24,835	47,724
Exceptional expenditure		
Depreciation	–	724
	–	724

The cost of contractors in 2001-2002 was £6.4m. This represents a significant reduction from the previous year and reflects the completion of the NETA project in 2000-2001.

Other administration costs comprise Request for resources 1 and Request for resources 2, as per Schedule 2.

4. Operating income

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

	2001-2002			2000-2001 Restated		
	Income £000	Costs £000	Surplus/ deficit £000	Income £000	Costs £000	Surplus/ deficit £000
Administration income						
<i>Gas and Electricity</i>						
Licence fees (external)	32,865	33,217	352	45,146	45,147	1
Attributable to other government departments	2	2	-	-	-	-
Other	4,315	4,315	-	16,905	16,905	-
Sub Total	37,182	37,534	352	62,051	62,052	1
Programme income						
Other	230	230	-	159	159	-
Total	37,412	37,764	352	62,210	62,211	1

Other income in 2000-2001 included £14m received in contribution to the cost of the NETA project that was completed in that year.

All of the above operating income was appropriated-in-aid and treated as administrative income. 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:

	2001-2002 £000	2000-2001 £000
Rent received from external tenants	2,148	863
Profit on disposal of fixed assets	-	12
Contributions to the costs of NETA	-	14,000
Miscellaneous	2,167	2,030
	4,315	16,905

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

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

	2001-2002 £000	2000-2001 £000
Total income from licence fees	55,293	53,353
Less: amount collected and paid to the DTI for the costs of energywatch	(22,428)	(8,207)
Ofgem licence fee income	32,865	45,146

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 the former Gas Consumer Council (GCC), are shown under programme costs in the Operating Cost Statement.

Total programme income and expenditure is reflected in Schedule 2 at £22,658,000.

6. Exceptional items

Description	2001-2002 £000	2000-2001 £000
Other administration costs		
Accelerated depreciation (<i>see note 10</i>)	–	724

The exceptional item arose from the one-off costs incurred from the restructuring of Ofgas and Offer to create Ofgem.

7. Administration cost limits

The outturn within the administration costs control regime shown against individual administration cost limits is as follows:

	2001-2002 £000		2000-2001 £000	
	Outturn	Limits	Outturn	Limits
Request for resources 1				
Protecting consumers by regulating monopolies and promoting competition in the electricity and gas industry	36,105	37,000	60,163	61,656
Request for resources 2				
Expenditure in connection with the Climate Change Levy	350	350	–	–
	36,455	37,350	60,163	61,656

8. Reconciliation of net operating cost to control total and net resource outturn

	2001-2002 £000	2000-2001 £000
Net operating cost	352	1
Remove non-supply expenditure and income, including income scored as CFER	–	–
Net resource outturn (subject to Supply procedures)	352	1

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 the Department's Supply Estimates. 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 resources outturn and net operating cost by function

	2001-2002 £000			Net total
	Admin	Other current	A-in-A	
Request for resources 1				
Protecting consumers by regulating monopolies and promoting competition in the electricity and gas industry	37,184	230	37,412	2
Request for resources 2				
Expenditure in connection with the Climate Change Levy	350	–	–	350
Resource outturn	37,534	230	37,412	352
Non supply expenditure				–
Non A-in-A operating income				–
Net operating cost				352

	Restated 2000-2001 £000			Net total
	Admin	Other current	A-in-A	
Request for resources 1				
Protecting consumers by regulating monopolies and promoting competition in the electricity and gas industry	62,052	159	62,210	1
Resource outturn	62,052	159	62,210	1
Non supply expenditure				–
Non A-in-A operating income				–
Net operating cost				1

10. Tangible fixed assets

	Land and buildings	Office equipment and furniture	Computer equipment	Laboratory equipment	Leasehold works	Motor vehicles	Total
	£000	£000	£000	£000	£000	£000	£000
Cost or valuation							
At 1 April 2001	1,768	2,843	1,833	483	4,033	174	11,134
Additions	–	309	491	11	73	–	884
Disposals	–	(966)	(907)	–	–	(87)	(1,960)
Revaluation	(358)	36	(327)	(2)	–	–	(651)
At 31 March 2002	1,410	2,222	1,090	492	4,106	87	9,407
Depreciation							
At 1 April 2001	209	1,765	1,090	443	63	101	3,671
Charged in year	8	308	334	10	231	12	903
Disposals	–	(872)	(878)	–	–	(64)	(1,814)
Revaluations	(209)	15	(24)	–	–	–	(218)
At 31 March 2002	8	1,216	522	453	294	49	2,542
Net book value							
At 31 March 2002	1,402	1,006	568	39	3,812	38	6,865
At 31 March 2001	1,559	1,078	743	40	3,970	73	7,463

