

Office of Gas and Electricity Markets

Resource Accounts 2005-06

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Markets
Resource Accounts
2005-06**

(For the year ended 31 March 2006)

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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 Government Financial Reporting Manual.

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

This document contains the Accounts of Ofgem for the year 1 April 2005 to 31 March 2006. It should be read in conjunction with the Ofgem Annual Report for 2005-06, which is published separately and available from Ofgem's website (www.ofgem.gov.uk).

Ofgem is a non-ministerial government department. In the parts of the gas and electricity markets where competition is established and effective, Ofgem withdraws from direct price regulation and increasingly relies on competition powers to regulate companies' behaviour and protect domestic and commercial consumers' interests. Where competition is not possible or sufficiently well developed, Ofgem protects consumers' interests by direct regulation, for example by regulating the charges of monopoly companies that run the national transmission and local distribution networks in England, Scotland and Wales.

Ofgem is governed by the Gas and Electricity Markets Authority. The Authority's responsibilities are set out in the Gas Act 1986, the Electricity Act 1989, as amended by the Utilities Act 2000, the Energy Act 2004 and related legislation.

In fulfilling its obligations Ofgem works closely with the Department of Trade and Industry (DTI), the Department for Environment, Food and Rural Affairs (DEFRA) and energywatch. Energywatch is the independent watchdog set up to protect and promote the interests of gas and electricity consumers.

Aim

Ofgem's primary objectives, duties and functions are set out in statute. From these, Ofgem has distilled its aim as follows:

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

This means working on behalf of consumers to secure gas and electricity supplies which are competitively priced, reliable and safe. In particular, the Corporate Strategy 2005-2010 identified seven themes:

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

Management Commentary***Income Generation***

In 2005-06 cash of £52.4 million was received in respect of licence fees and other income mainly from property rental income. Of this, £13.0 million was transferred to DTI in respect of the costs of energywatch. Ofgem had an operating income of £36.1 million as follows:

Cash receipts:	
licence fees	£43.8m
additional deferred licence fees in year	£2.9m
property and other receipts	£5.7m
	<u>£52.4m</u>
Less:	
cash transferred to DTI for energywatch	£13.0m
opening debtors	£4.0m
closing deferred licence fees	£5.9m
Add:	
closing debtors	£2.5m
opening deferred licence fees	£4.1m
Operating Income	<u>£36.1m</u>

In addition to operating income of £36.1 million, public funds were provided to meet the cost of work undertaken in respect of the Climate Change Levy (£0.6 million).

A saving of £2.9 million from licence fees has been made during 2005-06. This will be offset against future licence fee charges as determined under Ofgem's RPI-X cost regime.

Spending

Total operating costs amounted to £36.7 million. Three areas of expenditure absorbed 85 per cent of the total, staff costs 45 per cent, contractors 16 per cent and accommodation 24 per cent. Capital expenditure in the year totalled £0.7 million in respect of furniture, office and computer equipment.

Output

Ofgem's financial performance in pursuit of its objectives is detailed in the Statement of Operating Costs by Departmental Aim and Objectives. Expenditure, including indirect costs, against the main regulatory themes identified in Ofgem's Corporate Strategy 2005-2010 was as follows:

Theme	Corporate Plan	Actual	Variance
	£000	£000	£000
Creating and sustaining competition	13,807	11,396	2,411
Regulating Network Monopolies	13,930	14,424	(494)
Helping to protect the security of Britain's energy supplies	697	2,388	(1,691)
Providing a leading voice in Europe	2,198	2,210	(12)
Helping to protect the environment	4,333	4,118	215
Helping tackle fuel poverty	864	1,105	(241)
Total	<u>35,829</u>	<u>35,641</u>	<u>188</u>

Two factors largely explain the underspend variances between actual spend and the Corporate Plan budget. Firstly, Ofgem has been running at over ten percent below the budgeted headcount for the year. This has resulted in a saving of £1.5 million. Secondly, an element of Ofgem's work is of a reactive nature and a contingency is included in the budget. However, by the end of the financial year, an unutilised contingency of £0.8 million remained. Actual spend on the theme 'Helping to protect the security of Britain's energy supplies' was higher than originally planned due to the very heavy workload, including the Winter Outlook Project.

Reviews of these and other projects can be found in the Ofgem Annual Report, which is published separately and available from Ofgem's website (www.ofgem.gov.uk).

Budgets and Liquidity

Ofgem's budget is approved by Parliament following a consultation process with industry and other interested parties. For 2005-06 Parliament approved a resource budget of £38.030 million, a capital budget of £1.0 million and a net cash requirement of £1.597 million. In addition, DTI directed that a sum of £12.984 million should be collected on behalf of energywatch; this amount was transferred to DTI, in full.

A Contingency Fund advance of £10.0 million was drawn down to provide short term liquidity until the first receipt of licence fees. This was fully repaid in July 2005.

The outturn net cash requirement (£nil) is lower than the Estimate net cash requirement of £1.597 million due to improved working capital management and expenditure savings in 2005-06.

An amount of £3.2 million due to be surrendered to the Exchequer will be retained to fund operations in 2006-07 until adequate licence fee income is received.

Finance and Provisions

Statutory examining and testing services provided by Ofgem laboratories at Leicester were outsourced to SGS UK Ltd. in January 2003. Some costs of this change, particularly redundancy and continuing pension liabilities, have fallen to Ofgem and these have required provisions to be made which now total £0.4 million. From 1 April 2006 Ofgem transferred its metrology activities to the National Weights and Measures Laboratory (NWML) under an Administrative arrangement. Responsibility for the metrology duties and existing liabilities remain with Ofgem. A full transfer of responsibility to NWML is planned under future legislative change.

Other early retirement provision totalling £0.805 million relates to the costs of pensions for individuals who have retired early from Ofgem. Provision for severance of £0.154 million has also been set aside.

During the year a review of the fixed asset register was undertaken. The review led to the capitalisation threshold being raised from £1,000 to £2,000 and a restriction on the type of items grouped. The financial impact of the change was a charge of £0.125 million to the operating cost statement. Fixed assets are kept to optimal levels and capital expenditure will sustain future Ofgem operations at Corporate Strategy levels.

The balance sheet at 31 March 2006 shows negative Taxpayer's Equity of £7.868 million. 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.

Business Focus for the Future

Ofgem will continue to protect consumers' interests, wherever appropriate by promoting effective competition. In particular, the seven themes described earlier have been retained for the coming years. By retaining the themes, which are flexible enough to take full account of fresh challenges faced, Ofgem is demonstrating its commitment to regulatory continuity and predictability.

In February 2004 it was announced that Ofgem would impose a cost control regime (RPI-X) on itself for a period of five years commencing from April 2005. The process is independently overseen by the Audit Committee chaired by Sir Keith Stuart, supported by Chiene and Tait, providers of Ofgem's internal audit service. The Audit Committee concluded that the cost control regime should be set at RPI-3 per cent and this was agreed by the Authority. In December 2005, the Audit Committee reviewed the regime operation and concluded that it was working efficiently and to the benefit of licence payers. It was also recommended that the 2005-06 saving, which at year-end was £2.9 million, should be used to reduce licence fees in 2006-07. An amount of £3.0 million continues to be retained under RPI-X year-end flexibility.

A review of the organisation in April 2005 resulted in a number of organisational changes. The main conclusion of the review resulted in the Senior Management Team being reduced by one Managing Director and the corporate structure based on four divisions: Networks; Markets; Corporate Affairs; and Operations.

The Gas and Electricity Markets Authority

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

Executive Members of the Authority who served during the year

Alistair Buchanan, Chief Executive, was appointed in October 2003.

David Gray, Managing Director Networks, was appointed in May 2003.

Sarah Harrison, Managing Director Corporate Affairs, was appointed in May 2005.

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

Non-Executive Members of the Authority who served during the year

Sir John Mogg joined the Authority as a non-executive member in May 2003 and was appointed Chairman in October 2003. His current appointment ends in September 2008.

Robin Bidwell joined the Authority as a non-executive member in February 2003. His current appointment ends in February 2008.

Miriam Greenwood joined the Authority as a non-executive member in May 2004. Her current appointment ends in May 2007.

Judith Hanratty joined the Authority as a non-executive member in January 2005. Her current appointment ends in December 2007.

