

# **Office of Gas and Electricity Markets**

## **Resource Accounts 2002-03**

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**Office of Gas and  
Electricity Markets  
Resource Accounts  
2002-03**

**(For the year ended 31 March 2003)**

*Ordered by the House of Commons to be printed  
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## Annual Report

### Introduction

These Resource Accounts have been prepared and published by the Office of Gas and Electricity Markets (Ofgem). The Accounts have been prepared under a direction issued by HM Treasury in accordance with section 5(2) of the Government Resources and Accounts Act 2000. The Accounts demonstrate the resources that have been used to deliver Ofgem's objectives. These Resource Accounts have been prepared in accordance with the guidance set out in the HM Treasury's Resource Accounting Manual.

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

This document contains the Accounts of Ofgem for the period 1 April 2002 to 31 March 2003. It should be read in conjunction with the Ofgem Annual Report for 2002-2003, which is published separately.

Ofgem is a non-ministerial government department. In the parts of the gas and electricity markets where competition is established and effective, Ofgem withdraws from direct price regulation and increasingly relies on competition powers to regulate companies' behaviour and protect domestic and commercial 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.*

This means working on behalf of consumers to secure gas and electricity supplies which are competitively priced, reliable, safe and, where consistent with these aims, cause as little harm as possible to the environment. The following priority headings were identified in the Plan and Budget for 2002-2003:

- Making markets work effectively
- Regulating monopoly networks intelligently
- Securing Britain's gas and electricity supplies
- Meeting Ofgem's social and environmental responsibilities, and
- Developing Ofgem's effectiveness and efficiency

### Operating and Financial Review

#### *Income Generation*

In 2002-2003 cash of £50.8m was received in respect of licence fees and other income mainly from property and charges for technical fees. Of this, £13.1m was collected from licence fee payers on behalf of DTI in respect of the costs of energywatch and subsequently transferred to DTI. Ofgem had an operating income of £38.2m as follows:

Cash receipts from licence fees	£45.1m
Cash receipts from deferred licence fees	£1.1m
Cash receipts from property, technical fees and others	£3.6m
Cash receipts from fees charged in prior years	<u>£1.0m</u>
	£50.8m
Less cash transferred to DTI	£13.1m
Less other payments	£0.7m
Less opening debtors	£3.8m
Add closing debtors	<u>£5.0m</u>
Operating Income	£38.2m

In addition to operating income of £38.2m, public funds were provided to meet the cost of work undertaken in respect of the Climate Change Levy (£0.22m).

An amount of £1.1m was over-recovered from licence fee payers and this will be offset against licence fee charges in 2003-2004.

### *Spending*

Total operating costs amounted to £38.5m. Three areas of expenditure absorbed 83 per cent of the total, payroll (40 per cent), contractors (19 per cent) and accommodation (24 per cent).

Capital expenditure in the year totalled £0.7m in respect of plant, furniture, office and computer equipment. Ofgem invested in a Combined Heat and Power (CHP) generator to provide power for its Millbank offices (£177k). Security devices are also being enhanced to protect staff from increased terrorist threat.

### *Output*

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 2002-2003 was as follows:

<b>Project</b>	<b>Corporate Plan (£000)</b>	<b>Actual (£000)</b>
BETTA	2,370	2,622
Electricity Trading Arrangements	1,130	936
Gas Trading Arrangements	1,040	962
Market Surveillance	710	542
Renewables	650	643
Quality of Service	540	761

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

### *Budgets and Liquidity*

Ofgem's budget is approved by Parliament following a consultation process with industry and other interested parties. For 2002-2003 Parliament approved a resource budget of £39.422m and a capital budget of £0.654m. In addition, DTI directed that a sum of £13.1m should be collected on behalf of energywatch; this amount was transferred to DTI, in full.

Competition Commission costs of £0.661m in respect of the AES/British Energy market abuse licence condition inquiry were received from generation licence holders, and in November 2002, a financial penalty of £2m was imposed on London Electricity. Both amounts were surrendered to the Exchequer.

In June 2002, £5m was drawn from the Contingency Fund to provide short term liquidity until first receipt of licence fees. This was fully repaid in August.

An amount of £1.9m due to be surrendered to the Exchequer will be retained to fund operations in 2003-2004 until adequate licence fee income is received.

*Finance For The Future*

Substantial provision has been made for liabilities arising from the merger of the 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 optimal levels and capital expenditure will sustain future Ofgem operations at Corporate Plan levels.

The balance sheet at 31 March 2003 shows negative Taxpayer's Equity of £10.4m. This reflects the inclusion of liabilities falling due in future years which are to be financed mainly by drawings from the UK Consolidated Fund. Such drawings will be from grants of Supply approved annually by Parliament to meet Ofgem's Net Cash Requirement. Further detail is provided in note 1.14 to the financial statements.

Statutory examining and testing services provided by Ofgem laboratories at Leicester were outsourced to SGS UK Ltd. during the year. Note 20 shows the income and costs to the date of transfer, one off costs and details of ongoing costs. Some costs of this change, particularly redundancy and continuing pension liability, have fallen to Ofgem and these have required additional provisions to be made to the value of £1.8m. In addition, a contingent liability for costs that may arise up to 31 January 2004 has also been noted – under the terms of the transfer contract Ofgem has no continuing liability after that date. Outsourcing has allowed sale of assets and this process will culminate in sale of the Leicester site and this should be completed in 2003-2004. Relevant assets have been written down to their realisation value where appropriate.

*Business Focus For The Future*

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

- Make competitive markets work successfully
- Regulate monopoly businesses effectively
- Secure Britain's gas and electricity supplies
- Help tackle fuel poverty, and
- Work towards a low carbon economy

**The Gas and Electricity Markets Authority**

The Authority comprises executive and non-executive members as shown below. The Chairman of the Authority is also currently 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. Initially, this was as Director General for Gas Supply from November 1998 and of Electricity Supply from January 1999 but following enactment of the Utilities Act 2000 he became Chairman of the Authority. His remuneration was set out in his contract and is subject to annual review in line with awards recommended by the Senior Salaries Review Body.

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

The non-executives are appointed by the Secretary of State for Trade and Industry after consulting the Chairman. Until September 2002 non-executives were remunerated by payment of an honorarium of £12,000 per annum, from October this was revised to £15,000 per annum.

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

On the 19 December 2002 the Minister for Energy and Construction (Brian Wilson Esq. MP) issued a statement stating that the current Chief Executive and Chairman (Callum McCarthy) planned to step down in October 2003 at the end of his current term. The statement said that thereafter the two roles of Chairman and Chief Executive would be separated. The Department of Trade and Industry announced on 12 May 2003 that John Mogg would take over as Chairman following Callum McCarthy's departure. The new Chief Executive has not been appointed yet.