Freehold land and buildings were revalued at £1,410,000 between 21 September 2001 and 5 October 2001 by Lambert Smith Hampton (Chartered Surveyors), on the basis of open market value in existing use in accordance with the Statement of Asset Valuation Practice and the Royal Institution of Chartered Surveyors' Guidance Notes. In accordance with asset policy, the assets will be revalued in the intervening years using the appropriate indices.

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. Ofgem vacated leasehold buildings last year as part of the creation of Ofgem from Offer and Ofgas. This led to an exceptional charge of £724,000 in the prior year (see note 6), reflecting the accelerated depreciation.

11. Analysis of capital expenditure and associated A-in-A

	Capital expenditure	2001-2002 £000 A-in-A	Net total
Request for resources 1			
Protecting consumers by regulating monopolies and promoting competition in the electricity and gas industry	884	(34)	850
Request for resources 2			
Expenditure in connection with the Climate Change Levy	–	–	–
Total	884	(34)	850
2000-2001			
	Capital expenditure	£000 A-in-A	Net total
Request for resources 1			
Protecting consumers by regulating monopolies and promoting competition in the electricity and gas industry	5,478	(60)	5,418
Total	5,478	(60)	5,418

12. Movements in working capital other than cash

	2001-2002 £000	2000-2001 £000
Decrease in debtors	(7,783)	(4,387)
Decrease (increase) in creditors	1,343	(2,190)
Net decrease in working capital other than cash	(6,440)	(6,577)
Less: capital creditors	–	893
	(6,440)	(5,684)

Debtors shown under note 13 as other debtors and the undrawn grant are excluded from the movement in working capital.

13. Debtors

	2001-2002 £000	2000-2001 £000
Amounts falling due within one year		
Trade debtors	266	3,126
Accrued fees	168	6,222
Undrawn grant	–	660
Other debtors	100	259
Prepayments	2,051	1,161
HM Customs and Excise (VAT)	756	528
Staff debtors	182	169
	3,523	12,125

Other debtors represent a standing deposit at Chessington Computer Services Ltd (2000-2001) and a deposit on account with Ofgem's solicitors (2000-2001).

Chessington provide payroll services to Ofgem and the deposit was held against payments that Chessington may need to make on Ofgem's behalf. The deposit was reduced by £259,000 to zero following a change in payment method.

Staff debtors represent loans outstanding in respect of 167 employees in total, 39 per cent of which, by value, are season ticket loans. Also included in staff debtors is an amount of £98,000 relating to housing advances in respect of 11 employees.

14. Cash at bank and in hand

	2001-2002 £000	2000-2001 £000
Balance at 1 April	3,499	(418)
Net cash inflow	4,206	3,917
Balance at 31 March	7,705	3,499

The Office of HM Paymaster General provides a current account banking service. The following balances were held:

Paymaster General	7,683	2,852
Overdraft at commercial banks (<i>see note 15</i>)	–	(4)
Cash at commercial banks and cash in hand	22	651
	7,705	3,499

Included in cash at bank and in hand on Schedule 3 is £7,705,000 (£7,683,000 at the Paymaster General and £22,000 at commercial banks). The prior year overdrawn accounts of £4,000 (at commercial banks) are shown within Creditors (*see note 15*).

The balance at 31 March comprises:

Cash due to be paid to the Consolidated Fund £7,705,000.

15. Creditors

	2001-2002 £000	2000-2001 £000
Amounts falling due within one year		
Trade creditors	2,014	4,174
Staff creditors	15	–
Deferred licence fees	1,105	–
Accruals	403	706
	3,537	4,880
Cash balance payable to the Consolidated Fund		
Surplus A-in-A	8,398	3,840
Actual surplus to be surrendered	–	747
Bank overdraft	–	4
	11,935	9,471

16. Provisions for liabilities and charges

	Early retirement £000	Severance £000	Pensions £000	Other £000	Total £000
Balance at 1 April 2001	1,127	1,695	272	9,464	12,558
Provided in the year	249	–	–	3,441	3,690
Provisions not required written back	–	–	(26)	–	(26)
Provision utilised in the year	(249)	(1,695)	–	(1,010)	(2,954)
Unwinding of discount	67	–	–	639	706
Net movement in year	67	(1,695)	(26)	3,070	1,416
Balance at 31 March 2002	1,194	–	246	12,534	13,974
Of which:					
Payable within one year	287	–	–	1,237	1,524

The Early Retirement provision relates to the costs of individuals who have retired early. Ofgem meet 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 £1,462,000.