Jayne Scott joined the Authority as a non-executive member in May 2004. Her current appointment ends in May 2007.

Sir Keith Stuart joined the Authority as a non-executive member in December 2000. His current appointment ends in December 2006.

Professor Leonard Waverman joined the Authority as a non-executive member in May 2002. His current appointment ends in May 2007.

John Wybrew joined the Authority as a non-executive member in May 2004. His current appointment ends in May 2007.

The non-executive members are considered to be independent of management and comprise a majority of the Authority. Apart from the matters detailed below, there were no company directorships or other significant interests held by Authority members which could give rise to a conflict with their responsibilities as members of the Authority.

Judith Hanratty holds options for shares in BP plc, her former employer. Judith Hanratty has undertaken not to exercise any of the options during the period in which she is a member of the Authority and for a period of 12 months thereafter. She also owned a small number of shares in Centrica plc which she has subsequently sold.

At the beginning of the financial year, John Wybrew held options for shares in National Grid Transco, his former employer. During the year, those options for shares in National Grid Transco were exercised and all sold.

Attendance by the Chairman and the Non-Executives

The Authority held 11 full meetings during the year. Attendance was as follows:

Sir John Mogg	11/11
Dr Robin Bidwell	10/11
Miriam Greenwood	11/11
Judith Hanratty	9/11
Jayne Scott	10/11
Sir Keith Stuart	10/11
Professor Leonard Waverman	9/11
John Wybrew	11/11

In addition, the Chairman and Non-Executives attended a range of meetings on Authority matters including Authority Committees, Awayday sessions, Ofgem Seminars, briefing sessions and meetings with Ofgem teams on areas of special interest to them.

Basis of appointment

The Chairman of the Authority, Sir John Mogg, was appointed non-executive Chairman on 1 October 2003 by the Secretary of State for Trade and Industry following open competition for a period of five years. Prior to taking up his role, he was initially appointed as a non-executive member of the Authority from May 2003.

Alistair Buchanan, was appointed Chief Executive and an executive member of the Authority on 1 October 2003. The appointment was made following open competition, with the process overseen by a Civil Service Commissioner.

Appointment of the other executive members of the Authority is undertaken in accordance with the Civil Service Management Code.

The non-executive members of the Authority are appointed by the Secretary of State for Trade and Industry after consulting the Chairman.

Details of remuneration can be found in the Remuneration Report detailed below.

Senior Management Team

The Senior Management Team (SMT) comprised all the executive members shown in the Remuneration Report. Its role is to assist the Chief Executive in the day-to-day running of the business. It meets weekly and decides, subject to the overall direction and control of the Authority, on all matters relating to management and resources.

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 Robin Bidwell, Jayne Scott and John Wybrew, all non-executive members of the Authority. In December 2005 the non-executive members were re-appointed to the Audit Committee for a further year. The Chief Executive, Chief Operating Officer and other staff, the external auditors (National Audit Office) and the internal auditors (Chiene and Tait) attend by invitation.

The Committee's role is to advise the Accounting Officer and the Authority on anything that affects the financial health, probity or external reputation of the organisation and to ensure the adequacy of the system of internal control. The Committee also oversees Ofgem's RPI-X cost control regime. The Committee meets at least three times a year.

Enforcement Committees

Under the Rules of Procedure, the Authority in 2003 created two types of Enforcement Committee. One type considers enforcement action in relation to licence breaches, and the second considers compliance with the Competition Act 1998. The Enforcement Committees are made up only of Authority members, with a majority of non-executive members and a non-executive chairman.

Remuneration Committee

The Committee's role relates to the pay and performance of senior Ofgem staff. Full details of the Committee's membership, role and senior staff salary and pension entitlements are given in the Remuneration report on page 12.

Auditors

The Comptroller and Auditor General, who has been appointed under statute and reports to Parliament, has audited the resource accounts. The notional cost of providing audit services was £46,000. There was no auditor remuneration (actual or notional) for non-audit work.

The National Audit Office published a report 'Ofgem: Sale of Gas Networks by National Grid' in February 2006. In the press statement accompanying his report Sir John Bourn stated that "at a time when consumers are facing rising gas prices, I am encouraged to see that the changes to the gas industry arising from the sale of the networks have potential benefits for consumers. Ofgem has done well so far. I will be looking to Ofgem to maintain its commitment to ensuring that the potential benefits are realised."

The Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that Ofgem's auditors are aware of that information. So far as he is aware, there is no relevant audit information of which Ofgem's auditors are unaware.

Ofgem's internal audit service provides an independent appraisal service for management by measuring and evaluating the adequacy, reliability and effectiveness of management and financial control systems. Internal audit make recommendations based on the appraisal of each system reviewed. An annual assurance report is provided to the Accounting Officer. Ofgem have chosen to outsource the provision of internal audit service to ensure wholly independent and fully professional analysis and recommendations. Our current provider is Chiene and Tait, who were appointed on 1 April 2003, following a competitive process.

Sustainability Report

Taking account of the environment in Ofgem's work

One of Ofgem's main themes is to help protect the environment with an overall goal to assist the gas and electricity markets and industry to achieve environmental improvement as efficiently as possible. Ofgem has had secondary duties in relation to the environment and certain groups of consumers (future as well as present) for some time and Parliament, by way of the Energy Act 2004, has expanded Ofgem's secondary duties on sustainable development. Ofgem works with relevant government departments at national and European level to encourage the delivery of future environmental policy in ways that are consistent with competitive energy markets and effective regulation of network monopolies. It encourages environmental improvements that secure the best value for money for present and future consumers.

Ofgem's annual review of its Environmental Action Plan, published August 2005, describes the work performed in greater detail and sets out our plans for the future.

Environmental Policy Statement (Internal Ofgem Operations)

In February 2002 Ofgem gained certification to ISO14001 standard for its internal operations activities and has since retained the standard annually.

The policy refers to Operations matters and does not extend to Ofgem's statutory regulatory functions and duties. As part of this process Ofgem has set up an internal Environment Team that is responsible for defining and reviewing the environmental impacts, objectives and targets that are either applicable to, or set for, the Ofgem Estate. The team is responsible for ensuring that the environmental targets set in respect of the ISO14001 standard are met.

Ofgem will conduct its operations in a manner that reflects best environmental practice and follow the established environmental management system to ensure continual improvement.

Ofgem is committed to:

- Adopting best practice in respect of all environmental requirements and agreements,
- Reviewing its operations to identify any adverse environmental impacts,
- Reducing office energy and resource consumption by the promotion of effective and efficient reduction methods, and by other means as appropriate, that are consistent with best practice, and
- Working with its suppliers and contractors in order to ensure that goods and services procured support its environmental policy.

Ofgem has implemented many energy saving initiatives, for example:

- In 2003, a CHP unit was installed, so far saving 825 tonnes of carbon dioxide,
- Replacing four boilers has provided a 35 per cent improvement in domestic heating efficiency,
- Sensors are being installed to automatically switch off all non-emergency lighting in unoccupied office areas,
- 10 per cent of externally supplied electricity is generated from renewable sources, and
- Recycling paper, cardboard, glass, cans and plastic results in an indirect reduction in power generation.

Suppliers

Environmental Procurement

The evaluation criteria for all procurements undertaken by the Procurement Team are based on best value for money, with the contract awarded to the most economically advantageous tender. However, where contracts have possible implications on areas covered by Ofgem's environmental policy such as catering, cleaning or other building type services, additional criteria based on Ofgem's own ISO14001 policies and suitability of the tenderer's own environmental policy will be included.

Creditor Payment, Policy and Performance

In January 2006, Ofgem signed up to the Better Payment Practice Code. The Code is laid by the Better Payment Practice Group, a cooperative forum of representatives of the business community and Government that seeks to help to improve the payment culture in the UK. In line with the 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 2005-06 Ofgem paid 99 per cent of undisputed bills within these deadlines.

Employees

Training and Development

Ofgem's most important investment is in its people. 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.

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 Learning and Development strategy, an element of which is 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: £0.619 million was spent on training during 2005-06.

Ofgem also continues to improve the ways it explains and consults on its work. The major internal project for 2005-06 was 'Project Paperless'. The project reviewed the quality, relevance, quantity and timeliness of Ofgem's written product, notably consultation documents. Following the outcome of the review, revised document drafting procedures were put in place in January 2006 to ensure publications are fewer in number, better focused and reduce the burden on companies.