#### *Management Committee*

The Management Committee comprised all the executive members shown in Note 2. Its role is to assist the Chief Executive in the day-to-day running of the business. It meets weekly and decides, subject to the overall direction and control of the Authority, on all matters relating to policy, management and resources.

Two members of the Committee, Eileen Marshall, and Gill Whittington, left Ofgem at the end of March 2003. Gill Whittington was succeeded by Ofgem's Finance Director (Roy Field), Eileen Marshall by Boaz Moselle. Richard Ramsay left Ofgem at the beginning of May 2003 and was succeeded by David Gray.

#### *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. In January 2003 the non-executive members were re-appointed to the Audit Committee for a further year.

The Chief Operating Officer and other staff, the external auditors (National Audit Office) and the internal auditors 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 meets at least three times a year.

#### *Executive Members of the Authority who served during the year*

Callum McCarthy, 59, 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 & Trading Arrangements) in November 2000. Appointment ceased on 31 March 2003.

Dr Boaz Moselle, 38, was appointed Managing Director (Competition & Trading Arrangements) in March 2003. Prior to joining Ofgem, Dr Moselle was a partner in the Brattle Group. The company provided consultancy services to Ofgem during the year.

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

Gill Whittington, 44, was appointed Chief Operating Officer in November 2000. Appointment ceased on 31 March 2003.

Richard Ramsay, 53, was appointed Managing Director (Regulation & Financial Affairs) in March 2001. Appointment ceased on 9 May 2003.

#### *Non-Executive Members of the Authority*

John Belcher joined the Authority as a non-executive member in January 2001. His current appointment ends in January 2005.

Lord Currie joined the Authority as a non-executive member in December 2000. He resigned on 30 April 2002.

Richard Farrant joined the Authority as a non-executive member in December 2000. His current appointment ends in December 2003.

Margaret Ford joined the Authority as a non-executive member in December 2000. Her current appointment ends in December 2004.

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

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

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

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

### **Pension Liabilities**

The main pension scheme for employees is the Principal Civil Service Pension Scheme (PCSPS). The pension liabilities arising from Ofgem's employees' membership of the PCSPS are not provided for in these accounts in accordance with the Treasury instructions and are described in Notes 1.8 and 2 to the financial statements.

### **Equal Opportunities**

Ofgem's Equal Opportunities Policy aims to ensure that no eligible job applicant or employee receives less favourable treatment on grounds of age, disability, sex, race, ethnic or national origin, sexual orientation, religion or religious affiliation or because the employee works part-time.

At the end of the financial year:

- just under 43 per cent of all staff were female
- 30 per cent of senior civil service members in Ofgem were women
- 36 per cent of staff in managerial grades were women
- 18 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**

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



During the year Ofgem continued to give a high priority to training and developing all staff to enhance their professionalism in pursuit of Ofgem's objectives. To this end, Ofgem has developed a training plan setting out the themes that link training and development activity across the organisation to meet Ofgem's wide ranging goals and priorities.

This commitment is reflected in expenditure: £489k was spent on training during 2002-2003.

### **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 2002-2003 Ofgem paid 97 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

5 June 2003

## Statement of Accounting Officer's responsibilities

Under the Government Resource and Accounts Act 2000, Ofgem is required to prepare resource accounts for each financial year, in conformity with a Treasury direction, detailing the resources acquired, held, or disposed of during the year and the use of resources by Ofgem during the year.

The resource accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of Ofgem at the year-end and of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year.

The Treasury has appointed the Chief Executive as Ofgem's Accounting Officer with responsibility for preparing Ofgem's accounts and for transmitting them to the Comptroller and Auditor General.

In preparing the resource accounts, the Accounting Officer is required to comply with the Resource Accounting Manual prepared by the Treasury and, in particular, to:

- observe all relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- make judgements and estimates on a reasonable basis
- state whether applicable accounting standards, as set out in the Resource Accounting Manual, have been followed, and disclose and explain any material departures in the accounts, and
- prepare the financial statements on a going concern basis.

The relevant responsibilities of the Accounting Officer (including his responsibility for the propriety and regularity of public finances for which an Accounting Officer is answerable, for the keeping of proper records and for safeguarding Ofgem's assets) are set out in the Accounting Officers' Memorandum, issued by the Treasury and published in Government Accounting.

## Statement on Internal Control

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. This process has been in place for the year ended 31 March 2003 and up to the date of approval of the annual report and accounts and accords with Treasury guidance.

As Accounting Officer, I also have responsibility for reviewing the effectiveness of internal control. Ofgem has established the following processes:

- the Authority which meets at least 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. These are recorded in a risk register and current risk status is reviewed every six months by the Management Committee and annually by the Authority and its Audit Committee, leading to a risk management Action Plan
- Ofgem project managers are trained in risk management and documented project management procedures include risk management
- all new projects require a project impact assessment as part of their initiation documentation and this includes a review of all material risks involved in the project and its objectives
- a properly constituted Audit Committee comprising non-executive members of the Authority which reports directly to the Authority
- independent Internal Audit (provided under contract) reports to the Audit Committee to standards defined in the Government Internal Audit Manual and agrees a rolling programme of audit for each forthcoming year according to the Committee's priorities
- the Head of Internal Audit presents a yearly review of the audit programme, including an assessment of general risk, and an opinion on the adequacy and effectiveness of Ofgem's system of internal control together with recommendations for improvement, and

- a process of Internal Control questionnaires requires all Directors to consider and report on all aspects of financial control in their own area.

As part of Ofgem's maintenance and development of risk management, two key changes will come into effect during the next financial year:

- a new panel for economic consultancy advice will be set up to standardise procedures for the selection, management and performance assessment of such consultants, and
- following a tendering process, a new Internal Audit service provider, Chiene and Tait, has been appointed with effect from 1 April 2003.

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

5 June 2003

## 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 14 to 38 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 20 to 22.

### Respective responsibilities of the Accounting Officer and Auditor

As described on page 9, 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 there under 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 profession's 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 there under, 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 3 to 8, 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 10 and 11 reflects the Department's compliance with Treasury's guidance, "Corporate governance: statement on internal control". I report if it does not meet the requirements specified by the Treasury, or if the statement is misleading or inconsistent with other information of which I am aware from my audit of the financial statements.