The severance cost provision relates to the redundancy costs incurred in restructuring Ofgem. All of these costs were incurred within 12 months of the previous balance sheet date and had therefore not been discounted.

The Pension provision is in respect of the unfunded pension liabilities which fall to Ofgem for the previous Directors General and current Chief Executive.

Other provisions include the onerous costs of a building lease. This provision will be utilised over the remaining 13 years of the lease term.

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 £4,821,522 will be utilised on a straight-line basis over the lease term up to the first break in the lease, being 23 June 2017.

17. Revaluation reserve

	2001-2002 £000
Balance at 1 April 2001	471
Arising on revaluation during the year (net)	(128)
Transferred to General Fund in respect of realised element of the Revaluation reserve	(7)
Balance at 31 March 2002	336

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

18. Reconciliation of net operating cost to changes in General Fund

	2001-2002 £000	2000-2001 £000
Net operating cost for the year (Schedule 2)	(352)	(1)
Income not appropriated-in-aid paid to the Consolidated Fund	–	–
	<u>(352)</u>	<u>(1)</u>
Parliamentary Funding		
Class IX Vote 10 (Ofgem)	(8,398)	(3,840)
Surplus written off the grant for 1999-2000	–	2
Surplus written off the grant for 2001-2002	87	–
Transfer to General Fund in respect of realised element of Revaluation reserve	7	19
	<u>(8,391)</u>	<u>(3,523)</u>
Non-cash charges		
Cost of capital	(129)	264
Auditor's remuneration	42	32
	<u>(8,391)</u>	<u>(3,523)</u>
Net decrease in General Fund	<u>(8,743)</u>	<u>(3,524)</u>
General Fund at 1 April 2001	591	4,115
General Fund at 31 March 2002 (Schedule 3)	<u>(8,152)</u>	<u>591</u>

19. Capital commitments

	2001-2002 £000	2000-2001 £000
Contracted capital commitment (excluding VAT) for which no provision has been made	–	–

20. Commitments under operating leases

At 31 March 2002 Ofgem was committed to making the following payments during the next year in respect of operating leases expiring:

	2001-2002			Restated 2000-2001		
	Land and buildings	Other	Total	Land and buildings	Other	Total
	£000	£000	£000	£000	£000	£000
Within one year	-	-	-	-	-	-
Between 2 to 5 years	-	59	59	-	-	-
After 5 years	4,525	-	4,525	4,525	-	4,525
	4,525	59	4,584	4,525	-	4,525

21. Other commitments

Ofgem had not entered into any non-cancellable contracts (which are not operating leases) as at 31 March 2002.

22. Contingent liabilities

An amount is held on account with Ofgem's solicitors in respect of potential Ofgem liability in legal matters yet to be resolved.

23. Related party transactions

Ofgem collected £22.428m from licence fee payers, on behalf of the DTI, in respect of the costs of energywatch. These were transferred in full to the DTI.

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

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

24. Post balance sheet events

There were no reportable post balance sheet events at 31 March 2002.

25. Notes to Schedule 5

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

The 2000-2001 comparator figures have been re-stated to the (corporate plan) objectives for 2001-2002.

26. Derivatives and other financial instruments

Ofgem's activities are largely non-trading. Ofgem is therefore not exposed to the degree of financial risk faced by business entities. Ofgem has no independent powers to borrow or invest surplus funds. Except for 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.

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 an annual vote of Parliament, along with further grants of supply needed to meet Ofgem's Net Cash Requirement. Ofgem is not 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:

	Book value £000	Fair value £000	Basis of valuation
Primary financial instruments			
Financial assets			
Cash at bank	7,705	7,705	–
Financial liabilities			
Provisions	13,974	13,974	<i>see note (a)</i>

Note:

- a) As at 31 March 2002 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 6 per cent in real terms.

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