Employee Involvement

Ofgem attaches great importance to managing, developing and training its staff in accordance with best practice and has a staff consultative committee.

Health and Safety

Ofgem recognises and accepts its legal responsibility in relation to the health, safety and welfare of its employees and for all other people using its premises or engaged on its activities. Ofgem will comply with the Health and Safety at Work Act 1974 and all other relevant legislation as appropriate. Ofgem is committed to the positive promotion of accident prevention and the elimination of incidents involving personal injury, illness or damage.

During the year, Disability Discrimination Act requirements were reviewed and as a result, a number of changes to the building and procedures were implemented.

The Health and Safety policy statement describes Ofgem's responsibilities and objectives and is available to all employees.

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 the Remuneration Report and Notes 1.8 and 10 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:

- 0.3 per cent were known to be disabled,
- just under 44 per cent of all staff were women,
- 43 per cent of staff in managerial grades were women,
- 26 per cent of senior civil service members in Ofgem were women,
- 18 per cent of staff were known to be of ethnic minority origin, and
- staff known to be of ethnic minority origin in the managerial grades was 16 per cent.

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

Communities

Ofgem seeks to support its employees who commit personal time or funds to help charities, community activities or voluntary public activities. For example, special leave may be requested for acting as a school governor, a magistrate or an employment tribunal panel member.

A number of events, organised by charities, have also taken place at Ofgem.

Alistair Buchanan
Accounting Officer
9 May 2006

Remuneration report

Remuneration Committee

The Remuneration Committee consists of non-executive members of the Authority who are appointed by ordinary resolution of the Authority for a term of not more than one year. Members may be reappointed. The Remuneration Committee is chaired by Sir John Mogg, Chairman of the Authority. Other members are Sir Keith Stuart, Chairman of the Audit Committee and Jayne Scott a non-executive member of the Authority. The Chief Executive attends as an observer and the Chief Operating Officer provides a secretariat function.

The Committee's role is to review and approve the pay award and the level of any bonus for Senior Management Team members and consider other matters relating to the pay and performance of senior Ofgem staff. Pay and bonus awards are made within the parameters set by the Cabinet Office for the Senior Civil Service following recommendations by the Senior Salaries Review Body.

Service contracts

Remuneration of senior members is set out in their contracts and subject to annual review in line with awards recommended by the Senior Salaries Review Body. The notice period for all senior members of Ofgem does not exceed six months.

The arrangements for early termination of senior members are made in accordance with the service contract of the relevant individual. Each contract provides for a payment in lieu of notice on early termination based on the provisions of the Civil Service Compensation Scheme. During the year one executive member, Boaz Moselle, left Ofgem. No early termination payments were paid.

Each executive member participates in a bonus scheme which is in line with Senior Salaries Review Body recommendations. The bonus is based on the individual's performance. Bonus payments are non-consolidated and non-pensionable.

Non-executive members, apart from the Chairman of the Authority, have fixed-term appointments not exceeding three years. These appointments are renewable. Remuneration and appointments are set by the Secretary of State for Trade and Industry after consulting the Chairman. Their remuneration is by payment of an honorarium of £20,000 per annum. They have no entitlement to performance related pay or pension entitlements. Compensation in the event of early termination is at the discretion of the Secretary of State. The non-executive Chairman of the Authority, Sir John Mogg, has a five year appointment. His remuneration details are set out below.

Salary and pension entitlements

The salary, pension entitlements and the value of any taxable benefits in kind of the most senior members of Ofgem during 2005-06 were as follows:

Remuneration	2005-06			2004-05		
	Salary, including performance pay	Pension entitlement/ allowances	Benefits in kind	Salary including performance pay	Pension entitlement/ allowances	Benefits in kind
	£000	£000	Nearest £100	£000	£000	Nearest £100
Alistair Buchanan <i>Chief Executive</i>	190 – 195	N/A	N/A	170 – 175	N/A	N/A
Roy Field <i>Chief Operating Officer</i>	120 – 125	N/A	N/A	105 – 110	N/A	N/A
David Gray <i>Managing Director</i>	150 – 155	26	N/A	130 – 135	24	N/A
Sarah Harrison (from May 2005) * <i>Managing Director</i>	110 – 115	N/A	N/A	N/A	N/A	N/A
Dr Boaz Moselle (to August 2005)** <i>Managing Director</i>	50 – 55	N/A	N/A	110 – 115	N/A	N/A
Steve Smith <i>Managing Director</i>	135 – 140	N/A	N/A	110 – 115	N/A	N/A
Non-executive members of the Authority						
Sir John Mogg	95 – 100	30	5,600	95 – 100	30	5,700

* annual equivalent salary 110 – 115

** opted to join premium; annual equivalent salary 115 – 120

'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.

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

'Pension entitlement/allowances' relates to an allowance paid to senior staff who have chosen to take extra salary to invest in a pension scheme of their choice rather than participate in a Civil Service pension. Sir John Mogg and David Gray have opted out of the PCSPS and Ofgem make no pension contributions on their behalf but their salary reflects contributions that would otherwise have been made.

'Benefits in kind' covers any monetary benefits provided by the employer and treated by the Inland Revenue as a taxable emolument. Payments outlined above were net of tax and the tax amounts were paid over to HM Revenue and Customs. Travel arrangements for Sir John Mogg fell into this category.

Other non-executive members of the Authority who were remunerated by payment of an honorarium

	Honorarium 2005-06	Honorarium 2004-05
Robin Bidwell	£20,000	£20,000
Miriam Greenwood	£20,000	£17,100*
Judith Hanratty	£20,000	£5,000*
Jayne Scott	£20,000	£17,100*
Sir Keith Stuart	£20,000	£20,000
Leonard Waverman	£20,000	£20,000
John Wybrew	£20,000	£17,100*

* part-year pro-rata

Pension Benefits	Real increase in pension and related lump sum at age 60	Accrued Pension at age 60 at 31 March 2006 and related lump sum	CETV at 31 March 2006	CETV at 31 March 2005	Real increase in CETV	Employers contribution to partnership pension account
	£000	£000	£100	£000	£000	Nearest £100
Alistair Buchanan <i>Chief Executive</i>	0 – 2.5	0 – 5	46	26	22	N/A
Roy Field <i>Chief Operating Officer</i>	5 – 7.5 plus 15 – 17.5 lump sum	50 – 55 plus 155 – 160 lump sum	874	749	117	N/A
David Gray <i>Managing Director</i>	N/A	N/A	N/A	N/A	N/A	N/A
Sarah Harrison (from May 2005) <i>Managing Director</i>	0 – 2.5	10 – 15	101	77	23	N/A
Dr Boaz Moselle (to August 2005)* <i>Managing Director</i>	0 – 2.5	0 – 5	40	32	9	N/A
Steve Smith <i>Managing Director</i>	0 – 2.5	5 – 10	70	53	15	N/A
Non-executive member of the Authority						
Sir John Mogg	N/A	N/A	N/A	N/A	N/A	N/A

* opted to join premium, earnings cap has been applied

The following salary and pension details are provided in accordance with the 2005-06 Government Financial Reporting Manual issued by HM Treasury and EPN notice 141 issued by Cabinet Office.

Civil Service Pensions

Pension benefits are provided through the CSP arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (classic, premium, and classic plus). The Schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, and classic plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5 per cent of pensionable earnings for classic and 3.5 per cent for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly in the same way as in the classic.

The partnership pension account is a stakeholder pension arrangement. The employer makes 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 chosen by the employee from a selection of approved products. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3 per cent of pensionable salary (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 centrally-provided risk benefit cover (death in service and ill health retirement).

Further details about the CSP arrangements can be found at the website www.civilservice-pensions.gov.uk.

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the CSP arrangements and for which the CS Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Please note that the factors used to calculate the CETV were revised on 1 April 2005 on the advice of the Scheme Actuary. The CETV figure for 31 March 2005 has been restated using the new factors so that it is calculated on the same basis as the CETV figure for 31 March 2006.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Alistair Buchanan
Accounting Officer
9 May 2006

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 Government Financial Reporting 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 Government Financial Reporting Manual, have been followed, and disclose and explain any material departures in the accounts, and
- prepare the financial statements on a going concern basis.