### 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 2003 and of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the year then ended, and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by the Treasury; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

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

12 June 2003

**SCHEDULE 1****Summary of Resource Outturn***for the year ended 31 March 2003*

	2002-2003						Net Total Outturn compared with Estimate saving/ (excess)	Prior year outturn
	Estimate			Outturn				
	Gross expenditure £000	A-in-A £000	Net total £000	Gross expenditure £000	A-in-A £000	Net total £000		
<b>Request for Resources 1*</b> Protecting consumers by regulating monopolies and promoting competition in the electricity and gas industry (Notes 4, 5, 8)	52,302	(52,301)	1	51,349	(51,348)	1	-	2
<b>Request for Resources 2</b> Expenditure in connection with the Climate Change Levy (Note 8)	220	-	220	220	-	220	-	350
<b>Total Resources</b>	<b>52,522</b>	<b>(52,301)</b>	<b>221</b>	<b>51,569</b>	<b>(51,348)</b>	<b>221</b>	-	<b>352</b>
Non-Operating Cost A-in-A	-	-	(75)	-	-	(75)	-	(34)
<b>Net Cash Requirement</b>	-	-	<b>676</b>	-	-	<b>221</b>	<b>455</b>	<b>352</b>

**Reconciliation of resources to cash requirement**

	Note	£000	£000	£000
<b>Net total resources</b>		<b>221</b>	<b>221</b>	-
<b>Capital:</b>				
Purchase of fixed assets	9,10	654	707	(53)
Investments		-	-	-
Repayment of deposit	12	-	(100)	100
<b>Non-operating cost A-in-A:</b>				
Book value of fixed asset disposals	10	(75)	(75)	-
		579	532	47
<b>Accrual adjustments:</b>				
Non-cash items	3	(1,060)	(490)	(570)
Changes in working capital other than cash	11	-	(437)	437
Changes in creditors falling due after more than one year		-	-	-
Use of provision	15	936	(1,241)	2,177
<b>Excess cash to be CFERd</b>	14	-	<b>1,636</b>	<b>(1,636)</b>
		(124)	(532)	408
<b>Net cash requirement (Schedule 4)</b>		<b>676</b>	<b>221</b>	<b>455</b>

\*Request for resources 1 includes an amount of £13,067,000 in respect of energywatch expenditure as per Note 5.

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

(i) Increase in provisions to cover the costs of outsourcing statutory examining and testing services, which also led to a higher than anticipated excess cash to be CFER'd.

**Analysis of income payable to the Consolidated Fund**

In addition to appropriations in aid, the following income relates to Ofgem and is payable to the Consolidated Fund (cash receipts being shown in italics):

	<b>2002-2003 forecast</b>		<b>2002-2003 outturn</b>	
	Income	<i>Receipts</i>	Income	<i>Receipts</i>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Operating income and receipts – excess A-in-A	-	-	-	-
Non-operating income and receipts – excess A-in-A	-	-	290	262
Subtotal	-	-	290	262
Other operating income and receipts not classified as A-in-A	-	-	-	-
Other non-operating income and receipts not classified as A-in-A	-	-	-	-
Other amounts collectable on behalf of the Consolidated Fund	-	-	-	-
Excess cash surrenderable to the Consolidated Fund	-	-	1,636	1,015
Fines levied and CFER'd	-	-	2,000	2,000
<b>Total</b>	-	-	<b>3,926</b>	<b>3,277</b>

**Actual outturn – cash:**

Net cash requirement: Outturn net requirement £221,000.00 which is £455,000.00 less than estimate.  
The actual cash surrenderable to the Consolidated Fund is £1,925,531.46



**SCHEDULE 2****Operating Cost Statement***for the year ended 31 March 2003*

		<b>2002-2003</b>		<b>2001-2002</b>
	Note	<u>£000</u>	<u>£000</u>	<u>£000</u>
<b>Administration costs</b>				
Request for resources 1				
Staff costs	2,20	15,480		12,699
Other administration costs	3,20	<u>22,662</u>		24,485
			38,142	
Request for resources 2				
Other administration costs	3,20	<u>220</u>		350
			220	
<b>Gross administration costs</b>			<b><u>38,362</u></b>	<b><u>37,534</u></b>
Operating income	4,20		(38,141)	(37,182)
<b>Net administration costs</b>			<b><u>221</u></b>	<b><u>352</u></b>
<b>Programme costs</b>				
Request for Resources 1				
Expenditure	5	13,207		22,658
Less income	5	<u>(13,207)</u>		<u>(22,658)</u>
<b>Net Programme Cost</b>			<b>-</b>	<b>-</b>
<b>NET OPERATING COST</b>			<b><u>221</u></b>	<b><u>352</u></b>
<b>NET RESOURCE OUTTURN</b>	7,8		<b><u>221</u></b>	<b><u>352</u></b>

**Statement of Recognised Gains and Losses***for the year ended 31 March 2003*

	<b>2002-2003</b>	<b>2001-2002</b>
	<u>£000</u>	<u>£000</u>
Net operating cost	(221)	(352)
Net loss on revaluation of tangible fixed assets	(174)	(128)
<b>Total recognised losses for the financial year</b>	<b><u>(395)</u></b>	<b><u>(480)</u></b>

**All activities are continuing.**

**SCHEDULE 3****Balance Sheet***as at 31 March 2003*

	Note	31 March 2003	Restated 31 March 2002
		<u>£000</u>	<u>£000</u>
<b>Fixed assets</b>			
Tangible assets	9	5,999	6,865
		<u>5,999</u>	<u>6,865</u>
<b>Current assets</b>			
Debtors	12	4,998	3,788
Cash at bank and in hand	13	1,277	7,705
		<u>6,275</u>	<u>11,493</u>
<b>Creditors (due within one year)</b>	14	<u>(7,423)</u>	<u>(12,200)</u>
<b>Net current (liabilities)/assets</b>		<u>(1,148)</u>	<u>(707)</u>
<b>Total assets less current liabilities</b>		<u>4,851</u>	<u>6,158</u>
<b>Provisions for liabilities and charges</b>	15	(15,252)	(13,974)
		<u>(10,401)</u>	<u>(7,816)</u>
<b>Taxpayers equity</b>			
General fund	17	(10,463)	(8,152)
Revaluation reserve	16	62	336
		<u>(10,401)</u>	<u>(7,816)</u>