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

Statement on Internal Control

1. Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Ofgem's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

Ofgem is a non-ministerial government department governed by the Gas and Electricity Markets Authority. In fulfilling its obligations Ofgem works closely with the Department of Trade and Industry (DTI), Department for Environment, Food and Rural Affairs (DEFRA) and energywatch.

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level, rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable, and not absolute, assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives; to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently, effectively and economically. The system of internal control has been in place in Ofgem for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

3. Capacity to handle risk

Ofgem's risk management strategy sets out why risk management is important; the mechanisms in place to enable Ofgem to manage risk; information on how to identify, assess and manage risks; and details of the roles and responsibilities individuals have to ensure risks are managed effectively. During March 2006 a review of the strategy was undertaken and an updated draft was approved by the Audit Committee in April 2006.

Under the strategy, risk is embedded in policymaking, planning and delivery. Directors are responsible for ensuring the proper management of risks within their own directorates and cascading implementation of the risk management strategy within their directorates. The strategy is available to all staff via the intranet.

4. The risk and control framework

Ofgem's stated aim is to implement best practice risk management procedures in all areas of our work to ensure that our strategy is kept up-to-date with current good practice. Ofgem is seeking to embed risk management into the culture of the organisation by embracing best practice in the way we work. Managers view risk management as an integral part of their job and the Senior Management Team keep the top risks faced by the organisation under regular strategic review. Our basic principles can be summarised as follows:

- A proactive stance to risk management;
- Consistency in how we assess and manage risks;
- Cross-cutting risks will be identified, with risk owners empowered to manage risks across internal boundaries;
- Proportionate actions will be taken when managing risks;
- A robust approach to risk management will be taken; and
- Appropriate risk-taking will be encouraged with an innovative approach to policy making and service delivery.

The key elements of Ofgem's risk management strategy for identifying, evaluating and controlling risk are as follows:

- Project, Policy and Programme managers create and maintain a risk register (a bottom-up approach);
- Risks are assessed and given a risk rating using a combination of its likelihood and impact;
- Finance and Business Management team review all risks identified in quarterly reports and identify cross-divisional/directorate risks, those that impact Ofgem as a whole and our ability to meet corporate strategy objectives. Issues identified by the review as of importance to the Senior Management Team will be raised during quarterly reporting;
- Early warning indicators have been introduced for the most important risks – damage to Ofgem's reputation, policy errors and legal;
- Audit Committee considers risk on a regular basis;
- Senior Management Team and Directors review strategic risks six monthly and update, where necessary, Ofgem's risk framework (a top-down approach);
- Annually, the Authority identify top risks based on the risk framework; and
- In all cases, all risks, once identified, are managed by a risk manager who will be responsible for applying practical and proportionate countermeasures.

5. Review of effectiveness

As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within Ofgem who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Authority, the Audit Committee and a plan to address weaknesses identified through internal or external audit, and ensure continuous improvement of the system is in place. Of the thirty six recommendations made by internal audit and due for implementation by 31 March 2006, twenty seven have been fully implemented, eight have been partially implemented and one has been superseded.

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

- Ofgem's overarching strategic risks were updated following a fundamental review of all Ofgem's risks;
- The highest rated risks are reviewed by Senior Management Team six monthly. The Authority identify and review top risks annually;
- Regular one to one meetings are held between the Accounting Officer and Managing Directors to review resources, progress towards set objectives and to identify and evaluate associated risks;
- Updated Internal Control statements require all Directors to consider and report on all aspects of risk management and control in their own area; and
- Business continuity plans have been updated, ensuring that key activities can continue effectively following a disruption.

In maintaining and reviewing the effectiveness of the system of internal control the role of Ofgem's bodies which inform my review are detailed below.

The **Authority**, which meets at least ten times a year to consider the plans and overall strategic direction of Ofgem. The top risks to Ofgem are reviewed, based on the risk framework, on an annual basis;

The **Senior Management Team** which meets on a weekly basis to manage all resource and operational issues. SMT is corporately responsible for owning Ofgem's risk management strategy. The top risks are agreed, owned and addressed by SMT members;

An **Audit Committee** comprising non-executive members of the Authority which reports directly to the Authority is responsible for reviewing and agreeing the processes for managing risk in Ofgem;

Independent **Internal Audit** (provided under contract) reports to the Audit Committee to standards defined in the Government Internal Audit Standards and agrees a rolling programme of audit for each forthcoming year according to the Committee's priorities;

The **Head of Internal Audit** presents a yearly review of the audit programme, including an assessment of general risk, and an opinion on the adequacy and effectiveness of Ofgem's system of internal control together with recommendations for improvement. Overall assurance levels available are Full, Substantial, Limited and Nil. The report for the year ended 31 March 2006 has an overall opinion of Substantial Assurance; and

Directors are responsible for ensuring that risks have been properly identified and assessed across all their work areas, paying particular attention to cross-cutting risks. They are responsible for agreeing their key risk return for their work areas and for ensuring that each policy/project/programme manager is actively addressing the risks in their command and escalating risks up to Director-level as appropriate.

No significant internal control problems have arisen during the financial year.

The format of this statement complies with HM Treasury guidance as set out in Government Accounting Chapter 21.3.

Alistair Buchanan
Accounting Officer
9 May 2006

The Certificate and report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of the Office of Gas and Electricity Markets for the year ended 31 March 2006 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the Statement of Operating Costs by Departmental Aim and Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

The Accounting Officer is responsible for preparing the Annual Report and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I also report 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 to you if, in my opinion, the Annual Report is not consistent with the financial statements, if the Department has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 17 to 19 reflects the Department's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the introductory, aims and Authority sections of the Annual report, the unaudited part of the Remuneration Report, the Management Commentary and the Sustainability report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most 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 and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error 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 also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Department's affairs as at 31 March 2006 and the net cash requirement, net resource outturn, resources applied to objectives, recognised gains and losses and cashflows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; 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

11 May 2006

The maintenance and integrity of Ofgem's website is the responsibility of the Accounting Officer; the work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Statement of Parliamentary Supply

Summary of Resource Outturn 2005-06 (£000s)

	2005-06			2005-06			Net total outturn compared with estimate: saving/(excess)	2004-05 Net total
	Estimate			Outturn				
	Gross expenditure	A in A	NET TOTAL	Gross expenditure	A in A	NET TOTAL		
Request for resources 1 Protecting consumers by regulating monopolies and promoting competition in the electricity and gas industry (Note 2)	38,330	(38,329)	1	36,052	(36,051)	1	-	1
Request for resources 2 Expenditure in connection with the Climate Change Levy (Note 2)	700	-	700	593	-	593	107	700
Total resources	39,030	(38,329)	701	36,645	(36,051)	594	107	701
Non-operating cost A in A (Note 7)	-	(50)	(50)	-	(16)	(16)	(34)	(9)

Net cash requirement 2005-06

	Note	Estimate	Outturn	Net total outturn compared with estimate: saving/(excess)	Prior year outturn
Net cash requirement	4	1,597	-	1,597	4,496

Summary of income payable to the Consolidated Fund

(In addition to appropriations in aid, the following income relates to Ofgem and is payable to the Consolidated Fund (cash receipts being shown in italics and figures in £000s))

	Note	Forecast 2005-06		Outturn 2005-06	
		Income	<i>Receipts</i>	Income	<i>Receipts</i>
Cash surrenderable to the Consolidated Fund	5	-	-	3,244	3,244

Explanations of variances between Estimate and outturn are given in the Management Commentary.

The notes on pages 27 to 45 form part of these accounts

Operating Cost Statement*for the year ended 31 March 2006 (£000s)*

		2005-06		2004-05	
	Note	Staff costs	Other Costs	Income	
Administration costs:					
Requests for resources 1:					
Staff costs	10	16,551			16,571
Non-Staff administration costs	11		19,424		19,196
Operating Income	9			(35,934)	(35,766)
Request for resources 2:					
Non-Staff administration costs	11		593		700
Programme costs					
Request for resources 1:					
Expenditure	12		117		13,363
Income	12			(117)	(13,363)
Totals		<u>16,511</u>	<u>20,134</u>	<u>(36,051)</u>	<u>701</u>
Net operating costs	3			<u>594</u>	<u>701</u>

All income and expenditure are derived from continuing operations

Statement of Recognised Gains and Losses*for the year ended 31 March 2006 (£000s)*

	2005-06	2004-05
Net operating cost	(594)	(701)
Net gain on revaluation of tangible fixed assets	4	33
Overnight change in pension liability	(29)	-
Actuarial loss on revaluation of pension liabilities	(31)	(42)
Recognised losses for the financial year	<u>(650)</u>	<u>(710)</u>

The notes on pages 27 to 45 form part of these accounts.

Balance Sheet*as at 31 March 2006 (£000s)*

	Note	31 March 2006	31 March 2005
Fixed assets:			
Tangible assets	13	<u>4,113</u>	<u>4,463</u>
		4,113	4,463
Current assets:			
Debtors	14a	2,592	3,978
Cash at bank and in hand	15	<u>3,244</u>	<u>2,632</u>
		5,836	6,610
Creditors (amounts falling due within one year)	16a	<u>(12,812)</u>	<u>(10,174)</u>
Net current liabilities		<u>(6,976)</u>	<u>(3,564)</u>
Total assets less current liabilities		(2,863)	899
Creditors (amounts falling due after more than one year)		(3,239)	–
Provisions for liabilities and charges	17	<u>(1,359)</u>	<u>(5,946)</u>
Total net liabilities before pension provision		(7,461)	(5,047)
Pension liabilities	17	<u>(407)</u>	<u>(340)</u>
Total net liabilities		<u>(7,868)</u>	<u>(5,387)</u>
Taxpayers' equity:			
General fund	18	(7,899)	(5,422)
Revaluation reserve	19	<u>31</u>	<u>35</u>
		<u>(7,868)</u>	<u>(5,387)</u>

Alistair Buchanan
Accounting Officer
9 May 2006

The notes on pages 27 to 45 form part of these accounts.

Cash Flow Statement*for year ended 31 March 2006 (£000s)*

	Note	<u>2005-06</u>	<u>2004-05</u>
Net cash inflow/(outflow) from operating activities	20a	2,373	(3,728)
Capital expenditure and financial investment	20b, 20c	(726)	(768)
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities	8	–	1,982
Payments of amounts due to the Consolidated Fund		(2,632)	(4,682)
Financing	20d	1,597	7,556
Increase in cash in the period	20e	<u>612</u>	<u>360</u>

The notes on pages 27 to 45 form part of these accounts.

Statement of Operating Costs by Departmental Aim and Objectives*for the year ended 31 March 2006 (£000s)***AIM: To protect consumers' interests, wherever possible by promoting effective competition and only where necessary through regulation.**

Objective*	2005-06			2004-05		
	Gross	Income	Net total	Gross	Income	Net total
1. Creating and sustaining competition	11,748	(11,748)	–	18,012	(18,012)	–
2. Regulating network monopolies	14,791	(14,791)	–	11,187	(11,187)	–
3. Helping to protect the security of Britain's energy supplies	2,450	(2,450)	–	1,631	(1,631)	–
4. Providing a leading voice in Europe	2,273	(2,273)	–	1,364	(1,364)	–
5. Helping to protect the environment	4,249	(3,655)	594	3,612	(2,911)	701
6. Helping tackle fuel poverty	1,134	(1,134)	–	757	(757)	–
Net operating cost	36,645	(36,051)	594	36,563	(35,862)	701

*Ofgem's objective of improving efficiency and effectiveness has no staffing or resources separately attributed to it. Consequently, no costs or income have been allocated to it.

An explanation of the methodology for allocating costs to objectives is given in Note 1.11 and note 21.

The notes on pages 27 to 45 form part of these accounts.

Notes to the departmental resource accounts

1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2005-06 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

In addition to the primary statements prepared under UK GAAP, the FReM also requires Ofgem to prepare two additional primary statements. The Statement of Parliamentary Supply and supporting notes show outturn against Estimate in terms of the net resource requirement and the net cash requirement. The Statement of Operating Cost by Departmental Aim and Objectives and supporting notes analyse the Department's income and expenditure by the objectives agreed with Ministers.

Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to Ofgem's particular circumstances for the purpose of giving a true and fair view has been selected. The Department's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting convention

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

Tangible assets have been stated at current cost using indices provided by the Office of National Statistics. Leasehold improvements are not revalued.

Depreciation is provided at rates calculated to write off tangible fixed assets by equal instalments over their estimated useful lives, after allowance for residual value. Asset lives are within the following ranges:

Leasehold improvements	Life of the lease
Office equipment, furniture and fittings	5 years
Computers and IT equipment	3 years

The capitalisation policy has been revised. The minimum level for the capitalisation of tangible fixed assets was £1,000 and has been changed to £2,000. The grouping of assets below the threshold has been restricted to IT items only. Previously this included furniture and equipment items.

The Management Commentary provides a fuller explanation.

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 2.2 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.

On 1 April 2005, the discount rate changed from 3.5 per cent to 2.8 per cent per annum for pension scheme liabilities and from 3.5 per cent to 2.2 per cent for other provisions.

1.4 Operating income

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

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

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

1.5 Administration and programme expenditure

The Operating Cost Statement is analysed between administration and programme costs. Administration costs reflect the costs of running Ofgem. These include both administration costs and associated operating income. Income is analysed in the notes between that which, under the administrative cost-control regime, is allowed to be offset against gross administration costs in determining the outturn against the administration cost limit, and that operating income which is not. Programme costs reflect non-administration costs in respect of energywatch and the Department of Trade and Industry costs. The classification of expenditure and income as administration or as programme follows the definition of administration costs set by HM Treasury.

1.6 Capital charge

A charge, reflecting the cost of capital utilised by Ofgem, is included in the operating costs.

The charge is calculated at the real rate set by HM Treasury, 3.5 per cent for 2005-06, on the average carrying amount of all assets less liabilities, except for:

- cash balances with the Office of the Paymaster General (OPG) where the charge is nil, and
- liabilities for amounts to be surrendered to the Consolidated Fund, where the credit is nil.

1.7 Foreign exchange

Transactions which are denominated in a foreign currency are translated into sterling at the rate of exchange ruling on the date of each transaction, except where rates do not fluctuate significantly, in which case an average rate for the period is used.

1.8 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), which is non-contributory and unfunded. Liability for payment of future benefits is a charge to the PCSPS.

Departments, agencies and other bodies covered by the PCSPS meet the cost of pension cover provided for the staff they employ by payment of charges calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. There is a separate scheme statement for the PCSPS as a whole.

Ofgem's former Chief Executive and Directors General have separate pension arrangements that are broadly analogous with the PCSPS. The arrangements provide for a defined benefit, unfunded scheme. However, unlike the PCSPS, a pension liability is included in the accounts as required under FRS17.

Notes to the departmental resource accounts *(continued)*

1.9 Early departure costs

Ofgem is required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early. Ofgem provides in full for this cost when the early retirement programme has been announced and is binding on Ofgem.

1.10 Value Added 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 Revenue and Customs in respect of VAT is included within Debtors and Creditors within the Balance Sheet.

1.11 The Statement of Parliamentary Supply and the Statement of Operating Costs by Departmental Aim and Objectives

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

The Statement of Operating Costs by Departmental Aim and Objectives 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 23, "Commitments under leases", are not discounted.

1.13 Comparative amounts

Comparative amounts are restated where necessary to conform to current presentation.