Callum McCarthy  
Accounting Officer

5 June 2003

**SCHEDULE 4****Cash Flow Statement**

for the year ended 31 March 2003

	<b>2002-2003</b>	<b>Restated 2001-2002</b>
	<u>£000</u>	<u>£000</u>
<b>Net cash inflow from operating activities (see a below)</b>	<b>(1,694)</b>	<b>(8,737)</b>
<b>Capital expenditure and financial investment (see b below)</b>	<b>(11)</b>	<b>691</b>
<b>Payments to the Consolidated Fund</b>	<b>8,398</b>	<b>3,840</b>
<b>Financing from the Consolidated Fund</b>	<b>(265)</b>	<b>-</b>
<b>Decrease/(Increase) in cash in the period</b>	<b><u>6,428</u></b>	<b><u>(4,206)</u></b>

**Reconciliation of operating cost to operating cash flows**

	Note	<b>2002-2003</b>	<b>2001-2002</b>
		<u>£000</u>	<u>£000</u>
<b>Net operating cost</b>		221	352
Adjust for non-cash transactions	3,4	(252)	(1,233)
Adjust for movements in working capital other than cash	11	(385)	(6,440)
Adjust for transfer to provisions	15	(1,278)	(1,416)
<b>Net cash inflow from operating activities (a)</b>		<b><u>(1,694)</u></b>	<b><u>(8,737)</u></b>
<b>Analysis of capital expenditure and financial investment</b>			
Fixed asset additions	9	707	884
Proceeds of disposal of fixed assets	10	(618)	(34)
Repayment of deposits	12	(100)	(159)
<b>Net cash (inflow)/outflow from investing activities (b)</b>		<b><u>(11)</u></b>	<b><u>691</u></b>
<b>Analysis of financing and reconciliation to net cash requirement</b>			
From the Consolidated Fund (Supply) – prior year <sup>1</sup>	17	265	-
Advances from the Contingency Fund		5,000	33,000
Repayment to the Contingency Fund		(5,000)	(33,000)
<b>Net financing</b>		<b>265</b>	<b>-</b>
Decrease/(Increase) in cash	13	6,428	(4,206)
<b>Net cash flows other than financing</b>		<b><u>6,693</u></b>	<b><u>(4,206)</u></b>
<b>Adjustment for payments and receipts not related to Supply:</b>			
Amounts due to the Consolidated Fund in prior year and paid over	17	(8,398)	(3,840)
Amounts due to the Consolidated Fund and not paid over	14,17	1,926	8,398
Amounts collected in year <sup>2</sup>		15,728	22,428
Amounts paid over in year <sup>2</sup>		(15,728)	(22,428)
<b>Net Cash Requirement (Schedule 1)</b>		<b>221</b>	<b>352</b>

<sup>1</sup> Amount of grant actually issued to support prior year net cash requirement = £352,000.00<sup>2</sup> Amounts collected and paid over relate to energywatch costs (£13.067m), fines levied (£2.0m) and Competition Commission costs (£0.661m)

**SCHEDULE 5****Resources by Departmental Aim and Objectives***for the year ended 31 March 2003*

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

Objective <sup>1</sup>	2002-2003			2001-2002		
	Gross	Income	Net total	Restated Gross	Restated Income	Restated Net total
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
1. Making markets work effectively	22,031	(22,031)	-	20,970	(20,970)	-
2. Regulating monopoly business intelligently	10,861	(10,861)	-	11,843	(11,843)	-
3. Meeting Ofgem's social and environmental responsibilities	3,511	(3,291)	220	2,991	(2,641)	350
4. Developing Ofgem's effectiveness and efficiency	2,099	(2,098)	1	1,960	(1,958)	2
<b>Net operating cost</b>	<b><u>38,502</u></b>	<b><u>(38,281)</u></b>	<b><u>221</u></b>	<b><u>37,764</u></b>	<b><u>(37,412)</u></b>	<b><u>352</u></b>

<sup>1</sup>See note 26.

## Notes to the Departmental Resource Accounts

### 1. Statement of Accounting Policies

The financial statements have been prepared in accordance with the 2002-03 Resource Accounting Manual (RAM) issued by HM Treasury. The accounting policies contained in the RAM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where the RAM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of Ofgem for the purpose of giving a true and fair view has been selected. The particular accounting policies adopted by Ofgem are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

#### 1.1 Accounting Conventions

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

#### 1.2 Tangible Fixed Assets and Depreciation

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

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

Freehold land is not depreciated.

Depreciation is provided at rates calculated to write off the valuation of freehold buildings and other tangible fixed assets by equal 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, furniture and fittings	5 to 17 years
Specialist laboratory equipment	5 to 10 years
Computers and IT equipment	3 to 5 years
Vehicles	3 years

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

#### 1.3 Provisions

Ofgem makes provision for liabilities and charges where, at the balance sheet date, a legal or constructive liability exists (i.e. a present obligation from past events exists), where the transfer of economic benefits is probable and a reasonable estimate can be made.

Where the time value of money is material, Ofgem discounts the provision to its present value using a discount rate of 6 per cent, the Government's standard rate. As directed by HM Treasury this rate will change to 3.5 per cent with effect from 1 April 2003. Each year the financing charges in the Operating Cost Statement include the adjustments to amortise one year's discount and restate liabilities to current price levels.

#### 1.4 Operating income

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

Since all licence costs are recovered via the licence fees, and these are invoiced in two tranches during the year based on estimated costs, any over recovery is treated as deferred income within Creditors and any under recovery as accrued income within Debtors.

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

### **1.5 Administration and Programme Expenditure**

The operating cost statement is analysed between administration and programme costs. Administration costs reflect the costs of running Ofgem. These include both administration costs and associated operating income. Income is analysed in the notes between that which, under the administrative cost-control regime, is allowed to be offset against gross administration costs in determining the outturn against the administration cost limit, and that operating income which is not. Programme costs reflect non-administration costs in respect of energywatch and the Department of Trade and Industry costs.

### **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 19, "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 3 (Debtors and Creditors now reflect undrawn grant), Schedule 4 (amounts collected and paid over to the Consolidated Fund now shown) and Schedule 5 (to reflect changes to Ofgem corporate objectives) are fully reflected in the corresponding notes.

### 1.14 Going concern

The balance sheet at 31 March 2003 shows a negative taxpayers equity of £10.4M. This reflects the inclusion of liabilities falling due in future years, which are to be financed mainly by drawings from the UK Consolidated Fund. Such drawings will be from grants of supply approved annually by Parliament, to meet Ofgem's Net Cash Requirement. Under the Government Resources and Accounts Act 2000, no money may be drawn from the Fund other than required for the service of the specified year or retained in excess of that need. All unspent monies, including those derived from Ofgem's income, are surrenderable to the Fund.