1.14 Going concern

The balance sheet at 31 March 2006 shows a negative taxpayers equity of £7.868 million. 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 2006-2007 has already been given and there is no reason to believe that future approvals will not be forthcoming. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

Notes to the departmental resource accounts *(continued)*

1.15 Contingent liabilities

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

	2005-06					Estimate	Net total outturn compared with Estimate	2004-05		
	Outturn								Net Total	Prior-year Outturn
	Admin	Other current	Gross resource expenditure	A in A	Net total					
£000	£000	£000	£000	£000	£000	£000	£000			
Request for resources 1										
Protecting consumers by regulating monopolies and promoting competition in the electricity and gas industry	35,935	117	36,052	(36,051)	1	1	-	1		
Request for resources 2										
Expenditure in connection with the Climate Change Levy	593	-	593	-	593	700	(107)	700		
Resource outturn	36,528	117	36,645	(36,051)	594	701	(107)	701		

3. Reconciliation of Outturn to net operating cost and against Administration Budget

3(a) Reconciliation of net resource outturn to net operating cost

	Note	2005-06	2004-05
		£000	£000
Net Resource Outturn	2	594	701
Prior period adjustments		-	-
Non supply income (CFERs)	5	-	-
Non supply expenditure		-	-
Net operating cost		594	701

Notes to the departmental resource accounts *(continued)***3(b) Outturn against final Administration Budget**

	Note	2005-06		2004-05	
		Budget	Outturn	Budget	Outturn
		£000	£000	£000	£000
Gross Administration Budget	2	38,942	36,528	38,001	36,467
Income allowable against the Administration Budget	2	(38,241)	(35,934)	(37,300)	(35,766)
Net outturn against the Administration Budget		701	594	701	701

4. Reconciliation of resources to cash requirement

	Note	Estimate	Outturn	Net total outturn compared with estimate: saving/ (excess)
		£000	£000	£000
Resource Outturn	2	701	594	107
Capital:				
• Acquisition of fixed assets	13	1,000	656	344
• Investments		-	-	-
Non-operating A-in-A:				
• Proceeds of fixed asset disposals	20c	(50)	(16)	(34)
Accruals adjustments:				
• Non-cash items	11	(1,045)	(779)	(266)
• Changes in working capital other than cash	20a,13	-	(3,096)	3,096
• Changes in creditors falling due after more than one year		-	316	(316)
• Use of provision	17	991	678	313
Excess cash receipts surrenderable to the Consolidated Fund	5	-	1,647	(1,647)
Net cash requirement		1,597	-	1,597

The explanation for the variance between the outturn net cash requirement and the Estimate can be found in the Management Commentary.

Notes to the departmental resource accounts *(continued)***5. Analysis of income payable to the Consolidated Fund**

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

	Note	Forecast 2005-06		Outturn 2005-06	
		Income	Receipts	Income	Receipts
		£000	£000	£000	£000
Operating income and receipts- excess A-in-A		-	-	-	-
Other operating income and receipts not classified as A-in-A	6	-	-	-	-
		-	-	-	-
Non operating income and receipts not classified as A-in-A	7	-	-	-	-
Surplus supply surrenderable to the Consolidated Fund	16	-	-	1,597	1,597
Fines levied and CFER'd	8	-	-	-	-
Excess cash surrenderable to the Consolidated Fund	4	-	-	1,647	1,647
Total income payable to the Consolidated Fund		-	-	3,244	3,244

6. Reconciliation of income recorded within the Operating Cost Statement to operating income payable to the Consolidated Fund

	Note	2005-06 £000	2004-05 £000
Operating Income	9	36,051	35,862
Income authorised to be appropriated in aid	9	(36,051)	(35,862)
Operating Income payable to the Consolidated Fund	5	-	-

7. Non-operating income – Excess A-in-A

	Note	2005-06 £000	2004-05 £000
Proceeds on disposal of fixed assets	20c	16	9
Allowable A in A		(50)	(50)
Excess A in A		-	-

8. Non-operating income not classified as A-in-A

	Income £000	Receipts £000
Fines levied and CFER'd	-	-

Notes to the departmental resource accounts *(continued)*

9. Income and appropriations in aid

9.1 Operating income

Operating income not appropriated in aid (i.e. surrenderable to the Consolidated Fund) is analysed for resource budget purposes between that which is included in public expenditure and that which is not (see note 6). In 2005-06, all operating income not classified as A-in-A was within public expenditure.

	2005-06		2004-05	
	A-in-A	Income	A-in-A	Income
	£000	£000	£000	£000
Administrative income:				
Fees and charges to external customers	31,938	31,938	32,160	32,160
Fees and charges to other departments	3,996	3,996	3,606	3,606
	35,934	35,934	35,766	35,766
Programme income:				
energywatch	–	–	13,267	13,267
Fossil Fuel Levy	117	117	96	96
Total	36,051	36,051	49,129	49,129

9.2 Operating income analysis

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

	2005-06			2004-05		
	Income	Full costs	Surplus (deficit)	Income	Full costs	Surplus (deficit)
	£000	£000	£000	£000	£000	£000
Administration income						
Gas and Electricity:						
Licence fees (external)	31,911	32,505	(594)	32,102	32,803	(701)
Other	4,023	4,023	–	3,664	3,664	–
Subtotal	35,934	36,528	(594)	35,766	36,467	(701)
Programme income:						
Fossil Fuel Levy	117	117	–	96	96	–
	36,051	36,645	(594)	35,862	36,563	(701)

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

Other income includes:	2005-06	2004-05
	£000	£000
Rent received:		
Department for Environment, Food and Rural Affairs (DEFRA)	3,923	3,548
Other departments	73	58
Miscellaneous	27	58
	4,023	3,664

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

Notes to the departmental resource accounts *(continued)*

10. Staff numbers and related costs

Staff costs comprise

	2005-06			2004-05
	Permanently employed staff	Others	Total	Total
	£000	£000	£000	£000
Wages and salaries	12,284	447	12,731	13,218
Social security costs	1,184	–	1,184	1,141
Other pension costs	2,329	–	2,329	1,705
Other staff costs	312	–	312	75
Total	16,109	447	16,556	16,139
Less recoveries in respect of outward secondments	(45)	–	(45)	(109)
Provisions provided in year*	–	–	–	541
Total net costs**	16,064	447	16,511	16,571

*From 2005-06 Ofgem reclassified provision adjustments under administration costs to comply with the new HM Treasury manual, FReM.

** Of the total no charge has been made to capital.

The Principal Civil Service Pension Scheme (**PCSPS**) is an unfunded multi-employer defined benefit scheme but Ofgem is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2003. Details can be found in the resource accounts of the **Cabinet Office: Civil Superannuation** (www.civilservice-pensions.gov.uk).

For 2005-06, employers' contributions of £2,305,000 were payable to the PCSPS (2004-05 £1,705,000) at one of four rates in the range 16.2 to 24.6 per cent (2004-05 12 to 18.5 per cent) of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. From 2006-07, the salary bands will be revised and the rates will be in a range between 17.1 per cent and 25.5 per cent. The contribution rates reflect benefits accruing during 2005-06 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £21,361 were paid to one or more of a panel of four appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £2,276, 0.8 per cent of pensionable pay, were payable to the **PCSPS** to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees. Contributions due to the **partnership** pension providers at the balance sheet date amounted to £2,415.

Notes to the departmental resource accounts *(continued)***Average number of persons employed**

The average number of whole-time equivalent persons employed during the year is shown in the table below.

Number	2005-06			2004-05
	Permanently employed staff	Others	Total	Total
Objective				
Creating and Sustaining competition	97	7	104	146
Regulating network monopolies	100	3	103	93
Helping to protect the security of Britain's energy supplies	16	–	16	18
Providing a leading voice in Europe	17	–	17	11
Helping to protect the environment	36	1	37	31
Helping tackle fuel poverty	8	–	8	7
Total	274	11	285	306

11. Other administration costs

	2005-06	2004-05
	£000	£000
Rental under operating leases:		
Hire of office equipment	107	112
Other operating leases	5,510	5,486
	5,617	5,598
Non-cash items (see below):		
Auditors' remuneration and expenses*	46	49
Depreciation	742	1,038
Loss on disposal of fixed assets	113	6
Cost of capital charge	(229)	(250)
Diminution in value of fixed assets	138	63
	810	906
Other expenditure:		
Contractors	5,927	6,592
Other accommodation costs	2,929	2,821
Office supplies and services	1,040	864
Training	619	547
Travel and subsistence	689	504
Contracted laboratory costs	595	481
Telecoms	287	318
Recruitment	657	290
Hospitality	109	78
Other expenditure	769	932
	13,621	13,427
Provisions (non-cash):**		
Provided in year	398	–
Provision not required written back	(461)	(87)
Unwinding of the discount	32	52
Movement in provision	(31)	(35)
	20,017	19,896
Administration costs		
Request for resources 1	19,424	19,196
Request for resources 2	593	700
	20,017	19,896

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

** From 2005-06 all provision costs were treated as non-cash administration costs to comply with the new HM Treasury manual, FReM.

Notes to the departmental resource accounts *(continued)***Reconciliation of Operating costs to Operating cashflows in the Cashflow Statement and the Statement of Parliamentary Supply**

	2005-06	2004-05
	<u>£000</u>	<u>£000</u>
Non-cash costs (admin)	779	906
Less non-cash income	–	–
Total non-cash transactions	<u>779</u>	<u>906</u>

12. Net programme costs

	2005-06	2004-05
	<u>£000</u>	<u>£000</u>
Amount collected for the costs of energywatch	12,984	13,267
Amount paid over for the costs of energywatch	(12,984)	(13,267)
	–	–
energywatch fees 2004-05	–	13,267
Fossil fuel levy cost	117	96
Programme costs	117	13,363
Programme income	(117)	(13,363)
Net programme costs	<u>–</u>	<u>–</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, were shown under programme costs in the Operating Cost Statement. From 2005-06 energywatch costs were treated as cash receipts to be surrendered to DTI and are no longer reflected in the Operating Cost Statement.

Total programme income and expenditure for 2005-06 is reflected in the Operating Cost Statement at £117,000.

Notes to the departmental resource accounts *(continued)*

13. Tangible fixed assets

	Furniture	Office equipment	Computer equipment	Leasehold works	Total
	£000	£000	£000	£000	£000
Cost or valuation					
At 1 April 2005	1,261	888	1,712	4,106	7,967
Additions	11	407	238	–	656
Disposals	(705)	(171)	(490)	–	(1,366)
Revaluations	2	2	(138)	–	(134)
At 31 March 2006	569	1,126	1,322	4,106	7,123
Depreciation					
At 1 April 2005	842	418	1,200	1,044	3,504
Charged in year	148	149	195	250	742
Disposals	(642)	(112)	(483)	–	(1,237)
Revaluations	–	1	–	–	1
At 31 March 2006	348	456	912	1,294	3,010
Net book value					
At 31 March 2006	221	670	410	2,812	4,113
Net book value					
At 31 March 2005	419	470	512	3,062	4,463
Asset financing:					
Owned	221	670	410	2,812	4,113
Net book value					
At 31 March 2006	221	670	410	2,812	4,113

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.

Reconciliation of cash flows to tangible fixed asset additions

(Cash flow Statement)

	2005-06	2004-05
	£000	£000
Tangible fixed asset additions	656	867
Creditor for fixed asset additions	(4)	(90)
Creditor reversals	90	–
Cash flows for tangible fixed assets	742	777

Notes to the departmental resource accounts *(continued)*

14. Debtors

14(a) Analysis by type

	<u>2005-06</u>	<u>2004-05</u>
	£000	£000
Amounts falling due within one year:		
Trade debtors	475	807
Accrued income	73	111
Prepayments	1,597	2,379
HM Revenue and Customs (VAT)	244	456
Staff debtors	203	225
At 31 March	<u>2,592</u>	<u>3,978</u>

Staff debtors represent loans outstanding, of which £91,000 relates to season ticket loans for 104 employees; £105,000 relates to housing advances in respect of 6 employees; and £7,000 relates to miscellaneous debtors.

Staff debtors due after more than one year: The balance of £105,000 relating to housing advances comprises £89,000 (2004-05: £106,000) which is repayable in instalments after one year.

14(b) Intra-government balances

	Debtors: amounts falling due within one year	Debtors: amounts falling due after more than one year
	<u>£000</u>	<u>£000</u>
Balances with other central government bodies	403	–
Balances with local authorities	–	–
Balances with public corporations and trading funds	–	–
Balances with bodies external to government	2,189	–
At 31 March 2006	<u>2,592</u>	<u>–</u>
Balances with other central government bodies	1,359	–
Balances with local authorities	742	–
Balances with public corporations and trading funds	–	–
Balances with bodies external to government	1,877	–
At 31 March 2005	<u>3,978</u>	<u>–</u>

15. Cash at bank and in hand

	<u>2005-06</u>	<u>2004-05</u>
	£000	£000
Balance at 1 April	2,632	2,272
Net change in cash balances:	612	360
Balance at 31 March	<u>3,244</u>	<u>2,632</u>
The following balances at 31 March are held at:		
Office of HM Paymaster General	3,225	2,572
Commercial banks and cash in hand	19	60
Balance at 31 March	<u>3,244</u>	<u>2,632</u>

Notes to the departmental resource accounts *(continued)*

16. Creditors

16(a) Analysis by type

	<u>2005-06</u>	<u>2004-05</u>
	£000	£000
Amounts falling due within one year:		
Trade creditors	430	530
Staff creditors	76	30
Deferred licence fees	5,924	4,080
Other Taxation and Social Security	379	458
Leasehold reverse premium*	316	-
Accruals and other deferred income	2,443	2,444
Amounts issued from the Consolidated Fund for supply but not spent at year end	1,597	2,632
Excess cash receipts	1,647	-
Consolidated Fund extra receipts due to be paid to the Consolidated Fund:		
	received	-
	receivable	-
Balance at 31 March	<u>12,812</u>	<u>10,174</u>
	<u>2005-06</u>	<u>2004-05</u>
	£000	£000
Amounts falling due after more than one year:		
Leasehold Reverse Premium*	3,239	-
Balance at 31 March	<u>3,239</u>	<u>-</u>

*From 2005-06 the leasehold reverse premium of £5.2 million acquired in 2000 was considered a liability of certain timing and has been reclassified from provisions for liabilities and charges to creditors.

16(b) Intra-government balances

	Creditors: amounts falling due within one year	Creditors: amounts falling due after more than one year
	£000	£000
Balances with other central government bodies	4,232	-
Balances with local authorities	-	-
Balances with public corporations and trading funds	-	-
Balances with bodies external to government	8,580	3,239
At 31 March 2006	<u>12,812</u>	<u>3,239</u>
Balances with other central government bodies	3,090	-
Balances with local authorities	3	-
Balances with public corporations and trading funds	-	-
Balances with bodies external to government	7,081	-
At 31 March 2005	<u>10,174</u>	<u>-</u>

Notes to the departmental resource accounts *(continued)***17. Provisions for liabilities and charges**

	Early Retirement	Severance	Other	Total
	£000	£000	£000	£000
Balance at 1 April 2005	1,367	708	3,871	5,946
Reclassification to creditors (see note 16a)	–	–	(3,871)	(3,871)
Overnight charge to provision	72	–	–	72
Provided in the year	151	154	–	305
Unwinding of the discount	32	–	–	32
Provisions not required written back	(70)	(391)	–	(461)
Provisions utilised in the year	(347)	(317)	–	(664)
Net movement in year	(162)	(554)	–	(716)
Balance at 31 March 2006	1,205	154	–	1,359
Of which:				
Payable within one year	284	154	–	438

The total movement in provision in 2005-06 was a reduction by £680,000 (Pension liability increased by £36,000 and other provisions decreased by £716,000).

The Early Retirement provision relates to the costs of pensions for individuals who have retired early. Ofgem meets the cost of pension payments from its resources until the individual reaches normal retirement age. The provision has been discounted, with the undiscounted amount being £1,338,000.

The discount rate changed from 3.5 per cent in 2004-05 to 2.2 per cent in 2005-06. The impact of this change was an overnight charge in the provision by £72,000.

The Severance cost provision relates to the balance of costs to be incurred as a result of a Resource review in 2005-06.

Pension liabilities

	2005-06	2004-05
	£000	£000
Provision at 1 April 2005	340	257
Adjustment to provision	–	36
Overnight charge to provision	29	–
Interest cost	21	17
Actual benefit payments	(14)	(12)
Actuarial loss	31	42
Provision at 31 March 2006	407	340
Net movement in year (excluding actuarial loss)	36	41

Amount recognised in Statement of Recognised Gains and Losses

	2005-06	2004-05
	£000	£000
Amount recognised	60	42
Amount recognised as a percentage of present value of scheme liabilities	15%	12%

The Pensions provision is in respect of the unfunded pension liabilities which fall to Ofgem for previous Chief Executive and Directors General. The pension provision is unfunded, with the benefits being paid as they fall due and guaranteed by Ofgem for previous Chief Executive and Directors General. There is no fund, and therefore no surplus or deficit. Actuarial advice has been sought to ensure that the provision is set at a realistic level.

Notes to the departmental resource accounts *(continued)*

An actuarial valuation was carried out by the Government Actuary's Department (GAD) at 31 March 2006. The major assumptions used by the actuary were:

	At 31 March 2006 % (per annum)	At 31 March 2005 % (per annum)
Inflation assumption	2.5	2.5
Rate of increase in salaries	4.0	4.0
Investment return in excess of price increases	2.8	3.5

On 1 April 2005 the discount rate for pension scheme liabilities changed from 3.5 per cent to 2.8 per cent per annum. The impact of this change was an overnight increase in the pension liability of £29,000 as at 1 April 2005.