In common with other government departments, the future financing of Ofgem's liabilities is accordingly to be met by future grants of Supply and the application of future income, both to be approved annually by Parliament. Such approval for amounts required for 2003-2004 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 for the preparation of these financial statements.

### 1.15 Contingent liabilities

In addition to contingent liabilities disclosed in accordance with FRS 12, Ofgem discloses for parliamentary reporting and accountability purposes certain contingent liabilities where the likelihood of a transfer of economic benefit is remote. These comprise all items (whether or not they arise in the normal course of business) over £100,000 (or lower, where required by specific statute or where material in the context of resource accounts) which are required by the Resource Accounting Manual to be noted in the resource accounts.

Where the time value of money is material, contingent liabilities which are required to be disclosed under FRS 12 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by FRS 12 are stated at the amounts reported to Parliament.

## 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	2002-2003	Restated 2001-2002
	No.	No.
Making markets work effectively	182	175
Regulating monopoly businesses intelligently	88	91
Meeting Ofgem's Social and environmental responsibilities	26	23
Developing Ofgem's effectiveness and efficiency	16	14
	<u>312</u>	<u>303</u>

The aggregate payroll costs of these staff were as follows:

	2002-2003	2001-2002
	£000	£000
Wages and salaries	10,980	10,008
Social security costs	911	806
Pension costs	1,552	1,329
Early retirement and severance costs	184	397
<b>Sub Total</b>	<u>13,627</u>	<u>12,540</u>
Inward secondments	-	-
<b>Total</b>	<u>13,627</u>	<u>12,540</u>
Less recoveries in respect of outward secondments	(149)	(64)
<b>Provisions:</b>		
Provided in year	<u>2,002</u>	<u>223</u>
<b>Total Net Costs</b>	<u>15,480</u>	<u>12,699</u>

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 1999 and details can be found in the separate scheme statement of the PCSPS.

For 2002-2003 employer contributions of £1,552,000 (£1,329,000 in 2001-2002) 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.

The salary and pension entitlements of the executive and the non-executive members were within the following ranges:



## The Gas and Electricity Markets Authority

Name Position	Age	Salary including performance pay	Real increase in pension at 60	Total accrued pension at 60 at 31 March 2003	Benefits in kind (rounded to the nearest £100)	Employers contribution to partnership pension account including risk benefit cover-to nearest £100
		£000	£000	£000		
Callum McCarthy Chairman	59	170 – 175	N/A	N/A	19,800	N/A
Dr Eileen Marshall Managing Director to 31 March 2003	60	140 – 145	0-2.5	15-20	N/A	N/A
Dr Boaz Moselle* Managing Director from 10 March 2003	38	5 – 10	N/A	N/A	N/A	N/A
John Neilson Managing Director	43	105 – 110	2.5-5	30-35	N/A	N/A
Richard Ramsay Managing Director	53	155 – 160	N/A	N/A	N/A	N/A
Gill Whittington Chief Operating Officer to 31 March 2003	44	115 – 120	N/A	N/A	N/A	N/A

\*opted to join 'premium' pension scheme

## Non-executive members of the Authority

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

The following salary and pension details are provided in accordance with the 2002-2003 Resource Accounting Manual (RAM) issued by HM Treasury.

Salary

(i) 'Salary' includes gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation.

Pension

(ii) Pension benefits are provided through the Civil Service pension arrangements. From 1 October 2002, civil servants may be in one of three statutory based "final salary" defined benefit schemes (**classic**, **premium**, and **classic plus**). New entrants after 1 October 2002 may choose between membership of **premium** or joining a good quality "money purchase" stakeholder based arrangement with a significant employer contribution (**partnership pension account**).

**(a) Classic Scheme**

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. 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.

**(b) Premium**

Benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum, but members may commute some of their pension to provide a lump sum up to a maximum of 3/80ths of final pensionable earnings for each year of service or 2.25 times pension if greater (the commutation rate is £12 of lump sum for each £1 of pension given up). For the purposes of pension disclosure the tables assume maximum commutation. Members pay contributions of 3.5 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse or eligible partner at a rate of 3/8ths the member's pension (before any commutation). On death in service, the scheme pays a lump-sum benefit of three times pensionable earnings 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. Where the members' ill health is such that it permanently prevents them undertaking any gainful employment, service is enhanced to what they would have accrued at age 60.

**(c) Classic Plus Scheme**

This is essentially a variation of **premium**, but with benefits in respect of service before 1 October 2002 calculated broadly as per **classic**.

Pensions payable under **classic**, **premium**, and **classic plus** are increased in line with the Retail Prices Index.

**(d) Partnership Pension Account**

This is a stakeholder-type arrangement where the employer pays a basic contribution of between 3 per cent and 12.5 per cent (depending on the age of the member) into a stakeholder pension product. Employees do not have to contribute but where they do make contributions, these will be matched by the employer up to a limit of 3 per cent (in addition to the employer's basic contribution). Employers also contribute a further 0.8 per cent of pensionable salary to cover the cost of risk benefit cover (death in service and ill health retirement). The member may retire at any time between the ages of 50 and 75 and use the accumulated fund to purchase a pension. The member may choose to take up 25 per cent of the fund as a lump sum.

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.

**Benefits in Kind**

(iii) The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as a taxable emolument. Callum McCarthy had the use of an allocated car and chauffeur.

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**

	<u>2002-2003</u>	<u>2001-2002</u>
	<u>£000</u>	<u>£000</u>
<b>Rental under operating leases:</b>		
Hire of office equipment	82	55
Other operating leases	6,400	4,111
	<u>6,482</u>	<u>4,166</u>
<b>Non-cash items (Notes a &amp; b):</b>		
Auditors' remuneration and expenses*	45	42
Depreciation	896	879
Loss on disposal of fixed assets	-	112
Capital charge	(490)	(129)
Diminution in value of fixed assets	54	329
	<u>505</u>	<u>1,233</u>
<b>Other expenditure:</b>		
Contractors	7,182	6,378
Bad debts	-	14
Travel and subsistence	577	571
Hospitality	95	76
Honoraria to non-executive members	80	72
	<u>7,934</u>	<u>7,111</u>
<b>Provisions:</b>		
Provided in year	285	3,441
Unwinding of the discount	534	706
	<u>819</u>	<u>4,147</u>
<b>Other</b>	<u>7,142</u>	<u>8,178</u>
	<u>22,882</u>	<u>24,835</u>

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

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

**Note a** - the total of non-cash transactions included in the Reconciliation of operating costs to operating cashflows in Schedule 4 comprises:

	<u>2002-2003</u>
	<u>£000</u>
Other administration costs - non-cash items (as above)	505
Less non-cash income profit on sale of fixed assets	(253)
<b>Total non-cash transactions</b>	<u>252</u>

**Note b** - the total of non-cash transactions included in the Reconciliation of resources to cash requirement comprises:

	<u>2002-2003</u>
	<u>£000</u>
Total non-cash transactions as above	252
Adjust for profits and losses on disposal of fixed assets profits on disposal of tangible fixed assets	253
<b>Non-cash items per reconciliation of resources to cash requirement</b>	<u>505</u>

#### 4. Operating income

Operating income not appropriated in aid (i.e. transferred to the Consolidated Fund) is analysed for resource budget purposes between that which is included in public expenditure and that which is not (see note 7). In 2002-03, all operating income not classified as A in A was within public expenditure.