18. General Fund

	2005-06		2004-05	
	£000	£000	£000	£000
Balance at 1 April		(5,422)		(9,425)
Net Parliamentary Funding:				
Draw Down	1,597		7,556	
Deemed Supply	-		-	
		1,597		7,556
Net transfer from operating activities				
Net operating cost		(594)		(701)
Excess cash repayable to Consolidated Fund		(3,244)		(2,632)
Non-cash charges:				
Cost of capital	(229)		(250)	
Auditor's remuneration	46		49	
		(183)		(201)
Realised on revaluations and disposals of assets		7		23
Losses relating to pension liabilities		(60)		(42)
Balance at 31 March		(7,899)		(5,422)

19. Revaluation reserve

	2005-06		2004-05	
	£000		£000	
Balance at 1 April		35		25
Arising on revaluation during the year (net)		4		33
Transferred to general fund in respect of realised element of the revaluation reserve		(8)		(23)
Balance at 31 March		31		35

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

Notes to the departmental resource accounts *(continued)*

20. Notes to the Cash Flow Statement

20(a) Reconciliation of operating cost to operating cash flows

		<u>2005-06</u>	<u>2004-05</u>
	Note	£000	£000
Net operating cost	3a	594	701
Adjustments for non-cash transactions	11	(779)	(906)
Decrease in Debtors	14a	(1,386)	(159)
<i>Less movements in debtors relating to items not passing through the OCS</i>	14a	–	–
Increase in Creditors	16a	(2,322)	(2,004)
<i>Less movements in creditors relating to items not passing through the OCS</i>	16a	526	22
Increase in long term creditors	16a	316	–
Use of provisions	17	678	6,074
Net cash (inflow)/ outflow from operating activities		<u>(2,373)</u>	<u>3,728</u>

20(b) Analysis of capital expenditure and financial investment

		<u>2005-06</u>	<u>2004-05</u>
	Note	£000	£000
Tangible fixed asset additions	13	742	777
Proceeds on disposal of fixed assets	20c	(16)	(9)
Net cash outflow from investing activities		<u>726</u>	<u>768</u>

20(c) Analysis of capital expenditure and financial investment by Request for Resources

	Capital expenditure	Loans, etc.	A-in-A	Net total
	£000	£000	£000	£000
Request for resources 1				
Protecting consumers by regulating monopolies and promoting competition in the electricity and gas industry	656	–	(16)	640
Request for resources 2				
Expenditure in connection with the Climate Change Levy	–	–	–	–
Total 2005-06	<u>656</u>	<u>–</u>	<u>(16)</u>	<u>640</u>
Total 2004-05	<u>867</u>	<u>–</u>	<u>(9)</u>	<u>858</u>

20(d) Analysis of financing

		<u>2005-06</u>	<u>2004-05</u>
	Note	£000	£000
From the Consolidated Fund (Supply) – current year	18	1,597	7,556
From the Consolidated Fund (Supply) – prior year	18	–	–
Advances from the Contingency Fund		10,000	15,000
Repayments to the Contingency Fund		(10,000)	(15,000)
Net financing		<u>1,597</u>	<u>7,556</u>

Notes to the departmental resource accounts *(continued)***20(e) Reconciliation of Net Cash Requirement to increase in cash**

		2005-06	2004-05
	Note	£000	£000
Net cash requirement		–	(4,496)
From the Consolidated Fund (Supply) - current year	20d	1,597	7,556
From the Consolidated Fund (Supply) - prior year	20d	–	–
Receipts due to the Consolidated Fund	8	–	1,982
Amounts paid over to the Consolidated Fund		(2,632)	(4,682)
Excess cash surrenderable to the Consolidated Fund	4	1,647	–
Amounts due to the Consolidated Fund received and not paid over		–	–
Increase in cash		612	360

21. Notes to the Statement of Resources by Departmental Aim and Objectives

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. Overhead costs were apportioned according to the direct headcount for each objective.

22. Capital commitments

	2005-06	2004-05
	£000	£000
Contracted capital commitments at 31 March for which no provision has been made	–	–

23. Commitments under leases**Operating leases**

Commitments under operating leases to pay rentals during the year following the year of these accounts are given in the table below, analysed according to the period in which the lease expires.

	2005-06	2004-05
	£000	£000
Obligation under operating leases comprise:		
Land and buildings:		
Expiry within 1 year	–	–
Expiry after 1 year but not more than 5 years	99	99
Expiry thereafter	5,704	5,704
	5,803	5,803
Other:		
Expiry within 1 year	8	8
Expiry after 1 year but not more than 5 years	111	105
Expiry thereafter	–	–
	119	113

Notes to the departmental resource accounts *(continued)*

24. Other financial commitments

Ofgem had not entered into any non-cancellable contracts (which are not operating leases) as at 31 March 2006.

25. Contingent liabilities disclosed under FRS 12

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

As at 31 March 2006 there were no contingent liabilities requiring disclosure.

26. Financial instruments

FRS 13, *Derivatives and Other Financial Instruments*, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of its activities and the way in which government departments are financed, Ofgem is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. Ofgem has very limited powers to borrow or invest surplus funds and except for relatively insignificant forward purchases of foreign currency, financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing Ofgem in undertaking its activities.

As permitted by FRS 13, debtors and creditors which mature or become payable within 12 months from the balance sheet date have been omitted from the currency profile.

Liquidity risk

Ofgem operates on a full cost recovery basis and is financed primarily by licence fee income and has no borrowings. Specific and limited areas of operation are, for reasons of public policy, directly funded by grants of supply approved annually by Parliament.

The extent to which licence fee and other income may be raised and retained for use in operations (Appropriated in Aid) is also approved by annual vote of Parliament, along with further grants of supply needed to meet Ofgem's Net Cash Requirement. Ofgem is not therefore exposed to significant liquidity risks.

Interest rates and foreign currency risks

Ofgem has no material deposits, and all material assets and liabilities are denominated in Sterling, so it is not exposed to any significant interest rate or foreign currency risks.

Fair values

There is no material difference between the book values and fair values of Ofgem's financial assets and liabilities as at 31 March 2006.

Notes to the departmental resource accounts *(continued)*

27. Related Party Transactions

Ofgem transferred £12.984 million to DTI in respect of the costs of energywatch.

Ofgem sublets part of the premises to DEFRA and provides financial and payroll services to Postcomm. Income received in year was £3.9 million from DEFRA and £73k from Postcomm

Ofgem has also 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.

28. Post balance sheet events

There were no reportable post balance sheet events.

29. Fossil Fuel Levy

In accordance with the 2005-06 FReM issued by HM Treasury, Ofgem is required to disclose any monies held on behalf of third-parties. Monies collected through the Fossil Fuel Levy (FFL) fall into this category.

The Department of Trade and Industry (DTI) has overall responsibility for the making of Regulations governing the FFL. Ofgem is responsible for setting, collecting and administering the FFL via commercial bank accounts. Under Government Accounting rules, the account balances are defined as third-party assets where Ofgem has no direct beneficial interest. They are therefore not included in our Resource Account.

Under the Electricity Act 1989, the Secretary of State made five Orders (three now remain) requiring the then Regional Electricity Companies (RECs) in England and Wales to contract for certain amounts of renewable generating capacity. This was known as the Non Fossil Fuel Obligation (NFFO). The FFL was created in 1990 to finance NFFO. Similar Regulations came into force in Scotland in 1996, and are the responsibility of the Scottish Executive. The balance held at 31 March 2006 in the England and Wales account was £110 million and the Scotland account held £18 million.

The Sustainable Energy Act 2003 created a mechanism by which sums of money could be transferred from the England and Wales levy account to the Consolidated Fund. The Secretary of State for Trade and Industry is under a duty to spend the amount for the purpose of promoting the use of energy from renewable sources. A parallel provision has been included in the Energy Bill for the Scotland levy account.

Cash receipts can also be treated as hereditary revenue when they are received by virtue of statutory authority. Section 1 of the Civil List Act 1952 requires hereditary revenues to be paid into the Consolidated Fund. On 20 September 2005, £150 million was transferred to the Consolidated Fund on this basis.

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