##### Reconciliation to Operating Cost Statement

	2002-03	Transfer of estimate cover	Netted off gross expenditure in sub-head	Payable to Consolidated Fund	Transactions between requests for resources	Operating Cost Statement
	Resource Outturn					Income
	A-in-A					
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Administrative income:						
Fees and charges to external customers	34,965	-	-	-	-	34,965
Fees and charges to other departments	3,176	-	-	-	-	3,176
	<u>38,141</u>	-	-	-	-	<u>38,141</u>
Programme income:						
Fossil Fuel Levy	140	-	-	-	-	140
Amounts collected for energywatch	13,067	-	-	-	-	13,067
<b>Total</b>	<b><u>51,348</u></b>	-	-	-	-	<b><u>51,348</u></b>

##### Reconciliation to Operating Cost Statement

	2001-02	Transfer of estimate cover	Netted off gross expenditure in sub-head	Payable to Consolidated Fund	Transactions between requests for resources	Operating Cost Statement
	Resource Outturn					Income
	A-in-A					
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Administrative income:						
Fees and charges to external customers	37,180	-	-	-	-	37,180
Fees and charges to other departments	2	-	-	-	-	2
	<u>37,182</u>	-	-	-	-	<u>37,182</u>
Programme income:						
Fossil Fuel Levy	230	-	-	-	-	230
Amounts collected for energywatch	22,428	-	-	-	-	22,428
<b>Total</b>	<b><u>59,840</u></b>	-	-	-	-	<b><u>59,840</u></b>

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

	2002-2003			2001-2002		
	Income	Costs	Surplus/ deficit	Income	Costs	Surplus/ deficit
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
<b>Administration income</b>						
<b>Gas and Electricity:</b>						
Licence fees (external)	33,197	33,418	221	32,865	33,217	352
Attributable to other government departments	122	122	-	2	2	-
Other	4,822	4,822	-	4,315	4,315	-
<b>Subtotal</b>	<b>38,141</b>	<b>38,362</b>	<b>221</b>	<b>37,182</b>	<b>37,534</b>	<b>352</b>
<b>Programme income</b>						
Other	140	140	-	230	230	-
<b>Total</b>	<b>38,281</b>	<b>38,502</b>	<b>221</b>	<b>37,412</b>	<b>37,764</b>	<b>352</b>

All of the above operating income was appropriated in aid. Appropriations-in-Aid represent income due to Ofgem that can be retained for offset against other public expenditure. This contrasts with CFERs, which are remitted by Ofgem to the Consolidated Fund.

<b>Other income includes:</b>	2002-2003	2001-2002
	<u>£000</u>	<u>£000</u>
Rent received:		
Department for Environment, Food and Rural Affairs (Defra)	3,054	-
External tenants	20	2,148
Profit on disposal of fixed assets	253	-
Miscellaneous	1,495	2,167
	<u>4,822</u>	<u>4,315</u>

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

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

	2002-2003	2001-2002
	<u>£000</u>	<u>£000</u>
Total income from licence fees	46,264	55,293
Less: Ofgem licence fee income	<u>(33,197)</u>	<u>(32,865)</u>
Amount collected and paid to the DTI for the costs of energywatch	13,067	22,428
Add: Fossil Fuel Levy income (see note 4)	140	230
Programme income	<u>13,207</u>	<u>22,658</u>

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

Total programme income and expenditure is reflected in Schedule 2 at £13,207,000.

## 6. Administration cost limits

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

	<u>2002-2003</u>		<u>2001-2002</u>	
	<u>£000</u>		<u>£000</u>	
	<b>Outturn</b>	<b>Limits</b>	<b>Outturn</b>	<b>Limits</b>
<b>Request for resources 1</b>				
Protecting consumers by regulating monopolies and promoting competition in the electricity and gas industry	37,682	38,001	36,105	37,000
<b>Request for resources 2</b>				
Expenditure in connection with the Climate Change Levy	220	220	350	350
	<u>37,902</u>	<u>38,221</u>	<u>36,455</u>	<u>37,350</u>

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

	<u>2002-2003</u>	<u>2001-2002</u>
	<u>£000</u>	<u>£000</u>
Net operating cost	221	352
Remove non - supply expenditure and income, including income scored as CFER	-	-
Net resource outturn (subject to Supply procedures)	<u>221</u>	<u>352</u>

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.

## 8. Analysis of net resource outturn and net operating costs by function

	Admin	Other current	2002-2003 £000		Estimate	Net total outturn compared with Estimate
			A-in-A	Net total		
<b>Request for resources 1</b>						
Protecting consumers by regulating monopolies and promoting competition in the electricity and gas industry	38,142	140	38,281	1	1	-
<b>Request for resources 2</b>						
Expenditure in connection with the Climate Change Levy	220	-	-	220	220	-
<b>Resource outturn</b>	<u>38,362</u>	<u>140</u>	<u>38,281</u>	<u>221</u>	<u>221</u>	-
<b>Non supply expenditure</b>				-	-	-
<b>Non A-in-A operating income</b>				-	-	-
<b>Net operating cost</b>				<u>221</u>	<u>221</u>	-

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

## 9. Tangible fixed assets

	Land and buildings	Office equipment & furniture	Computer equipment	Laboratory equipment	Leasehold works	Motor vehicles	Total
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
<b>Cost or valuation</b>							
At 1 April 2002	1,410	2,222	1,090	492	4,106	87	9,407
Additions	-	228	479	-	-	-	707
Disposals	(410)	(509)	(64)	(485)	-	(40)	(1,508)
Revaluation	(200)	37	(53)	(1)	-	-	(217)
<b>At 31 March 2003</b>	<b>800</b>	<b>1,978</b>	<b>1,452</b>	<b>6</b>	<b>4,106</b>	<b>47</b>	<b>8,389</b>
<b>Depreciation</b>							
At 1 April 2002	8	1,216	522	453	294	49	2,542
Charged in year	6	303	316	10	261	-	896
Disposals	(7)	(505)	(62)	(459)	-	(24)	(1,057)
Revaluations	(5)	15	(1)	-	-	-	9
<b>At 31 March 2003</b>	<b>2</b>	<b>1,029</b>	<b>775</b>	<b>4</b>	<b>555</b>	<b>25</b>	<b>2,390</b>
<b>Net book value</b>							
<b>at 31 March 2003</b>	<b>798</b>	<b>949</b>	<b>677</b>	<b>2</b>	<b>3,551</b>	<b>22</b>	<b>5,999</b>
<b>at 31 March 2002</b>	<b>1,402</b>	<b>1,006</b>	<b>568</b>	<b>39</b>	<b>3,812</b>	<b>38</b>	<b>6,865</b>

Freehold land and buildings were revalued at £800,000 on 20 January 2003 by DTZ Debenham Tie Leung (International Property Advisors), on the basis of open market value of freehold interest. The valuation has been made in accordance with the appropriate sections of the current Practice Statements and Guidance Notes contained within the Appraisal and Valuation Manual issued by the Royal Institute of Chartered Surveyors. In accordance with asset policy, the assets will be revalued in the intervening years using the appropriate indices.

Outsourcing of the statutory examining and testing services has allowed the sale of Ofgem's assets at Leicester. Three of the four buildings, specialist laboratory equipment, and general office equipment with a total net book value of £356k (Cost £1,463k depreciation £1,107k) have now been sold. It is planned to sell the remaining building in 2003-2004.

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.



**10. Analysis of capital expenditure and associated A-in-A**

	<b>2002-2003</b>		
	<b>Capital expenditure</b>	<b>A-in-A</b>	<b>Net total</b>
	<u>£000</u>	<u>£000</u>	<u>£000</u>
<b>Request for resources 1</b>			
Protecting consumers by regulating monopolies and promoting competition in the electricity and gas industry	707	(75)	632
<b>Request for resources 2</b>			
Expenditure in connection with the Climate Change Levy	-	-	-
<b>Total</b>	<u>707</u>	<u>(75)</u>	<u>632</u>

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

	<b>2001-2002</b>		
	<b>Capital expenditure</b>	<b>A-in-A</b>	<b>Net total</b>
	<u>£000</u>	<u>£000</u>	<u>£000</u>
<b>Request for resources 1</b>			
Protecting consumers by regulating monopolies and promoting competition in the electricity and gas industry	884	(34)	850
<b>Request for resources 2</b>			
Expenditure in connection with the Climate Change Levy	-	-	-
<b>Total</b>	<u>884</u>	<u>(34)</u>	<u>850</u>

**11. Movements in working capital other than cash**

	<b>2002-2003</b>	<b>2001-2002</b>
	<u>£000</u>	<u>£000</u>
Increase/(decrease) in debtors (see note 12)	1,354	(7,783)
(Increase)/decrease in creditors (see note 14)	(1,739)	1,343
<b>Net decrease in working capital other than cash</b>	<u>(385)</u>	<u>(6,440)</u>
Less: capital creditors	-	-
	<u>(385)</u>	<u>(6,440)</u>

Debtors shown under note 12 as other debtors and the undrawn grant are excluded from the movement in working capital.

**12. Debtors**

	<b>2002-2003</b>	<b>Restated</b>
	<u>£000</u>	<u>2001-2002</u>
		<u>£000</u>
Amounts falling due within one year		
Trade debtors	1,058	266
Accrued fees	894	168
Undrawn grant	221	265
Other debtors	-	100
Prepayments	2,017	2,051
HM Customs and Excise (VAT)	590	756
Staff debtors	218	182
	<u>4,998</u>	<u>3,788</u>

Other debtors 2001-2002 represented a deposit on account with Ofgem's solicitors. The deposit was utilised during the the year to settle Ofgem's liability in a legal matter.

Staff debtors represent loans outstanding, of which £87,000 relates to season ticket loans for 106 employees; and £131,000 relates to housing advances in respect of 8 employees.

Trade debtors of £1,058k includes a bad debt provision of £51k.

The 2001-02 comparator figures have been restated to include undrawn grant.

**13. Cash at bank and in hand**

	<b>2002-2003</b>	<b>2001-2002</b>
	<u>£000</u>	<u>£000</u>
<b>Balance at 1 April</b>	7,705	3,499
Net cash (outflow)/inflow	(6,428)	4,206
<b>Balance at 31 March</b>	<u>1,277</u>	<u>7,705</u>

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

Paymaster General	1,248	7,683
Overdraft at commercial banks	-	-
Cash at commercial banks and cash in hand	29	22
	<u>1,277</u>	<u>7,705</u>

Included in cash at bank and in hand on Schedule 3 is £1,277,000 (£1,248,000 at the Paymaster General and £29,000 at commercial banks).

The balance at 31 March comprises:

Cash due to be paid to the Consolidated Fund £1,277,000.

**14. Creditors**

	<u>2002-2003</u>	<u>Restated</u>
	<u>£000</u>	<u>2001-2002</u>
		<u>£000</u>
Amounts falling due within one year:		
Trade creditors	1,488	2,014
Staff creditors	7	15
Deferred licence fees	1,071	1,105
Accruals	2,710	403
	<u>5,276</u>	<u>3,537</u>
Cash balance payable to the Consolidated Fund:		
Surplus A-in-A	1,926	8,398
Actual Surplus to be surrendered	221	265
	<u>7,423</u>	<u>12,200</u>

The 2001-02 comparator figures have been restated to include actual surplus to be surrendered

**15. Provisions for liabilities and charges**

	<u>Early Retirement</u>	<u>Severance</u>	<u>Pensions</u>	<u>Other</u>	<u>Total</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Balance at 1 April 2002	1,194	-	246	12,534	13,974
Provided in the year	612	1,328	62	285	2,287
Provision utilised in the year	(287)	-	-	(1,256)	(1,543)
Unwinding of discount	71	-	-	463	534
Net movement in year	<u>396</u>	<u>1,328</u>	<u>62</u>	<u>(508)</u>	<u>1,278</u>
<b>Balance at 31 March 2003</b>	<u>1,590</u>	<u>1,328</u>	<u>308</u>	<u>12,026</u>	<u>15,252</u>
Of which:					
Payable within one year	<u>330</u>	<u>1,328</u>	<u>-</u>	<u>1,372</u>	<u>2,835</u>

The Early Retirement provision relates to the costs of pensions for individuals who have retired early. Ofgem meets the cost of pension payments from its resources until the individual reaches normal retirement age. The provision has been discounted, with the undiscounted amount being £2,373,000. Additional provision has been made for staff who were made redundant at Ofgem laboratories at Leicester, see note 20.

The Severance cost provision relates to the redundancy costs incurred in restructuring Ofgem. All of these costs are expected to be incurred within 12 months of the balance sheet date and have therefore not been discounted.

The Pensions 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. The provision will be utilised over the remaining 12 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 £4,505,128 will be utilised on a straight-line basis over the lease term up to the first break in the lease, being 23 June 2017. Also included is an amount of £189,000 which relates to other estimated costs of outsourcing the Leicester services.

**16. Revaluation reserve**

	<b>2002-2003</b>
	<u>£000</u>
Balance at 1 April 2002	336
Arising on revaluation during the year (net)	(174)
Realisation on disposal of fixed assets	(84)
Transferred to General fund in respect of realised element of the Revaluation reserve	(16)
<b>Balance at 31 March 2003</b>	<u>62</u>

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

**17. Reconciliation of net operating cost to changes in General fund**

	<b>2002-2003</b>	<b>2001-2002</b>
	<u>£000</u>	<u>£000</u>
<b>Net operating cost for the year (Schedule 2)</b>	(221)	(352)
Income not appropriated-in-aid paid to the Consolidated Fund	-	-
	<u>(221)</u>	<u>(352)</u>
Parliamentary Funding:		
Supply for 2001-2002	265	-
CFER yet to be surrendered:		(8,398)
Excess A-in-A	290	
Excess cash to be CFER'd	1,636	
	<u>          </u>	
Surplus written off the grant for 2001-2002	-	87
Transfer to General fund in respect of realised element of Revaluation reserve	16	7
Non-cash charges:		
Cost of capital	(490)	(129)
Auditor's remuneration	45	42
	<u>(2,090)</u>	<u>(8,391)</u>
<b>Net decrease in General fund</b>	<u>(2,311)</u>	<u>(8,743)</u>
<b>General fund at 1 April</b>	<u>(8,152)</u>	591
<b>General fund at 31 March (Schedule 3)</b>	<u>(10,463)</u>	<u>(8,152)</u>

**18. Capital commitments**

	<b>2002-2003</b>	<b>2001-2002</b>
	<u>£000</u>	<u>£000</u>
Contracted capital commitment (excluding VAT) for which no provision has been made	-	-

**19. Commitments under operating leases**

At 31 March 2003 Ofgem was committed to making the following payments during the next year in respect of operating leases expiring:

	Land & buildings	Other	2002-2003 Total	Land & buildings	Other	2001-2002 Total
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Within one year	-	7	7	-	-	-
Between 2 to 5 years	-	70	70	-	59	59
After 5 years	6,400	-	6,400	4,525	-	4,525
	<u>6,400</u>	<u>77</u>	<u>6,477</u>	<u>4,525</u>	<u>59</u>	<u>4,584</u>

**20. Outsourced Technical services**

Leicester technical services were outsourced to SGS UK Ltd. in January 2003. Ofgem still retains the liability for the statutory services where costs cannot be recovered. SGS UK Ltd. will charge Ofgem to recover their costs of delivering these services. The financial effects of outsourcing the technical services directorate in Leicester are as follows:

**(a) Effects on the Operating Cost Statement**

	Note	2002-2003 <u>£000</u>	2001-2002 <u>£000</u>
Administration costs			
Staff costs	2	15,480	12,699
Staff costs outsourced		(791)	(971)
		<u>14,689</u>	<u>11,728</u>
Other administration costs	3	22,882	24,835
Other administration costs outsourced		(144)	(235)
		<u>22,738</u>	<u>24,600</u>
Operating income	4	38,281	37,412
Operating income outsourced		(1,345)	(1,519)
		<u>36,936</u>	<u>35,893</u>

**(b) One off costs**

	2002-2003 <u>£000</u>
Initial salary contributions	47
Severance costs	1,185
Contracted retention fee	135
	<u>1,367</u>

One off costs are not included in the costs outsourced shown in section (a) above.

**(c) Ongoing income and costs for Ofgem**

SGS UK Ltd. will be charged rent for the use of Ofgem's premises up to a maximum of seven months from the commencement of full operations.

The costs associated with the site in Leicester will continue to be met by Ofgem until it is sold. This is planned to be completed in 2003-2004.

Ofgem retains the pension liability costs for transferred individuals who retire before 31 January 2004. A provision has been made for pensions where staff have been made redundant (see note 15) and a contingent liability has been identified for remaining staff (see note 22).

Ofgem will continue to reimburse SGS UK Ltd for work performed on gas meter disputes and electricity meter disputes as costs for these services cannot be recovered by SGS UK Ltd.

Ongoing costs described above are not included in the costs outsourced, shown in section (a), above.

## 21. Other commitments

Ofgem had not entered into any non-cancellable contracts (which are not operating leases) as at 31 March 2003.

## 22. Contingent liabilities

Statutory examining and testing services provided by Ofgem laboratories in Leicester were outsourced to SGS (UK) Ltd. during the year.

Some costs of this change, particularly redundancy and continuing pension liability, have fallen to Ofgem and a provision has been made for these amounts. However, in addition, Ofgem is liable for costs that may arise up to 31 January 2004. Ofgem has no continuing liability after that date. An amount of £0.7million has been identified as a potential liability.

## 23. Losses and special payments

	<b>2002-2003</b>
<b>Losses Statement</b>	<u>£000</u>
<b>Special Payments</b>	
Total cases 2	<u>102</u>

Ofgem made two payments defined as special payments under Government Accounting to the total value of £102,000.

## 24. Related party transactions

Ofgem collected £13.067m from licence fee payers, on behalf of the DTI, in respect of the costs of energywatch. These were transferred in full to the DTI. A contribution of £50,000 was also made by DTI towards a court case.

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

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

## 25. Post balance sheet events

There were no reportable post balance sheet events at 31 March 2003.

## 26. Notes to Schedule 5

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

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

The 2001-2002 comparator figures have been re-stated to the (corporate plan) objectives for 2002-2003.

## 27. 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 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:

	<u>Book value</u>	<u>Fair value</u>	<u>Basis of valuation</u>
	<u>£000</u>	<u>£000</u>	
<b>Primary financial instruments</b>			
<b>Financial assets</b>			
Cash at bank	1,277	1,277	-
<b>Financial liabilities</b>			
Provisions	15,252	15,252	see note (a)

Notes:

- a) As at 31 March 2003 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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